AIA New Zealand Limited and Subsidiary Companies

Directors' Report

The Directors have pleasure in presenting the Annual Report of AIA New Zealand Limited and its subsidiaries for the year ended 31 December 2020.

The Shareholder of the company has agreed to take advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993. Accordingly, there is no further information to be provided in this Annual Report other than the financial statements, auditor's report and appointed actuary's report.

For and on behalf of the Board

Director

15 March 2021

Date

Director

15 March 2021.

Date

Annual Report
For the year ended 31 December 2020

CELEBRATING 100 YEARS

HEALTHIER, LONGER, BETTER LIVES

Contents

Corporate Governance

The Board places great importance on the governance of AIA New Zealand Limited (AIANZ) and its subsidiaries (together, the Group). Performance and compliance are both essential for good governance.

Reviews of the Board's performance and its policies and practices are carried out regularly. These reviews identify where improvements can be made and assess the quality and effectiveness of the industry and company information made available to directors.

The principal features of AIANZ's corporate governance are:

- a separate Board Audit and Risk Committee (the BARC). All non-executive directors are members of the BARC and the chairperson of the BARC must be an independent director other than the chairperson of the Board;
- the Chief Executive Officer does not participate in deliberations of either the Board or the Board Remuneration Committee (BREM) affecting his position, remuneration or performance; and
- there are established criteria for the appointment of new directors and external consultants are engaged in the search for new independent directors.

The guidelines for licensed insurers issued by the Reserve Bank of New Zealand (RBNZ) recommend that:

- the Board will have a minimum of two directors;
- the Chairperson will be an independent, non-executive director;
- at least two directors will be ordinarily resident in New Zealand; and
- at least half of the directors will be independent.

The Board satisfies these requirements.

New directors are invited to participate in an induction programme. All directors regularly consider issues, trends and challenges relevant to the Group, the financial services industry and the economy.

The Board has adopted a charter and code of ethics for directors. The philosophy underlying the Board's approach to corporate governance is consistent with the ethical standards required of all employees of the Group.

The Group has implemented and complies with a fit and proper policy and process in relation to determining the appropriateness of its directors and relevant officers.

Non-executive directors do not participate in any of the Group's incentive plans.

The current chairperson of the Board is Theresa Gattung. The other directors are Damien Mu, William Lisle, Nicholas Stanhope, Robert McDonald and Tracey Cross.

Committees of the Board

The Board has delegated specific powers and responsibilities to committees of the Board and to management. Key decisions made by the Board committees are reported to the Board. Management recommends key decisions to the Board for approval.

There are two permanent Board committees, being the BARC and the BREM. Both committees have their own charters. Other committees may be formed to carry out specific delegated tasks when required. An independent director chairs each committee.

Board committees have the following membership:

- The BARC comprised of: Robert McDonald, Theresa Gattung and Tracey Cross.
- The BREM comprised of: Theresa Gattung, Tracey Cross and Damien Mu.

Board Audit and Risk Committee (BARC)

The role of the BARC is to:

1. Assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to financial reporting and control, conformance with legal requirements affecting the Group, the identification and prudent management of the risks to which the Group is or may become subject, and the good governance of the Group in relation to those matters, including the oversight of:
   - the integrity of external financial reporting;
   - financial management;
   - internal control systems;
   - accounting policy and practice;
   - the risk management framework and monitoring compliance with that framework;
   - related party transactions;
   - compliance with applicable laws and standards; and
   - without limiting the generality of the forgoing, compliance with RBNZ standards relating to external financial reporting.
2. Ensure the quality, credibility and objectivity of the accounting process, financial reporting and regulatory disclosure.

Corporate Governance (continued)

Board Audit and Risk Committee (BARC) (continued)

3. Oversee and monitor the performance of the internal and external auditors. The BARC has approved an External Auditor Services Policy. That policy relates to the engagement of the external audit firm for non-audit work. The objective of the policy is to avoid prejudice to the independence of the auditor and prevent undue reliance by the auditor on revenue from the Group. The policy ensures the auditor does not:
   - assume the role of management;
   - become an advocate for their own client; or
   - audit work that comprises a direct output of their own professional expertise.

   Under the policy the auditor will not provide the following services:
   - bookkeeping or services relating to accounting records;
   - financial information systems design and implementation;
   - appraisal or valuation and fairness opinions;
   - actuarial advisory services;
   - internal audit outsourcing services;
   - advice on deal structuring and related documentation;
   - tax planning and strategic services;
   - acting as a broker-dealer, promoter or underwriter;
   - legal services; or
   - executive recruitment or extensive human resource function.
4. Provide a structured reporting line for internal audit and ensure the objectivity and independence of internal audit. The Head of Internal Audit reports to the BARC through its chairperson.
5. Consider any AIA policy relevant to the role of the BARC and, if deemed appropriate, adopt or recommend that the Board adopt (as applicable) the policy as a policy of the Group.
6. Act as a formal forum for free and open communication between the Board, the internal and external auditors, and management.
7. Deal with any other matter which the Board may from time to time delegate to the BARC.

Board Remuneration Committee (BREM)

The role of the BREM is to assist the Board in discharging its responsibilities in relation to:
- the selection, remuneration, education and evaluation of directors;
- the selection, remuneration and evaluation of management; and
- policies relating to diversity for the Board and management.

Executives are rewarded with a mix of fixed remuneration and incentives. Total remuneration is intended to be market competitive when compared against similar roles at peer organisations; as well as reflecting position responsibilities, individual competencies, experience and performance.

Executives' incentive remuneration is based on a set of clear objectives that will drive sustainable performance. The objectives:
- reflect the Group's strategic priorities;
- are based on both financial and non-financial measures that are set at the beginning of the performance period; and
- discourage excessive risk taking.

Directors and Officers' Liability Insurance

The Group has effected liability insurance for its directors and officers.

Diversity and Inclusion

The Group is committed to diversity and inclusion across its business. The Group's diversity and inclusion priorities are designed to ensure that:
- the Group's workforce and leadership is reflective of both the communities in which the Group operates and its customer base; and
- the Group has a culture in which diversity is encouraged, understood, respected, valued and leveraged so that talented people can thrive and the Group's customers and reputation both benefit.

The Group's diversity and inclusion priorities are:
- diversity in leadership;
- inclusive culture; and
- you can be you.

As at 31 December 2020, 45% (2019 48%) of all senior leadership roles and above (permanent and fulltime roles of the Executive Committee and their direct reports) were held by women. The Group has a target that 50% of all senior leadership roles and above will be held by women by 2021.

Talent sourcing processes have been reviewed to ensure that support is given to the diversity and inclusion priorities.

Income Statement

$ millions For the year ended 31 December	Note	2020	2019
Revenue			
Premium revenue	5	**948**	741
Less: Reinsurance expense	5	**(674)**	(352)
Net Premium Revenue		**274**	389
Investment revenue	6	**155**	243
Other revenue	6	**17**	17
Reinsurance commission revenue	7	**97**	50
Total Operating Revenue		**543**	699
Expenses			
Claims expense	8	**516**	411
Less: Reinsurance recoveries	8	**(211)**	(165)
Net Claims Expense		**305**	246
Other operating expenses	9	**439**	378
Decrease in life insurance contract liabilities	19	**(272)**	(80)
Increase in life investment contract liabilities	19	**38**	119
Total Expenses		**510**	663
Net Profit before Taxation		**33**	36
Taxation expense	11	**34**	31
Net (Loss)/Profit after Taxation	4	**(1)**	5

Statement of Comprehensive Income

$ millions For the year ended 31 December	2020	2019
Net (Loss)/Profit after Taxation	**(1)**	5
Total comprehensive (loss)/income	**(1)**	5

These statements are to be read in conjunction with the notes on pages 8 to 46 and the Independent Auditor's Report from pages 47 to 52.

Statement of Changes in Equity

$ millions	Note	Contributed Capital	Retained Earnings	Total Shareholder's Equity
For the year ended 31 December 2020				
Balance at 1 January 2020		**540**	**(237)**	**303**
Net loss after taxation		**-**	**(1)**	**(1)**
Total comprehensive loss for the year ended 31 December 2020		**-**	**(1)**	**(1)**
Shares issued - capital injections	22	**170**	**-**	**170**
Shares issued - portfolio transfer	22,3	**146**	**-**	**146**
Balance as at 31 December 2020		**856**	**(238)**	**618**
For the year ended 31 December 2019				
Balance at 1 January 2019		540	(245)	295
Adjustment from the adoption of IFRS 16	27	-	3	3
Net profit after taxation		-	5	5
Total comprehensive income for the year ended 31 December 2019		-	8	8
Balance as at 31 December 2019		540	(237)	303

These statements are to be read in conjunction with the notes on pages 8 to 46 and the Independent Auditor's Report from pages 47 to 52.

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Statement of Financial Position

$ millions As at 31 December	Note	2020	2019
Assets			
Cash and cash equivalents	14	**426**	308
Trade and other receivables	17	**127**	109
Investments	13	**1,850**	1,856
Derivative assets	34	**-**	9
Liabilities ceded under reinsurance	19	**334**	43
Current taxation asset		**16**	19
Plant and equipment		**14**	15
Right-of-use assets	27	**27**	28
Intangible assets	16	**35**	25
Retirement benefit surplus	18	**-**	2
Total assets		**2,829**	2,414
Liabilities			
Trade and other payables	21	**211**	167
Liabilities arising from reinsurance contracts	19	**647**	668
Life investment contract liabilities	19	**648**	678
Life insurance contract liabilities	19	**8**	(4)
Lease liabilities	27	**29**	29
Deferred taxation liability	20	**668**	573
Total liabilities		**2,211**	2,111
Shareholder's Equity			
Contributed capital	22	**856**	540
Retained earnings		**(238)**	(237)
Total shareholder's equity		**618**	303
Total liabilities and shareholder's equity		**2,829**	2,414

The Board of Directors authorised these financial statements for issue on 15 March 2021.

Director

Director

These statements are to be read in conjunction with the notes on pages 8 to 46 and the Independent Auditor's Report from pages 47 to 52.

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Statement of Cash Flows

$ millions For the year ended 31 December	2020	2019
Cash flows from operating activities		
Cash was provided from:		
Premium and deposit premium receipts	963	757
Dividend receipts	7	9
Interest receipts	45	52
Tax refunds	1	-
Reinsurance receipts	315	215
	1,331	1,033
Cash was applied to:		
Claims, surrenders and maturities payments	577	500
Commission payments	185	155
Payments to suppliers and employees	236	182
Interest payments	1	1
Tax payments	-	20
Reinsurance premiums	671	350
	1,670	1,208
Net cash flows from operating activities	(339)	(175)
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of investments	1,038	457
Proceeds from sale of intangible assets	-	2
	1,038	459
Cash was applied to:		
Purchase of securities	743	310
Purchase of plant and equipment	1	4
Purchase and development of intangible assets	12	9
Purchase of net assets in portfolio transfer	4	-
Net settlement of foreign exchange contracts	(9)	8
	751	331
Net cash flows from investing activities	287	128
Cash flows from financing activities		
Cash was provided from:		
Capital injection	170	-
Portfolio transfer	6	-
	176	-
Cash was applied to:		
Repayment of lease liabilities	6	4
	6	4
Net cash flows from financing activities	170	(4)
Summary of movements in cash flows		
Net increase/(decrease) in cash and cash equivalents	118	(51)
Add: cash and cash equivalents at beginning of period	308	359
Cash and cash equivalents at end of period	426	308

These statements are to be read in conjunction with the notes on pages 8 to 46 and the Independent Auditor's Report from pages 47 to 52.

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Statement of Cash Flows (continued)

$ millions For the year ended 31 December	2020	2019
Reconciliation of net (loss)/profit after taxation to net cash flows from operating activities		
Net (Loss)/Profit after taxation	**(1)**	5
Non-cash items included in net profit after taxation		
Loss/(gain) on disposal of intangible assets	**-**	(2)
Amortisation and depreciation	**16**	11
Net realised and unrealised gains	**(103)**	(178)
Non-cash dividends received	**(5)**	(5)
Decrease in life insurance contract liabilities recognised in the Income Statement	**(272)**	(80)
Increase in life investment contract liabilities recognised in the Income Statement	**38**	119
Movements in assets and liabilities		
Trade and other receivables - decrease/(increase)	**15**	(3)
Net income tax liability - increase	**33**	11
Trade and other payables - increase	**15**	34
Decrease in life investment contract liabilities recognised in the Statement of Financial Position	**(75)**	(87)
Net cash flows from operating activities	**(339)**	(175)

These statements are to be read in conjunction with the notes on pages 8 to 46 and the Independent Auditor's Report from pages 47 to 52.

Notes to the Financial Statements

For the year ended 31 December 2020

1 Statement of Significant Accounting Policies

General Accounting Policies

AIA New Zealand Limited (AIANZ) is registered under the Companies Act 1993 and is domiciled and incorporated in New Zealand. The financial statements presented are those for AIANZ and its subsidiaries (together, the Group). AIANZ is 100% owned by AIA Sovereign Limited. The ultimate parent is AIA Group Limited (AIA), a company listed on the Hong Kong Stock Exchange. AIANZ's registered office is 74 Taharoto Road, Takapuna, Auckland, 0622. AIANZ's and the Group's principal areas of business are life insurance and investment management.

AIANZ is a reporting entity under the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013.

The financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with International Financial Reporting Standards (IFRS), New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, as appropriate for for-profit entities.

Comparative information has been reclassified to ensure consistency with presentation in the current reporting period. These reclassifications have no impact on net (loss)/profit after taxation.

Accounting Standard adopted in the current year

No new accounting standards were adopted in the current year. In the prior year the Group adopted NZ IFRS 16 *Leases*.

Accounting Standard approved but not yet effective

NZ IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. In June 2019, the International Accounting Standard Board published Exposure Draft ED/2019/4 Amendments to NZ IFRS 17, which deferred the effective date of NZ IFRS 17 by one year to annual reporting periods beginning on or after 1 January 2023. The New Zealand Accounting Standards Board (NZASB) has also adopted this amendment to defer the effective date of NZ IFRS 17.

The Group continues work on its NZ IFRS 17 adoption project. The project team includes investment, actuarial, financial accounting and technology workstreams. Work is well advanced on opening balance sheet and initial accounting positions. A solution to deliver consistent compliant results under NZ IFRS 17 is undergoing User Acceptance Testing and preparations for parallel running of NZ IFRS 4 and NZ IFRS 17 ledgers through the comparative year is well underway. The project is progressing in line with agreed milestones and is expected to deliver NZ IFRS 17 compliant technology solutions, operational processes and reporting outcomes ahead of mandatory implementation dates. The Group intends to adopt the standard on its effective date, 1 January 2023. The Group is still working through its impact assessment and is not in a position to quantify the impact at this stage.

There are no other new or revised standards issued that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

Basis of Preparation

The measurement base adopted is historical cost, modified by the fair value measurement of financial instruments at fair value through the Income Statement. The accounting policies adopted are consistent with those of the previous financial year, except as noted above.

1 Statement of Significant Accounting Policies (continued)

Critical Accounting Estimates and Judgements

Preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, 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.

The areas where a high degree of judgement is applied by management, that have the most significant effect on amounts recognised in the financial statements are the valuation of: financial instruments (refer notes 1(f) and 29), life insurance contract liabilities and life investment contract liabilities (refer notes 1(k) and 19), intangible assets (refer notes 1(h) and 16) and deferred taxation liability (refer notes 1(i) and 20). Uncertainties exist with respect to the interpretation of complex tax regulations for life insurance activities. Given the complexity of life insurance tax legislation and the assumptions involved, adjustments to income tax expense in future periods may be required.

Items that are considered particularly sensitive to changes in estimates and assumptions are those which relate to product classification, insurance contract liabilities, deferred acquisition and origination costs, liability adequacy testing, fair value measurement, impairment of financial assets and impairment of goodwill and other intangible assets.

Product Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group must pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 1(k).

Insurance Contract Liabilities

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

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

The judgements exercised in the valuation of insurance contract affect the amounts recognised in the financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 1(k), 2, 19 and 33.

Fair value measurement 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.

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

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

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 1(f), 29, 30, 31 and 33.

Notes to the Financial Statements

For the year ended 31 December 2020

1 Statement of Significant Accounting Policies (continued)

Critical Accounting Estimates and Judgements (continued)

Liabilities arising from reinsurance contracts

Liabilities arising from reinsurance contracts can be subject to similar factors to the policy liabilities. The judgements exercised in the valuation of insurance contracts affect the amounts recognised in the financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of reinsurance liabilities are provided in notes 1(k), 2, 19 and 33.

Deferred tax assets

Estimating the amount of deferred tax assets arising from tax losses requires a process that involves determining appropriate provisions for income tax expense, forecasting future year's taxable income and assessing the Group's ability to utilise the tax benefits through future earnings. The Group has reviewed its solvency projections over the future years and considered the expected growth in annualised new premiums. Within the forecast period, where management believe that the Group will be profitable and will be liable for income tax payments, it will recognise those losses and utilise any available tax losses against future earnings, subject to maintaining shareholder continuity.

Impairment Testing of Intangible assets

For the purposes of impairment testing, intangible assets are grouped into cash-generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit, to the recoverable amount of that cash-generating unit. The determination of the recoverable amount requires significant judgement regarding the selection of appropriate valuation techniques and assumptions.

Presentation Currency and Rounding

The functional and presentation currency of the Group is New Zealand dollars. All amounts are presented in millions, unless otherwise stated.

Particular Accounting Policies

Accounting policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of Consolidation

Where it is determined that there is a capacity to control, the Group financial statements consolidate the financial statements of a parent and all its subsidiaries using the acquisition method of consolidation. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. AIANZ has 100% ownership of each of its subsidiaries (refer note 15). There are no substantial removal rights and it has controlling economic interests.

All intragroup balances and transactions have been eliminated in preparing the consolidated financial statements.

AIANZ Group Companies Acting as Trustee or Manager of Superannuation Schemes

As at the balance date, the Group provides investment management services for the Sovereign Superannuation Retirement Fund (SSRF). The assets and liabilities of SSRF are not included in the Group financial statements as the Group has no capacity to control them.

(b) Foreign Currency Translation

All foreign currency monetary assets and liabilities are translated to New Zealand currency at the exchange rate ruling at balance date.

Non-monetary assets and liabilities denominated in foreign currencies, measured at fair value, are translated to New Zealand currency at the exchange rate ruling at the dates that the values were determined. Foreign currency exchange differences relating to securities and derivative financial instruments are included in investment income or other income.

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction.

(c) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group, and that the revenue and stage of completion of the transaction can be reliably measured. The principal sources of revenue are premium revenue and investment revenue.

Premium Revenue

(i) Life Insurance Contracts

Premiums received for providing services and bearing risks are recognised as revenue on an accrual basis. Premiums are recognised as revenue when due from the policyholder.

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Notes to the Financial Statements

For the year ended 31 December 2020

1 Statement of Significant Accounting Policies (continued)

(c) Revenue Recognition (continued)

(ii) Life Investment Contracts

Premiums received are split, with the fee portion recognised as revenue on an accrual basis and the deposit portion recognised as an increase in life investment contract liabilities.

Initial entry fee income on life investment contracts is recognised as revenue at the outset of the contract only if a specific initial service (for which the fee relates) is provided by the Group at that time. Otherwise initial entry fee income is deferred as a component of life investment contract liabilities and is amortised as related services are provided under the contract.

Investment Revenue

Interest revenue is recognised in the Income Statement using the effective interest method. Dividend revenue is recognised in the Income Statement when the Group's right of receipt is established. Realised gains and losses on financial instruments are included as part of investment income. Unrealised gains and losses from fair value re-measurement of financial instruments are also included in investment income (refer to note 1(f)).

Reinsurance Revenue

Upfront reinsurance commissions are initially recognised in the Income Statement and then deferred as liabilities arising from reinsurance contracts. This amount is then amortised over the life of the underlying policies, in line with the release of profit margins associated with these policies. Ongoing reinsurance commission income is recognised in the period in which it is earned.

Other Revenue

Other revenue is recognised on an accrual basis.

(d) Expense Recognition

Claims

Life insurance contract claims are recognised as an expense when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in life investment contract liabilities.

Acquisition Costs

Acquisition costs are the fixed and variable costs of accepting, issuing and initially recording policies, including initial commission and similar distribution costs. Acquisition costs do not include general growth and development costs that are not specifically related to acquisition activity.

Acquisition Costs - Life Insurance Contracts

Acquisition costs attributable to life insurance contracts are deferred as an element of life insurance contract liabilities. These costs are amortised over the life of the policies written. Unamortised acquisition costs are a component of the life insurance contract liabilities. Amortisation of acquisition costs are recognised in the Income Statement as a component of 'life insurance contract liabilities - increase/(decrease)' at the same time as policy margins are released.

Acquisition Costs - Life Investment Contracts

Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset and is included in intangible assets. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in other operating expenses in the Income Statement.

Maintenance and Investment Management Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and are recognised in the Income Statement on an accrual basis. These include general growth and development costs. Maintenance costs include all operating costs other than acquisition and investment management costs.

Investment management costs are the fixed and variable costs of managing investment funds and are recognised in the Income Statement on an accrual basis.

Other Operating Expenses

All other operating expenses are recognised in the Income Statement on an accrual basis.

Other operating expenses also include employee benefits, depreciation, amortisation and other management costs. Employee benefits include salaries and wages, annual and long service leave, annual bonuses, kiwisaver contributions, and premiums on employee life, disability income and medical schemes.

Notes to the Financial Statements

For the year ended 31 December 2020

1 Statement of Significant Accounting Policies (continued)

(e) Dividend Recognition

Ordinary dividends are recognised as a movement in equity in the reporting period within which they have been approved by the AIANZ Board.

Where a dividend is declared post reporting date, but prior to the date of issue of the financial statements, disclosure of the declaration is made in the Notes to the Financial Statements but no liability is recognised in the Statement of Financial Position.

(f) Financial Instruments

Basis Of Recognition And Measurement

The Group classifies financial instruments into one of the following categories at initial recognition: financial assets at Fair Value through Profit or Loss (FVTPL), Amortised Cost, Fair Value through Other Comprehensive Income, financial liabilities at FVTPL and financial liabilities at amortised cost. Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

Financial assets that are stated at cost or amortised cost are reviewed at each balance date to determine whether there is objective evidence of impairment. NZ IFRS 9 requires entities to estimate and account for expected credit losses for all relevant financial assets that are not at FVTPL. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Given the nature of the Group's financial assets not at FVTPL, being primarily trade and other receivables, the Group applies the Simplified Approach permitted by NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The impairment loss is reversed only to the extent that the financial asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired. Derecognition also occurs when the right to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Financial Assets At Fair Value Through Profit And Loss

Assets in this category are measured at fair value at inception and on an on-going basis and include:

(i) Investments

Investments held by life insurance companies are recognised at FVTPL at inception because they back life insurance contract liabilities or life investment contract liabilities. Gains and losses arising from the fair value remeasurement of investments are included as part of investment revenue in the Income Statement.

Investments include equity securities, fund certificates, property securities and fixed interest securities.

(ii) Derivative Financial Instrument

Derivative financial instruments are recorded at FVTPL based on market accepted valuation techniques using observable market inputs. Subsequent gains and losses arising from the fair value re-measurement of derivative financial instruments are recognised immediately in investment revenue in the Income Statement. All derivatives used by the Group are classified as FVTPL as they do not meet the criteria for hedge accounting under NZ IFRS 9.

The Group recognises derivatives in the Statement of Financial Position at their fair value. Derivative assets are the fair value of derivatives which have a positive fair value. Derivative liabilities are the fair value of derivatives which have a negative fair value.

Forward currency contracts are used to reduce the Group's exposure to currency movements affecting the market value of the Group's investments denominated in foreign currencies.

Amortised Cost

Assets in this category are recognised initially at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method less any allowance for uncollectible amounts which include:

(i) Cash and Cash Equivalents

Cash and Cash Equivalents include bank current accounts, cash on deposit and registered certificates of deposit, readily convertible to known amounts of cash, that are subject to an insignificant risk of change in value. Assets in this category are at face value and interest is taken to the Income Statement when earned. Bank overdrafts are shown within cash and cash equivalents if the net position is an asset due to the Group's right to offset overdrafts within its banking facility.

Notes to the Financial Statements

For the year ended 31 December 2020

1 Statement of Significant Accounting Policies (continued)

(f) Financial Instruments (continued)

(ii) *Trade and Other Receivables*

Trade and other receivables include investment receivables, amounts due from related parties, amounts due from reinsurers, outstanding premium, agent balances receivable and other current assets. These assets are short term in nature and the carrying amount includes allowances for impaired receivables and therefore is considered a reasonable estimate of fair value. A forward-looking expected credit loss model (ECL) was introduced in IFRS 9 that results in losses recognised before an actual default event has taken place. The Group has adopted and applied the simplified model for ECL for agent balances receivable. The agent balances receivable is disclosed net of expected credit losses in the trade and other receivables note (note 17). Other trade and other receivables are impaired if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. We assessed the impairment associated with other trade and other receivables as immaterial for recognition.

Financial Liabilities At Fair Value Through Profit Or Loss

Life investment contract liabilities are measured at fair value, with subsequent gains and losses arising from fair value re-measurement recognised in the Income Statement. Refer to note 1(k) for more details of life investment contract liabilities.

Financial Liabilities At Amortised Cost

This category includes all financial liabilities other than those designated by the Group as at FVTPL. Liabilities in this category include:

(i) *Trade and Other Payables*

Trade and other payables includes amounts due to agents, outstanding claims, investment creditors, trade creditors and accruals, amounts due to related parties, reinsurance payable, prepaid premium and other payables. Liabilities in this category are initially measured at fair value plus transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method.

(g) Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of plant and equipment less the estimated residual value is depreciated over their useful lives on a straight-line basis. Depreciation of work in progress will not begin until the asset is available for use i.e. when it is in the location and condition necessary for it to be operating in the manner intended by management. The estimated useful lives of the major assets are:

> Leasehold improvements and services	10 - 18 years
> Office equipment, furniture and fittings and computer equipment	3 - 5 years

These assets are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any impairment loss is recognised immediately in the Income Statement. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(h) Intangible Assets

Internally Developed Software, Acquired Software Licences and Application Software

The Group generally expenses computer software costs in the year incurred. However, some costs associated with developing identifiable and unique software products controlled by the Group, including employee costs and an appropriate portion of relevant overheads, are capitalised and treated as intangible assets when certain criteria are met. Acquired computer software licenses are capitalised on the basis that they are costs incurred to acquire and to use specific software. These assets are amortised using the straight-line method over their useful lives (3 - 5 years).

Other Intangible Assets and Deferred Acquisition Costs

Costs for the right to service policies have been capitalised and treated as intangible assets. These assets are amortised using the straight-line method over their useful lives. Other operating costs (refer note 1(d)) that vary with, and are directly related to securing new life investment policies, are capitalised as a deferred acquisition cost intangible asset, and are subsequently amortised over the life of the contracts.

> Agency purchases	18 - 54 months
> Deferred acquisition costs	6 - 17 years

Intangible Assets Impairment Reviews

Intangible assets are assessed at an asset level when they generate independent cash inflows, otherwise they are grouped into Cash Generating Units (CGU) for impairment purposes. Impairment reviews are performed annually to identify events or changes in circumstances that indicate that the carrying amount may not be recoverable. If the asset or the CGU's carrying amount is greater than its estimated recoverable amount, the carrying amount of the asset or CGU is written down to its recoverable amount. The recoverable amount is the higher of the asset or CGU's fair value less costs to sell and the value in use. Any impairment loss is recognised immediately in the Income Statement.

Notes to the Financial Statements

For the year ended 31 December 2020

1 Statement of Significant Accounting Policies (continued)

(i) Taxation

Tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at balance date after taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

In accordance with NZ IAS 12 *Income Taxes*, a deferred taxation asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Any reduction is recognised in the Income Statement.

Tax liabilities and assets are transferred among group companies through intercompany accounts at the current tax rate if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

Life Insurance Tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims and expenses) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (31 December 2019 28%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

The regime is applicable to all life insurance policies, irrespective of when they were issued. However, the new regime offers a concessional tax treatment (known as a transitional adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats designated policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the old tax regime. In general, grandparented status lasted for 5 years from 1 July 2010. However, for certain policy types, namely level term policies, the grandparented status can be for the duration of the policy.

Goods and Services Tax

Where a transaction is subject to Goods and Services Tax (GST), the financial statements have been prepared so that all components are stated exclusive of GST, with the exception of trade receivables and trade payables, which include GST invoiced.

(j) Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(k) Life Insurance Business

Statutory Obligations

The New Zealand insurance industry is regulated by the RBNZ under the Insurance (Prudential Supervision) Act 2010 (IPSA). IPSA requires all entities carrying on insurance business in New Zealand (as defined by IPSA) to hold a licence. AIANZ holds a full licence under IPSA. Key elements of the insurance prudential supervision regime include minimum solvency requirements and regular reporting to the RBNZ, the need for directors and other relevant officers to meet fit and proper standards, and governance and risk management requirements.

IPSA requires that a life insurer must at all times have at least one statutory fund in respect of its life insurance business. On 1 July 2013, AIANZ established a statutory fund, the Statutory Fund No. 1, that relates solely to AIANZ's life insurance business as defined by IPSA. AIANZ's standalone health insurance business (which is not classified as life insurance business under IPSA) and business that does not relate to contracts of insurance are included in AIANZ's Other Fund. The activities of the statutory fund are reported in aggregate with the Other Fund in the financial statements. Further information on the statutory fund is provided in notes 23 and 32.

The Group has changed approved insurance rating agency from A.M. Best Company to Fitch Ratings to align with AIA during 2019. The financial strength rating assigned by Fitch to AIANZ is AA Very Strong. A.M. Best's rating was A+ (Superior).

1 Statement of Significant Accounting Policies (continued)

(k) Life Insurance Business (continued)

Life Insurance and Life Investment Contracts – Classification

The Group's life insurance business is split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 *Insurance Contracts*. Life investment contracts are accounted for in accordance with NZ IFRS 9 *Financial Instruments*.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial liability under NZ IFRS 9.

Contracts that contain a discretionary participation feature are also classified as life insurance contracts.

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS), as set out in New Zealand Society of Actuaries Professional Standard No. 20: *Determination of Life Insurance Policy Liabilities*. MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Under MoS, the planned profit margin of premium received less expenses is deferred and amortised over the life of the contract, whereas losses are recognised immediately.

Life insurance contract liabilities are calculated in a way that allows for the systematic release of planned profit margins as services are provided to policyholders and the revenues relating to those services are received. Services used to determine profit recognition include the cost of expected insurance claims and annuity payments. Life insurance contract liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins, reduced by the present value of all future expected premiums.

Profit is analysed into the following categories:

(i) *Planned Margins of Revenues Over Expenses*

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments (including tax) and premiums. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

(ii) *The Difference Between Actual and Assumed Experience*

Experience profits and losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits and losses include variations in claims, expenses, mortality, discontinuance and investment returns (to the extent the shareholder assumes investment risk).

(iii) *Changes to Underlying Assumptions*

Assumptions used for measuring life insurance contract liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year.

The financial effect of a change in discount rates resulting from changes in market conditions is recognised in the year that the rates are changed. The financial effect of all other changes to assumptions is recognised in the Income Statement over the future years during which services are provided to policyholders. If, based on best estimate assumptions, written business of a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in the Income Statement immediately. When loss making business becomes profitable previously recognised losses are reversed.

(iv) *Investment Earnings on Assets in Excess of Policy Liabilities*

Profits are generated from investment assets in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Life Investment Contract Liabilities

All contracts issued by the Group which are classified as life investment contracts are unit linked. The fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

Identification of Assets Backing Life Investment Contracts

All contracts issued by the Group that are classified as life insurance contracts are non-linked. The assets backing unit-linked contracts are in separate investment funds from those backing non-linked contracts.

Notes to the Financial Statements

For the year ended 31 December 2020

1 Statement of Significant Accounting Policies (continued)

(k) Life Insurance Business (continued)

Reinsurance

Contracts entered into by the Group with reinsurers all meet the definition of an insurance contract.

As the reinsurance agreements provide for indemnification of the Group by the reinsurers against loss or liability, reinsurance income and expenses are recognised separately in the Income Statement when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries for claims are recognised as reinsurance income. Reinsurance premiums are recognised as reinsurance expenses.

Liabilities ceded under reinsurance are the present value of future reinsurance claims receivable and commissions, and premiums payable by the Group and have been classified as an asset or liabilities ceded under reinsurance. Reinsurance assets are assessed for impairment on a quarterly basis.

Liabilities arising from reinsurance contracts are computed using the life insurance contracts method as above and in line with revenue recognition in note 1(c).

(l) Retirement Benefits Obligations

The Group currently sponsors the SSRF superannuation plan for its employees and ex-employees. The assets and liabilities of this plan are held independently of the Group's assets in a separate trustee administered fund. The plan has both a defined benefit and defined contribution section and has been closed to new members since 1 July 2004.

Full disclosures of the defined benefit and contribution plan as required by NZ IAS 19 *Employee Benefits* have not been presented on the basis that these assets and liabilities are not material in the context of the Group's Statement of Financial Position.

Defined Benefit Plans

Defined benefit plans are formal arrangements under which an entity provides post-employment benefits.

The asset recognised on the Statement of Financial Position in respect of SSRF is calculated as the present value of the defined benefit obligation and the fair value of the plan's assets deducted. The discount rate is the yield at balance date on New Zealand Government bonds which have approximately the same terms to maturity.

Actuarial gains and losses arising from the above valuation are charged or credited directly to the Statement of Comprehensive Income.

Defined Contribution Plans

The SSRF Defined Contribution Plan is a post-employment benefit plan under which the Group pays fixed contributions to the plan and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior years.

Contributions to SSRF are recognised as an expense in the Income Statement as incurred.

(m) Employee Benefits

Employee benefits are recognised when they accrue to employees and include salaries, wages, bonuses, annual leave, long service leave and pension obligations. A provision is made for the estimated liability for employee benefits as a result of services rendered by employees up to the reporting date.

Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured as the present value of expected future payments made in respect of services provided by employees up to the reporting date. Consideration is taken based on expected future uptake of the benefit, current wage and salary levels, departures and periods of service. Expected future payments are discounted using market yields at the reporting date on New Zealand Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(n) Share Based Compensation and Cash Incentive Plans

AIA, the ultimate owner of the Group, operates several share-based compensation plans, under which AIA receives services from the employees, directors, officers and agents as consideration for shares and/or share options of AIA. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP).

The share-based compensation plans are predominantly equity-settled plans. Under an equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the award of shares and/or share options is recognised as an expense in the Income Statement over the vesting period, with a corresponding amount recorded as equity in AIA's financial statements. Any amount recharged by AIA to the Group for equity-settled share based payment arrangements are offset against the amount recorded in the related party balance for AIA.

1 Statement of Significant Accounting Policies (continued)

(n) Share Based Compensation and Cash Incentive Plans (continued)

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

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

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

Refer to note 25 for the details of share-based compensation plans.

(o) Contingent Liabilities

The Group discloses a contingent liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(p) Statement of Cash Flows

This has been prepared using the direct approach, modified by the netting of cash flows associated with related parties and foreign exchange forward contracts. For these items, the Group considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Group and it is considered acceptable to report only the net cash flows. This is based on the fact that the turnover of these items is quick, the amounts are large, and the maturities are short.

(q) Segment Reporting

The Group is not required to disclose geographic or operating segment information under NZ IFRS 8 *Operating Segments*. On this basis there are no disclosures relating to the Group's geographic or operating segments.

(r) Lease Liabilities and Right-of-use Assets

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The Group applied NZ IFRS 16 from 1 January 2019. This resulted in a change in treatment to existing leases.

(s) Related Party Transactions

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

Notes to the Financial Statements

For the year ended 31 December 2020

2 Actuarial Policies and Methods

The effective date of the policy liabilities and solvency margin calculation for the Group is 31 December 2020. Jack Chau FIAA, as the Head of Actuarial of AIANZ, is satisfied as to the accuracy of the data from which the amount of life insurance and life investment contract liabilities has been determined.

The projection method is used to determine life insurance and life investment contract liabilities. In principle, the projection method uses expected cash flows (premiums, investment income, surrenders or benefit payments, expenses) plus profit margins to be released in future periods, to calculate the present value of contract liabilities.

Life insurance and life investment contract liabilities have been determined in accordance with Professional Standard 20 of the New Zealand Society of Actuaries and the requirements of NZ IFRS 4.

Key assumptions used in determining life insurance and life investment contract liabilities are as follows:

(a) Discount Rates

(i) *Business Where Benefits are Contractually Linked to the Performance of Assets Held*

The discount rates used to determine life insurance and life investment contract liabilities reflect the expected future gross returns on the Group's current strategic asset mix. Fixed interest investments were assumed to earn 1.0% pa (31 December 2019 1.8%) and equity investments 5.0% pa (31 December 2019 5.8%). The discount rates used for individual classes of business varied between 1.0% pa and 2.3% pa (31 December 2019 1.8% pa and 3.1%).

(ii) *Other Business*

The discount rate used to determine life insurance contract liabilities is a risk free discount rate. Single point discount rates have been determined so that the term structure of the products is taken into account in setting the discount rate. For annuities and risk business rates between 0.9% and 2.4% pa were used (31 December 2019 1.6% and 2.7%). The short term inflation rate assumed is taken as the actual annual inflation from the previous September quarter, and is 1.4% (31 December 2019 1.5%). The ex-Branch does not use a short-term inflation assumption.

(b) Profit Carriers

Policies are divided into related product groups with profit carriers and profit margins as follows:

Policy type	Carrier
Risk	Expected claims payments
Savings business	Funds under management/investment management expenses
Traditional participating business	Bonuses

(c) Investment and Maintenance Expenses

Future maintenance and investment expenses have been assumed at current levels in line with contractual fees set out an agreement with AIA Services New Zealand Limited, a wholly owned subsidiary of AIANZ, and external fund managers. Future inflation has been assumed to be 2.0% pa (31 December 2019 2.0%) for determining future expenses and inflation linked increases in benefits and premiums.

(d) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (31 December 2019 28%). Allowance has been made for the "fair dividend rate" rules that apply to global equities, where tax is paid on 5% of the market value of investments, regardless of the actual rate of investment income.

(e) Rates of Growth of Unit Prices

Unit price growth is assumed to be equal to the assumed investment earning rates less tax and asset based charges for each product.

(f) Mortality and Morbidity

Projected future rates of mortality experience are based on a proportion of the NZ97 tables. These are then adjusted by comparing the standard tables with the Group's own experience using geometric smoothing techniques or moving averages. Annuitant mortality is assumed to be a proportion of the PMA92 and PMF92 tables, adjusted for mortality improvements prior to and after the valuation date.

In general, mortality assumptions are reviewed based on annual experience studies. Mortality experience for all products has been reasonably consistent with the current assumptions.

Over 2020, the proportions of NZ97 adopted for the major products range from 47% to 96% (31 December 2019 47% to 96%).

Projected future morbidity experience are based on a combination of reinsurers' tables, industry tables, industry experience and internal investigations. For significant classes of business, internal experience is compared with reinsurers' tables using geometric smoothing techniques or moving averages.

Notes to the Financial Statements

For the year ended 31 December 2020

2 Actuarial Policies and Methods (continued)

(f) Mortality and Morbidity (continued)

In general, morbidity assumptions are reviewed based on annual experience studies.

The following changes have been made to morbidity assumptions for 31 December 2020:
- Health claims assumptions have increased resulting in an overall increase in projected claim costs.
- Claims assumptions for Easy Life and Living product have been increased.
- Claims assumptions for Legacy Lump Sum products have been decreased.
- Claims assumptions for BPP and CCRI products have increased.

(g) Rates of Discontinuance

Assumptions for the incidence of withdrawal, partial termination and transfer of policies paid-up are primarily based on investigations of the Group's own experience.

Discontinuance rates were reviewed based on data up to 31 December 2019, for the current financial year.

Future rates of discontinuance are:

		Policy Duration (years)									
	Age	1	2	3	4	5	6	7	8	9	10+
As at 31 December 2020											
Life rate for age	**< 30**	**8%**	**13%**	**15%**	**14%**	**12%**	**12%**	**12%**	**11%**	**11%**	**11%**
	30 - 39	**7%**	**11%**	**12%**	**12%**	**11%**	**12%**	**10%**	**9%**	**9%**	**9%**
	40 - 49	**7%**	**10%**	**12%**	**11%**	**10%**	**10%**	**10%**	**10%**	**9%**	**8%**
	50 - 64	**7%**	**11%**	**15%**	**13%**	**13%**	**13%**	**12%**	**12%**	**12%**	**12%**
	65+	**14%**	**18%**	**23%**	**21%**	**20%**	**19%**	**19%**	**19%**	**19%**	**19%**
Life level to age 80	**< 30**	**16%**	**14%**	**15%**	**14%**	**11%**	**10%**	**9%**	**7%**	**7%**	**6%**
	30 - 39	**11%**	**10%**	**11%**	**10%**	**7%**	**6%**	**6%**	**5%**	**4%**	**4%**
	40 - 49	**8%**	**7%**	**7%**	**7%**	**5%**	**4%**	**4%**	**3%**	**3%**	**2%**
	50 - 64	**6%**	**7%**	**8%**	**8%**	**6%**	**6%**	**5%**	**4%**	**3%**	**3%**
	65+	**6%**	**6%**	**7%**	**7%**	**6%**	**6%**	**5%**	**4%**	**3%**	**3%**
As at 31 December 2019											
Life rate for age	< 30	8%	13%	14%	13%	13%	12%	11%	10%	10%	9%
	30 - 39	7%	11%	13%	12%	11%	11%	10%	10%	10%	8%
	40 - 49	8%	10%	13%	12%	12%	11%	11%	10%	10%	9%
	50 - 64	9%	13%	17%	18%	16%	14%	13%	14%	15%	12%
	65+	13%	18%	22%	20%	20%	19%	19%	19%	19%	18%
Life level to age 80	< 30	16%	13%	14%	14%	10%	9%	9%	7%	7%	5%
	30 - 39	12%	10%	10%	10%	7%	6%	5%	5%	4%	4%
	40 - 49	8%	7%	7%	7%	5%	4%	4%	3%	3%	2%
	50 - 64	6%	7%	7%	6%	6%	5%	4%	4%	4%	3%
	65+	5%	6%	7%	6%	6%	5%	4%	4%	4%	3%

		As at 31 December 2020			As at 31 December 2019		
	Age	Life	Non-Life	Total	Life	Non-Life	Total
Other Risk	**< 30**	**20%**	**12%**		21%	13%	
	30 - 39	**14%**	**11%**		15%	12%	
	40 - 49	**11%**	**10%**		11%	10%	
	50 - 64	**9%**	**11%**		10%	11%	
	65+	**7%**	**14%**		8%	14%	
Participating				**3%**			3%
Savings				**8%**			8%

(h) Basis of Calculation of Surrender Values

Surrender values are set using an asset share approach and taking into consideration equity between continuing and terminating policyholders.

The surrender value basis was changed in 2019 following review, resulting in increases for around two thirds of customers.

Notes to the Financial Statements

For the year ended 31 December 2020

2 Actuarial Policies and Methods (continued)

(i) Participating business

For most participating business, bonus rates are set such that, over long periods, the returns to policyholders are commensurate with the investment returns achieved on the relevant assets, together with other sources of profit arising from this business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions at a maximum allowable rate of 20% (31 December 2019 20%).

In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in life insurance contract liabilities were set such that the present value of life insurance contract liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

Assumed future bonus rates per annum for individual participating business were:

As at 31 December		**2020**	2019
Ex-Colonial policies	Bonus rate on sum assured	**0.20%**	0.20%
	Bonus rate on existing bonus	**0.20%**	0.20%
Ex-Prudential policies	Bonus rate on sum assured	**0.03%**	0.12%
	Bonus rate on existing bonus	**0.03%**	0.12%
Ex-NZI policies	Bonus rate on sum assured	**0.00%**	0.00%
	Bonus rate on existing bonus	**0.00%**	0.00%
Ex-Metropolitan Life policies	Bonus rate on sum assured	**0.00%**	0.00%
	Bonus rate on existing bonus	**0.00%**	0.00%
Investment account policies	Crediting Rate	**2.85%**	3.23%

(j) Impact of Changes in Assumptions

Refer to note 1(k) for an explanation of the treatment of changes in actuarial assumptions on life insurance contract liabilities. The impact of changes in actuarial assumptions made during the reporting period are:

	Effect on Future Profit Margins		**Effect on Life Insurance Contract Liabilities**	
$ millions	**12 months to 31 December 2020**	12 months to 31 December 2019	**12 months to 31 December 2020**	12 months to 31 December 2019
Market related changes to discount rates	**34**	52	**30**	66
Non-market related changes to discount rates	**-**	1	**-**	-
Mortality and morbidity	**12**	(30)	**2**	10
Discontinuance rates	**26**	21	**(2)**	-
Maintenance expenses	**(55)**	7	**(5)**	2
Reinsurance	**-**	(25)	**-**	-
Other assumptions	**3**	(11)	**-**	(1)

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Notes to the Financial Statements

For the year ended 31 December 2020

3 Business Combination

(a) Portfolio transfer of assets and liabilities held by AIA International Limited - New Zealand Branch

Effective 1 January 2020, a portfolio transfer occurred which transferred all the insurance business of the AIA International Limited - New Zealand Branch (Branch), including the statutory fund assets and any related assets and liabilities to AIANZ. All assets and liabilities associated with staff employment agreements, commercial contracts (for instance lease contracts and vendor agreements), as well as intangible assets were moved to AIA Services New Zealand Limited (AIASNZ), while all plant and equipment was transferred to Westside Properties Limited (WPL). AIASNZ and WPL are subsidiaries of AIANZ. Post the transfer the Branch no longer holds any insurance business and the insurance license with the RBNZ was cancelled and Statutory Fund terminated on 08 July 2020.

As both AIANZ and the Branch were owned by AIAI at the time of the portfolio transfer, this is considered to be a business combination under common control, which is not in scope of NZ IFRS 3 or any other NZ IFRS standard. NZ IFRS guidance states that in the absence of an NZ IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in financial information that is relevant and reliable and best reflects the economic substance of the transactions. Management have adopted an accounting policy where the assets and liabilities are sold at their book value on 1 January 2020 as determined under NZ IFRS.

Total consideration for the portfolio transfer was $150m ($146m shares and $4m cash), in-line with the amount of the net assets included as part of the portfolio transfer. Cash was paid by AIASNZ and WPL for the amount of net assets transferred to the respective entities.

$ millions **As at acquisition date**	**1 January 2020**
Assets	
Cash and cash equivalents	6
Trade and other receivables	33
Investments	180
Plant and equipment	1
Right-of-use assets	2
Intangible assets	4
Total assets	226
Liabilities	
Trade and other payables	30
Liabilities arising from reinsurance contracts	3
Life insurance contract liabilities	(31)
Life investment contract liabilities	7
Lease liabilities	3
Deferred taxation liability	64
Total liabilities	76
Net assets transferred in portfolio transfer	150
The consideration for the portfolio transfer was made up of the following:	
Share issues for insurance business net assets transferred	146
Cash payment by AIA Services for non-insurance contract net assets transferred	3
Cash payment by Westside Properties for property, plant and equipment net assets transferred	1
Total consideration	150

Notes to the Financial Statements

For the year ended 31 December 2020

3 Business Combination (continued)

(b) Acquisition of assets and liabilities of Financial Services Network Limited

On 1 April 2020 AIAI transferred all their shares in Financial Services Network Limited (FSN) to AIASNZ, for consideration based on the New Zealand statutory Net Asset Value (NAV). This was settled in cash in US dollars. FSN contracts with a number of advisers for the distribution of both AIA and third-party insurance products and services in New Zealand.

As both AIANZ and FSN were owned by AIAI at the time of the portfolio transfer, this is considered to be a business combination under common control, which is not in scope of IFRS 3 or any other IFRS standard. NZ IFRS guidance states that in the absence of an NZ IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in financial information that is relevant and reliable and best reflects the economic substance of the transactions. Management have adopted an accounting policy where the assets and liabilities are sold at their book value as determined under NZ IFRS.

$ thousands **As at acquisition date**	**1 April 2020**
Assets	
Cash and cash equivalents	286
Trade and other receivables	305
Deferred taxation assets	559
Plant and equipment	94
Right-of-use assets	61
Total assets	1,305
Liabilities	
Trade and other payables	1,023
Lease liabilities	317
Total liabilities	1,340
Net assets transferred at acquisition date	(35)

4 Sources of Profit

$ millions **For the year ended 31 December**	**2020**	2019
Life insurance		
Planned margins of revenues over expenses	44	48
Unwind of discount on policy liabilities	2	1
Difference between actual and assumed experience	(12)	(44)
Effects of changes in underlying assumptions	(14)	(14)
(Recognition)/reversal of future expected losses	(33)	2
Net loss after taxation arising from life insurance contracts	(13)	(7)
Life investment		
Planned margins of revenues over expenses	6	6
Difference between actual and assumed experience	(2)	-
Net profit after taxation arising from life investment contracts	4	6
Shareholder investment earnings	8	6
Total life activities	(1)	5
Net (loss)/profit after taxation attributed to shareholders	(1)	5

Notes to the Financial Statements

For the year ended 31 December 2020

5 Premium Revenue

$ millions For the year ended 31 December	Note	2020	2019
Premium revenue			
Life insurance contract premiums		**946**	739
Life investment contract deposit premiums and fee income		**17**	19
Total premiums		**963**	758
Less: Deposit premiums recognised as an increase in life investment contract liabilities	19	**(15)**	(17)
Total premium revenue		**948**	741
Less: Reinsurance expense	24	**(674)**	(352)
Total net premium revenue		**274**	389

6 Investment and Other Revenue

$ millions For the year ended 31 December	2020	2019
Dividends	**10**	11
Realised and unrealised gains	**43**	134
Total equity securities and fund certificates	**53**	145
Dividends	**2**	3
Realised and unrealised (losses)/gains	**(3)**	16
Total property securities	**(1)**	19
Interest	**40**	51
Realised and unrealised gains	**61**	29
Total fixed interest securities and cash	**101**	80
Realised and unrealised gains/(losses)	**2**	(1)
Total derivatives	**2**	(1)
Total investment revenue	**155**	243
Other revenue		
Investment fees received	**14**	15
Other revenue	**3**	2
Total other revenue	**17**	17

7 Reinsurance Commission Revenue

$ millions For the year ended 31 December	Note	2020	2019
Initial commission	24	**35**	2
Ongoing commission		**62**	48
Total Reinsurance Commission		**97**	50

8 Claims Expense

$ millions For the year ended 31 December	Note	2020	2019
Death, disability and medical claims		**472**	377
Maturities		**25**	28
Surrenders		**93**	92
Annuities		**3**	3
Total claims		**593**	500
Less: Claims recognised as a decrease in life investment contract liabilities	19	**(77)**	(89)
Total claims expense		**516**	411
Less: Reinsurance recoveries		**(211)**	(165)
Total net claims expense		**305**	246

Notes to the Financial Statements

For the year ended 31 December 2020

9 Other Operating Expenses

$ millions	Life insurance contracts		Life investment contracts		Total	
For the year ended 31 December	**2020**	2019	**2020**	2019	**2020**	2019
Initial commission	**49**	61	**-**	-	**49**	61
Other acquisition expenses	**87**	60	**-**	1	**87**	61
Policy acquisition expenses	**136**	121	**-**	1	**136**	122
Renewal commission	**133**	92	**2**	2	**135**	94
Other maintenance expenses	**161**	155	**2**	2	**163**	157
Policy maintenance expenses	**294**	247	**4**	4	**298**	251
Investment management expenses	**3**	3	**2**	2	**5**	5
Total life expenses	**433**	371	**6**	7	**439**	378
Total other operating expenses					**439**	378
Included above:						
Amortisation of intangible assets					**6**	3
Depreciation					**10**	8
Employee benefits expense						
Wages and salaries					**93**	83
Defined contribution plan expense					**3**	2
Fiduciary expenses					**2**	2

10 Auditor's Remuneration

$ thousands **For the year ended 31 December**	**2020**	2019
PricewaterhouseCoopers is the appointed auditor of the Group for the current and prior period.		
Fees paid to PricewaterhouseCoopers are as follows:		
Audit of financial statements		
Fees for the audit of financial statements	**1,263**	937
Assurance and audited related services		
Reasonable assurance over Annual Solvency Return	**44**	44
Other services		
Readiness assessment of internal control over financial reporting	**-**	159
Assessment of controls and processes supporting the implementation of Enterprise Date Warehouse	**-**	35
Total fees paid to auditor	**1,307**	1,175

11 Taxation

$ millions **For the year ended 31 December**	Note	**2020**	2019
Current taxation expense		**3**	8
Deferred taxation expense	20	**31**	23
Total taxation expense recognised in the Income Statement		**34**	31

The taxation expense on the Group's net profit before taxation differs from the theoretical amount that would arise using the domestic rate as follows:

	2020	2019
Net profit before taxation	**33**	36
Income tax at the current rate of 28% (31 December 2019 28%)	**9**	10
Investment income adjustments	**(9)**	(36)
Imputation and PIE tax credit adjustments	**(1)**	(2)
Movement in investment contract liabilities and adjustments	**8**	29
Movement in insurance contract liabilities and adjustments	**(34)**	31
Other non-assessable income	**(1)**	-
Other non-deductible expenditure (1)	**63**	1
Prior period adjustments	**(1)**	(2)
Total taxation expense recognised in the Income Statement	**34**	31
Weighted average effective tax rate (2)	**103%**	86%

Notes to the Financial Statements

For the year ended 31 December 2020

11 Taxation (continued)

(1) Other non-deductible expenditure of $63 million in the current year primarily relates to non-deductible premiums paid to AIA Re (refer to note 24).

(2) The movement in effective tax rate from 86% in prior year 2019 to 103% in the current year is primarily due to an increase in risk business profits and also increase in taxable investment income from 2019 to 2020.

12 Imputation Credit Account

Companies may attach imputation credits to dividends paid, which represent the New Zealand tax already paid by the company or tax group on profits. New Zealand resident shareholders may claim a tax credit to the value of the imputation credit attached to dividends.

The Group has formed an imputation group with eligible members of the AIA Group (ICA Group). The closing balance of imputation credits available to all members of the ICA Group as at 31 December 2020 is $6 million (31 December 2019 $7 million). This amount includes imputation credits that will arise from the payment of the provision for income tax and from the receipt of dividends recognised as receivables as at the reporting date, and imputation debits that will arise from the payment of dividends recognised as payables as at the reporting date.

13 Investments

$ millions **As at 31 December**	**2020**	2019
Equity securities and fund certificates	**630**	652
Fixed interest securities		
New Zealand government stock	**994**	1,016
Corporate bonds	**139**	21
Foreign government stock	**22**	100
Total fixed interest securities	**1,155**	1,137
Property securities	**65**	67
Total investments	**1,850**	1,856

As at 31 December 2020, no investments were pledged under repurchase agreements or other arrangements (31 December 2019 nil). A maturity analysis for equity securities, fund certificates, and property securities has not been presented because these investments are liquid assets and the timing of realisation is not known.

Fixed Interest Securities

Maturity analysis:		
Under one year	**39**	4
Between one and two years	**20**	28
Between two and three years	**104**	3
Between three and four years	**30**	434
Between four and five years	**76**	8
Greater than five years	**886**	660
	1,155	1,137

14 Cash and Cash Equivalents

$ millions **As at 31 December**	**2020**	2019
Cash at bank and on deposit	**426**	307
Foreign currency deposits	**-**	1
Total cash and cash equivalents	**426**	308

Notes to the Financial Statements

For the year ended 31 December 2020

15 Principal Subsidiaries

The Group has an interest in the following entities:

Entity Name	%	Nature of Business	Balance Date
AIA Services New Zealand Limited	100	Administration services	31 December
Westside Properties Limited	100	Asset leasing	31 December
Sovereign Superannuation Funds Limited *	100	Superannuation scheme manager	31 December
Financial Services Network Limited**	100	Agency services	31 December

All entities were incorporated in New Zealand.

* Sovereign Superannuation Funds Limited was de-registered from the New Zealand Company Register on 30 January 2019.

** Financial Services Network Limited was acquired on 1 April 2020. Refer to note 3 for further details.

16 Intangible Assets

$ millions	Note	Life investment contract deferred acquisition costs	Internally developed software	Other intangible assets	Total
Gross carrying value					
Balance as at 1 January 2020		6	36	1	43
Additions		-	12	-	12
Portfolio transfer	3	-	4	-	4
Balance as at 31 December 2020		6	52	1	59
Accumulated amortisation and impairment losses					
Balance as at 1 January 2020		(3)	(14)	(1)	(18)
Amortisation expense		(1)	(5)	-	(6)
Balance as at 31 December 2020		(4)	(19)	(1)	(24)
Net carrying value at 31 December 2020		2	33	-	35
Gross carrying value					
Balance as at 1 January 2019		6	31	1	38
Additions		-	9	-	9
Disposals and write-offs		-	(4)	-	(4)
Balance as at 31 December 2019		6	36	1	43
Accumulated amortisation and impairment losses					
Balance as at 1 January 2019		(1)	(17)	(1)	(19)
Amortisation expense		(2)	(1)	-	(3)
Disposals and write-offs		-	4	-	4
Balance as at 31 December 2019		(3)	(14)	(1)	(18)
Net carrying value at 31 December 2019		3	22	-	25

17 Trade and Other Receivables

$ millions As at 31 December	2020	2019
Investment receivables	13	21
Outstanding premiums	27	21
Amounts due from related parties	3	4
Amounts due from reinsurers	72	54
Agent balances receivable	2	1
Other assets	10	8
Total trade and other receivables	127	109

All trade and other receivables have an expected settlement date of less than 12 months.

18 Retirement Benefit Surplus

Actuarial gains and losses are recognised in full each period.

SSRF is a superannuation scheme with a defined benefit section and a defined contribution section. The last full triennial actuarial review was completed in 2019. The next triennial actuarial review is scheduled for 31 March 2022.

$ millions	SSRF	
As at 31 December	**2020**	2019
Reconciliation of amounts recognised in the Statement of Financial Position		
Present value of funded obligations	**(3)**	(3)
Fair value of fund assets	**10**	10
Surplus	**7**	7
Adjustment for limit on the use of net assets *	**(7)**	(5)
Total retirement benefit surplus (inclusive of specified superannuation contribution withholding tax)	**-**	2

* SSRF's estimated net assets at 31 December 2020 were $10 million (31 December 2019 $10 million), but a large part of the value of the surplus assets cannot be brought into the Group's financial statements. This is because AIA Services New Zealand Limited (employer) is not expected to be able to make use of all the surplus assets for its future employer contributions due to the current size of SSRF's membership.

19 Life Insurance and Life Investment Contract Liabilities

$ millions		Life insurance contracts		Life investment contracts	
As at 31 December	Note	**2020**	2019	**2020**	2019
Reconciliation of movements in policy liabilities					
Balance at the beginning of the period		**(4)**	26	**678**	646
Balance arising from portfolio transfer	3	**(31)**	-	**7**	-
Increase in liabilities recognised in the Income Statement, excluding reinsurance and deferred fee income reserve		**43**	(30)	**40**	121
Investment contract fees		**-**	-	**(13)**	(15)
Decrease in deferred fee income reserve recognised in the Income Statement		**-**	-	**(2)**	(2)
Deposit premium recognised as an increase in policy liabilities		**-**	-	**15**	17
Claims recognised as a decrease in policy liabilities		**-**	-	**(77)**	(89)
Total policy liabilities		**8**	(4)	**648**	678

$ millions	Life insurance contracts			
As at 31 December	**Under one year**	**Between one and five years**	**Greater than five years**	**Total**
Expected realisation maturity analysis				
Expected realisation of policy liabilities as at 31 December 2020	**(135)**	**(203)**	**346**	**8**
Expected realisation of policy liabilities as at 31 December 2019	(17)	(176)	189	(4)

Life investment contract liabilities

The maturity value of life investment contract liabilities is determined by the fair value of the linked assets at maturity date. Refer to note 35 for a contractual maturity analysis of life investment contract liabilities.

The following table provides information on the net of liabilities ceded under reinsurance, $334 million (31 December 2019 $43 million) and liabilities arising from reinsurance contract, $647 million (31 December 2019 $668 million).

$ millions		Life insurance contracts		Life investment contracts	
For the year ended 31 December	Note	**2020**	2019	**2020**	2019
Balance at the beginning of the period		**(625)**	(675)	**-**	-
Balance arising from portfolio transfer	3	**(3)**	-		
Amount recognised in the Income Statement		**315**	50	**-**	-
Total		**(313)**	(625)	**-**	-
Maturity analysis					
Under one year		**(10)**	(35)	**-**	-
Greater than one year		**(303)**	(590)	**-**	-
		(313)	(625)	**-**	-

Notes to the Financial Statements

For the year ended 31 December 2020

19 Life Insurance and Life Investment Contract Liabilities (continued)

$ millions **As at 31 December**	**Life insurance contracts** **2020**	 2019
Policy liabilities related to guarantees		
Policy liabilities with a discretionary participation feature	**695**	684
Valuation of policy liabilities		
Cash flows net of tax:		
Future policy benefits	**13,893**	10,783
Future bonuses	**39**	42
Future expenses	**4,939**	3,932
Future planned margins of revenue over expenses	**2,067**	1,445
Future premiums	**(20,181)**	(15,673)
Unvested policyholder benefits	**64**	73
Deferred tax gross up	**(813)**	(606)
Total policy liabilities	**8**	(4)

Life investment contract policy liabilities with an investment performance guarantee at 31 December 2020 were $5.8 million (31 December 2019 $6 million).

Life insurance contract liabilities future net cash inflows		
Under one year	**175**	152
Between one and five years	**780**	538
Greater than five years	**4,132**	3,286
	5,087	3,976

The table above shows the estimated timing of undiscounted future net cash flows resulting from life insurance contract liabilities. This includes estimated future surrenders, claims and maturity benefits, and bonuses, offset by expected future premiums and reinsurance recoveries. Future values are not discounted.

20 Deferred Taxation Liability

$ millions **As at 31 December**	Note	**2020**	2019
Balance at beginning of period		**573**	549
Balance arising from portfolio transfer	3	**64**	-
Recognised in the Income Statement		**31**	23
Recognised in the Statement of Comprehensive Income		**-**	1
Total deferred taxation liability		**668**	573
Deferred taxation relates to:			
Life insurance and life investment contract liabilities		**710**	610
Losses available for offset against future taxable income		**(49)**	(36)
Other		**7**	(1)
Total deferred taxation liability		**668**	573
Deferred taxation recognised:			
Life insurance and life investment contract liabilities		**100**	52
Losses available for offset against future taxable income		**(13)**	(31)
Other		**8**	3
Total deferred taxation recognised		**95**	24

Comparative information has been reclassified to ensure consistency with presentation in the current reporting period. These reclassifications have no impact on net profit after taxation.

Notes to the Financial Statements

For the year ended 31 December 2020

21 Trade and Other Payables

$ millions As at 31 December	2020	2019
Outstanding claims	**78**	56
Expense creditors	**26**	31
Prepaid premiums	**13**	10
Employee benefits	**19**	12
Investment creditors	**2**	8
Agent balances	**7**	6
Amounts due to reinsurers	**33**	25
Provisions	**3**	-
Amounts due to related parties	**30**	19
Total trade and other payables	**211**	167

As at 31 December 2020, $204 million of trade and other payables have an expected settlement date of less than 12 months. (31 December 2019 $161 million).

A maturity analysis of current and non-current financial liabilities is presented in note 35.

AIA operates a number of share based compensation schemes. Further information on these share based compensation schemes is disclosed in note 24 and note 25.

22 Contributed Capital

$ millions As at 31 December	Note	2020	2019
Issued ordinary share capital			
Balance at beginning of period		**540**	540
Shares issued - capital injections		170	-
Shares issued - portfolio transfer	3	146	-
Balance at end of period		**856**	540

As at 31 December 2020, share capital includes 246,543,729 ordinary shares (31 December 2019 187,805,849).

The shares issued in consideration for the portfolio was done in two tranches. The first tranche of 31,894,976 shares was issued effective 1 January 2020 and represented NAV acquired in the portfolio transfer of $127 million. The second tranche of 4,855,470 shares was issued on 18 March 2020 and represented a further $19 million in NAV acquired. Refer to note 3 for more information on the portfolio transfer.

There was also two capital injections during the year from AIA. On 20 March 2020 6,622,517 shares were issued for the first capital injection of $50 million. On 28 April 2020 a further 15,364,917 shares were issued for the second capital injection of $120 million.

All ordinary shares are fully paid and have no par value. All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

There was no dividend paid on ordinary shares for the period ended 31 December 2020 (31 December 2019 nil).

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23 Capital Management

The objectives of the Group with regard to the management of capital adequacy are:

(i) maintain a level of target surplus which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;
(ii) maintain a strong capital base to cover the inherent risks of the business; and
(iii) support the future development and growth of the business to maximise shareholder value.

The AIANZ board (the Board) has ultimate responsibility for compliance with the solvency standard and managing capital. The Board approves the capital management policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of solvency margin requirements under the Solvency Standard for Life Insurance Business issued in accordance with Insurance (Prudential Supervision) Act 2010. Under its licence, the RBNZ requires AIANZ to hold a solvency margin of at least $0 in the Other Fund (2019: $0) and at least up to $92.5 million in the Statutory Fund (2019: $0) depending on the level of the 10-year NZ Government bond rate. As at 31 December 2020, the minimum solvency margin in the Statutory Fund was $92.5 million.

If the Board has reasonable grounds to believe that a failure to maintain a solvency margin in either life fund is likely to occur at any time within the next 3 years, the likely failure must be reported to the RBNZ as soon as is reasonably practicable. Compliance with these requirements is a continuous obligation. As a minimum, calculations must be undertaken twice a year, at six monthly intervals, and reported to the RBNZ.

Target solvency margin is a capital buffer held on top of regulatory requirements to ensure the likelihood of a breach of regulatory requirements is at a level consistent with AIANZ's risk appetite. The level of target solvency margin takes account of management assessments of actual risk and forecasts/stress testing of future capital requirements. The Board approves the methodology and basis for determining target solvency margin.

The solvency position of AIANZ for the two life funds is as follows:

$ millions	Statutory Fund	Other Fund	Total
As at 31 December 2020			
Actual solvency capital	**377**	**169**	**546**
Minimum solvency capital	**116**	**154**	**270**
Solvency margin	**261**	**15**	**276**
Solvency ratio	**325%**	**110%**	**202%**
As at 31 December 2019			
Actual solvency capital	127	126	253
Minimum solvency capital	-	117	117
Solvency margin	127	9	136
Solvency ratio	N/A	107%	216%

Notes to the Financial Statements

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24 Related Party Transactions and Balances

During the year ended 31 December 2020, the Group has entered into, or had in place, the following related party transactions.

a) Immediate and ultimate controlling party

AIANZ's immediate holding company is AIA Sovereign Limited. AIA International Limited (domiciled in Bermuda) owns 100% of AIA Sovereign Limited. AIA International Limited's immediate holding company is AIA Company Limited. The ultimate holding company is AIA Group Limited, a company incorporated in Hong Kong and listed on The Hong Kong Stock Exchange.

b) Key management personnel

Key management personnel have been identified as members of the New Zealand Group executive committee. More information for key management personnel is disclosed in note 26.

c) Share based compensation

Information on share based compensation is outlined in note 25.

d) Transactions with related parties

The Group entered into transactions with its related parties in the normal course of business. The aggregate amount of income and expenses arising from these transactions during the reporting period with related parties was as follows:

$ millions **As at 31 December**	**2020**	2019
Related Party Transactions		
Income		
Reinsurance commission from AIA Reinsurance Limited	**30**	9
Reinsurance claims recoveries from AIA Reinsurance Limited	**14**	1
Staff and facility re-charge to AIANZ Branch	**-**	3
	44	13
Expenses		
Paid to AIA Reinsurance Limited for reinsurance premiums	**269**	5
Paid to AIANZ Branch for recharge costs of integration, administrative service and staffing	**-**	3
Paid to AIA Australia Limited for recharge costs of group integration	**32**	10
Paid to AIA Company Limited for group service fee	**8**	1
Paid to AIA Shared Services (Hong Kong) Limited for Vitality project costs	**2**	-
Paid to AIA Shared Services Sdn Bhd for group service fee	**2**	-
Paid to AIA Group Limited for staff recharge costs	**1**	-
Paid to AIA Company (Guangzhou) Limited for group service fee	**1**	-
	315	19
Related Party Balances		
Assets		
Trade and other receivables from AIA Reinsurance Limited	**3**	4
Liabilities		
Trade and other payables to AIA Reinsurance Limited	**8**	1
Trade and other payables to AIA Australia Limited	**18**	18
Trade and other payables to AIA Company Limited	**3**	-
Trade and other payables to AIA Shared Services Malaysia	**1**	-
	30	19

On 30 June 2020 the Group entered a new arms-length reinsurance treaty with AIA Reinsurance Limited. This treaty is the primary contributor for the increase in reinsurance expense at 31 December.

Effective 1 January 2020, a portfolio transfer occurred which moved all the assets and liabilities of the Branch to entities within the Group. Refer to note 3 for more information.

Refer to the Statement of Changes in Equity and note 22 for details of dividends paid to the Shareholder (AIA Sovereign Limited).

The Group is the sponsor, investment manager and assists with administration of one off-balance sheet employee superannuation scheme (refer note 18).

During the period ended 31 December 2020, AIANZ participated in the AIA Group catastrophe treaty. In addition, AIANZ has in place a lower layer catastrophe treaty with AIA Reinsurance Limited. Refer note 33 "Risk Management Policies" under Insurance Risk.

Notes to the Financial Statements

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25 Share Based Compensation

Stock compensation plans

During the year ended 31 December 2020, AIA Group Limited (ultimate parent) made grants of restricted share units (RSU) to certain employees, directors and officers of the Group under the RSU Scheme and the employee share purchase scheme (ESPP).
No grants were made under share option (SO) scheme in the current year.

RSU Scheme

Under the RSU scheme, the vesting of granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the retrospective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period. If the RSU grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the eligible participants are not entitled to dividends of the underlying shares. The maximum number of shares that can be granted under the scheme is 302,264,978 (2019 301,100,000) representing approximately 2.5 per cent of the number of shares in issue on listing date.

	Number of Shares	
For the year ended 31 December	**2020**	2019
Restricted share units		
Outstanding at beginning of financial period/year	**80,152**	-
Increase through portfolio transfer	**92,981**	-
Granted	**106,618**	80,152
Vested or exercised	**(30,095)**	-
Forfeited or expired	**(2,400)**	-
Outstanding at end of financial period/year	**247,256**	80,152

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25 Share Based Compensation (continued)

Employee Share Purchase Plan (ESPP)

Under the ESPP, eligible employees of the Group can purchase ordinary shares of AIA with qualified employee contributions and AIA will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 10% of the annual basic salary subject to a maximum of HK$150,000 per annum. The awarded matching restricted stock purchase units are expected to be settled in equity. For the year ended 31 December 2020, eligible employees of the Group paid $772,407 (31 December 2019 $605,751) to purchase 50,176 ordinary shares (31 December 2019 39,491 ordinary shares) of AIA.

Valuation methodology

AIA utilises a binomial lattice model to calculate the fair value of the share options grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP awards, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the AIA's shares which is based on an analysis of historical data since they are traded in the Stock Exchange of Hong Kong and takes into consideration the historical volatility of peer companies. The expected life of the options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behavior of the AIA Group employees. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date.

	12 months to 31 December 2020			12 months to 31 December 2019		
	Share options	**Restricted share units**	**ESPP Restricted stock purchase units**	Share options	Restricted share units	ESPP Restricted stock purchase units
Risk-free interest rate	**N/A**	**0.31%**	**1.44% - 1.76%**	1.59%	1.67%	1.44% - 1.76%
Volatility	**N/A**	**24.00%**	**0.00%**	20.00%	20.00%	24.00%
Dividend yield	**N/A**	**1.60%**	**1.60%**	1.50%	1.50%	1.60%
Weighted average fair value per option / unit at measurement	**N/A**	**N/A**	**76.23%**	N/A	N/A	75.44

The weighted average share price for granted SO valuation is nil for the year ended 31 December 2020 as no options were awarded. (31 December 2019 nil).

Recognised compensation

The total recognised compensation cost (net of expected forfeitures) related to various share based compensation awards granted under the RSU Scheme and ESPP for the year ended 31 December 2020 is $878,532 (31 December 2019 $351,894).

26 Directors and Key Management Personnel

$ millions **For the year ended 31 December**	**2020**	2019
Short term employee benefits	**6**	4
Directors fees	**-**	-
Total directors and key management personnel compensation	**6**	4

$ millions **As at 31 December**	**2020**	2019
Provisions for short term benefits	**1**	1
Provisions for long term benefits	**1**	-

Key management personnel are defined as permanent members of the executive committee. The Group has no other transactions or balances with key management personnel. The compensation paid to directors and key management personnel is predominantly in the form of short term benefits.

27 Lease Liabilities and Right-of-use Assets

$ millions	Note	2020	2019
Right-of-use Assets			
As at 1 January		**28**	33
Purchase through portfolio transfer	3	**2**	-
New lease agreements		**3**	-
Depreciation		**(6)**	(5)
Carrying amount as at 31 December		**27**	28
Lease Liabilities			
As at 1 January		**29**	33
Purchase through portfolio transfer	3	**3**	-
New lease agreements		**2**	-
Interest expense		**1**	1
Lease payments		**(6)**	(5)
Carrying amount as at 31 December		**29**	29

97% of the leases relate to property which the Group uses as office premises (2019 97%). The remaining leases relate to motor vehicles. The maturity analysis of lease liabilities is included in note 35.

On 1 January 2019, the Group adopted NZ IFRS 16. The following table presents the reconciliation of lease liabilities on initial adoption.

Reconciliation of Lease Liabilities pursuant to NZ IFRS 16	
Lease commitments at 31 December 2018	32
Effect from discounting at the incremental borrowing rate as of 1 January 2019	(3)
Adjustment relating to a contract not previously in scope for NZ IAS 17 but included under NZ IFRS 16	4
Liabilities additionally recognised based on the application of NZ IFRS 16 as of 1 January 2019	33

The weighted-average incremental borrowing rate for lease liabilities initially recognised as of 1 January 2019 was 2.35% p.a.

28 Capital commitments

The group has no material capital commitments as at 31 December 2020 (31 December 2019 nil).

29 Fair Value of Financial Instruments

The Group's financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost.

The fair value of a financial instrument is the price that would be received to sell a financial asset, or paid to transfer a financial liability, in an orderly transaction between market participants at the measurement date.

A significant number of financial instruments are carried on the Statement of Financial Position at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for a financial instrument is not available, its fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in limited instances, rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

There are three levels in the hierarchy of fair value measurements which are based on the inputs used to measure fair values:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Group can access. Level 1 assets comprise:
  - Equity and property securities measured based on the bid market price quoted by the stock exchange.
  - External fund certificates measured based on the unadjusted unit price provided from the fund manager.
  - Bank bonds and government bonds measured based on a quoted bid market price or third party pricing information.
- Level 2: where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques using inputs that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 assets comprise:
  - External fund certificates measured based on the most recently available unit price from the fund manager at the time of valuation, adjusted appropriately using market observable benchmarks to accurately reflect the fair value.
  - Corporate bonds measured based on third party pricing information.
  - Held for trading foreign exchange contracts measured based on market observable foreign currency inputs sourced from third party pricing information.
  - Life investment contracts measured using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.
- Level 3: Fair values are estimated using inputs that are unobservable for the financial asset or financial liability.

Notes to the Financial Statements

For the year ended 31 December 2020

29 Fair Value of Financial Instruments (continued)

(a) Fair Value of Financial Instruments Measured at Fair Value

The following table presents an analysis by level in the fair value hierarchy of the fair value measurements of financial instruments that are recognised and measured at fair value on a recurring basis.

$ millions	Level 1	Level 2	Level 3	Total
As at 31 December 2020				
Financial assets				
Securities:				
Equity securities and fund certificates	**205**	**425**	**-**	**630**
Fixed interest securities	**909**	**246**	**-**	**1,155**
Property securities	**65**	**-**	**-**	**65**
Total financial assets measured at fair value	**1,179**	**671**	**-**	**1,850**
Financial liabilities				
Life investment contract liabilities	**-**	**648**	**-**	**648**
Total financial liabilities measured at fair value	**-**	**648**	**-**	**648**
As at 31 December 2019				
Financial assets				
Securities:				
Equity securities and fund certificates	206	446	-	652
Fixed interest securities	1,123	14	-	1,137
Property securities	67	-	-	67
Derivative assets	-	9	-	9
Total financial assets measured at fair value	1,396	469	-	1,865
Financial liabilities				
Life investment contract liabilities	-	678	-	678
Total financial liabilities measured at fair value	-	678	-	678

(b) Fair Value of Financial Instruments Not Measured at Fair Value

The following table sets out and compares the fair values of financial instruments not measured at fair value with their carrying amounts.

$ millions	Fair Value	Carrying Value
As at 31 December 2020		
Financial Assets		
Cash and cash equivalents	**426**	**426**
Trade and other receivables	**127**	**127**
Total financial assets not measured at fair value	**553**	**553**
Financial Liabilities		
Trade and other payables	**179**	**179**
Total financial liabilities not measured at fair value	**179**	**179**

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For the year ended 31 December 2020

29 Fair Value of Financial Instruments (continued)

(b) Fair Value of Financial Instruments Not Measured at Fair Value (continued)

$ millions	Fair Value	Carrying Value
As at 31 December 2019		
Financial Assets		
Cash and cash equivalents	308	308
Trade and other receivables	109	109
Total financial assets not measured at fair value	417	417
Financial Liabilities		
Trade and other payables	145	145
Total financial liabilities not measured at fair value	145	145

30 Categories of Financial Instruments

The following tables summarise the carrying amounts and fair values of categories of financial assets and financial liabilities. Refer to note 1(f) for a description of the categories and how fair values are estimated.

$ millions	Designated at fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Fair Value
As at 31 December 2020					
Financial assets					
Cash and cash equivalents	-	426	-	426	426
Trade and other receivables	-	127	-	127	127
Securities	1,850	-	-	1,850	1,850
Total financial assets	1,850	553	-	2,403	2,403
Financial liabilities					
Trade and other payables	-	-	179	179	179
Life investment contracts	648	-	-	648	648
Total financial liabilities	648	-	179	827	827
As at 31 December 2019					
Financial assets					
Cash and cash equivalents	-	308	-	308	308
Trade and other receivables	-	109	-	109	109
Securities	1,856	-	-	1,856	1,856
Derivative assets	9	-	-	9	9
Total financial assets	1,865	417	-	2,282	2,282
Financial liabilities					
Trade and other payables	-	-	145	145	145
Life investment contracts	678	-	-	678	678
Total financial liabilities	678	-	145	823	823

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For the year ended 31 December 2020

31 Asset Quality

The Group has no material impaired or past due assets.

Credit Quality of Financial Assets that are not Past Due or Impaired

Cash and Cash Equivalents
The Standard and Poor's (S&P) credit ratings for the Group's major cash holdings are:

As at 31 December	2020	2019
ASB Bank Limited	**AA-**	AA-
Westpac New Zealand Limited	**AA-**	AA-
ANZ Bank New Zealand Limited	**AA-**	AA-
Bank of New Zealand Limited	**AA-**	AA-
Citibank NA	**A+**	A+

Securities
The Group holds fixed interest securities issued by counterparties with the following S&P credit ratings:

As at 31 December	2020	2019	2020	2019	2020	2019
$ millions	Investment-linked*		Non-Linked		Total	
Ratings						
AAA	**-**	-	**1**	4	**1**	4
AA+	**34**	32	**982**	1,061	**1,016**	1,093
AA	**1**	1	**17**	27	**18**	28
AA-	**6**	8	**51**	-	**57**	8
A+	**-**	1	**-**	-	**-**	1
A	**1**	1	**1**	-	**2**	1
A-	**1**	2	**38**	-	**39**	2
BBB+	**-**	-	**7**	-	**7**	-
BBB	**-**	-	**12**	-	**12**	-
BBB-	**-**	-	**3**	-	**3**	-
Total fixed interest securities	**43**	45	**1,112**	1,092	**1,155**	1,137

* For investment-linked assets, the liability to policyholders is linked to the performance of and value of the assets that back these liabilities. The shareholder has no direct exposure to any risk in the assets which back these liabilities.

Credit ratings are not provided for equity and property securities because they are not subject to credit risk.

Derivative Financial Instruments
The counterparty for the Group's derivative financial instruments at balance date is ASB Bank Limited.

Investment Receivables
This balance comprises outstanding sales, accrued interest and outstanding dividends. All outstanding sales have subsequently been settled. The credit ratings of counterparties for which accrued interest arises are disclosed in the table above. Credit risk associated with outstanding dividends is deemed to be negligible.

Outstanding Premiums
Outstanding premiums are primarily aged less than 90 days, and in the case of participating policies, have surrender values that are equal to or greater than the premium amount outstanding.

Amounts Due from Reinsurers
The S&P credit ratings for the Group's major reinsurers are :

As at 31 December	Rating Agency	2020	Rating Agency	2019
General Reinsurance Life Australia Limited	**S&P**	**AA+**	S&P	AA+
Assicurazioni Generali S.P.A.	**AM Best**	**A**	AM Best	A
RGA Reinsurance Company of Australia Limited	**S&P**	**AA-**	S&P	AA-
Swiss Re Life and Health (Australia) Limited	**S&P**	**AA-**	S&P	AA-
Munich Reinsurance Company of Australasia Limited	**S&P**	**AA-**	S&P	AA-
Lloyd's	**S&P**	**A+**	S&P	A+
AIA Reinsurance Limited	**S&P**	**AA-**	S&P	AA-

pwc

Notes to the Financial Statements

For the year ended 31 December 2020

32 Disaggregated Information

$ millions	Statutory Fund Life insurance contracts	Statutory Fund Life investment contracts	Statutory Fund Total	Other Fund Total

NZ IFRS 4 requires a life insurer to disclose disaggregated information for each life fund, as defined in the solvency standards under IPSA. Disaggregated information for major components of the Group's life funds are presented in the tables below.

$ millions	Statutory Fund Life insurance contracts	Statutory Fund Life investment contracts	Statutory Fund Total	Other Fund Total
For the year ended 31 December 2020				
Premium revenue	**813**	**2**	**815**	**133**
Investment revenue	**115**	**40**	**155**	**10**
Claims expense	**437**	**-**	**437**	**79**
Other operating expenses	**371**	**6**	**377**	**66**
Investment revenue paid or allocated to policyholders	**63**	**40**	**103**	**-**
Net (loss)/profit before tax	**(1)**	**9**	**8**	**10**
Net (loss)/profit after tax	**(24)**	**5**	**(19)**	**10**
Net distributions made from funds	**(3)**	**-**	**(3)**	**3**
For the year ended 31 December 2019				
Premium revenue	641	2	643	98
Investment revenue	121	122	243	-
Claims expense	349	-	349	62
Other operating expenses	298	7	305	51
Investment revenue paid or allocated to policyholders	83	121	204	-
Net profit before tax	45	12	57	2
Net profit after tax	14	6	20	2
Net distributions made from funds	(3)	-	(3)	3
As at 31 December 2020				
Life insurance contract liabilities/(assets)	**179**	**-**	**179**	**(171)**
Life investment contract liabilities	**-**	**648**	**648**	**-**
Other liabilities	**1,444**	**(10)**	**1,434**	**51**
Retained (losses)/profits directly attributable to shareholders	**(257)**	**3**	**(254)**	**15**
Investment assets	**1,271**	**555**	**1,826**	**24**
Other assets	**765**	**76**	**841**	**68**
As at 31 December 2019				
Life insurance contract liabilities/(assets)	128	-	128	(132)
Life investment contract liabilities	-	678	678	-
Other liabilities	1,337	1	1,338	38
Retained losses directly attributable to shareholders	(232)	3	(229)	(1)
Investment Assets	1,274	582	1,856	-
Other Assets	344	90	434	70

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund or a category of business of a statutory fund. The regulations define two categories of business: participating business and non-participating business. AIANZ classifies all its life insurance business as participating business or non-participating business in order to ensure the appropriate allocation of profit, as shown below:

$ millions	Statutory Fund Life insurance contracts	Statutory Fund Life investment contracts	Statutory Fund Total	Other Fund Total
For the year ended 31 December 2020				
Participating net profit after tax	**1**	**-**	**1**	**-**
Non-participating net (loss)/profit after tax	**(25)**	**5**	**(20)**	**10**
Net (loss)/profit allocated to shareholders	**(24)**	**5**	**(19)**	**10**
For the year ended 31 December 2019				
Participating net profit after tax	4	-	4	-
Non-participating net profit after tax	10	6	16	2
Net profit allocated to shareholders	14	6	20	2

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33 Risk Management Policies

Introduction

The Group is exposed to risk through its financial assets, financial liabilities, reinsurance assets and life insurance contract liabilities. Risk management policies focus on ensuring cash flows from assets are sufficient to fund obligations arising from life insurance and life investment contracts. The primary risks are those of insurance, credit, market, liquidity, operational and strategic business risk.

The Group's risk function is the responsibility of the Chief Risk Officer (CRO), who reports to the Chief Executive Officer. The Group's risk management strategy is set by the Board through the BARC. This committee comprises members of the Board and is chaired by an independent member of the Board. The CRO is responsible for the implementation of the Group's risk management strategy and all executives have responsibility for the day to day management of risk across the Group.

The Group has management structures and information systems to manage individual risks, has separated risk initiation and monitoring tasks where feasible, and subjects all material systems to regular review. Periodic assessments of all risk management systems, key business processes and applications are undertaken by the internal audit function.

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rates, currency exchange rates, mortality, morbidity and inflation. The valuations included in the reported results and the Group's best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Group and as such represents a risk.

The sensitivity analysis in the risk categories that follow, is based on changes in economic conditions that are considered reasonably possible at the reporting date. The correlation of assumptions will have a significant effect in determining the ultimate profit impact, but to demonstrate the impact of a specific assumption change, modelling had to be done on the basis that all other assumptions were held constant.

The following sections describe the risk management framework components:

Operational and Strategic Business Risk

Operational risk is defined as the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

Strategic business risk is defined as the risk of economic gain or loss resulting from changes in the business environment caused by economic, competitive, social trend or regulatory factors.

Each business manager is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by the Group's governance structures, operational risk management framework and operational risk policies.

Impact of Covid-19 pandemic

The pace and scale of change driven by the Covid-19 pandemic was unprecedented. Key risk drivers were direct and indirect health impacts especially impacts on mental health; social distancing and working from home; financial market volatility, and economic recession.

(i) Product and Financial

Covid-19 may impact the business through direct and indirect means. Direct impacts refer to death and other claims directly lives assured contacting Covid-19. Indirect impacts refer to higher Disability Income incidence and lower terminations, as well as higher redundancy claims, linked to weakening economic conditions stemming from the Covid-19 outbreak.

The successful development and international roll-out of a vaccine makes the long-term effects of Covid-19 unclear. Therefore, provisions have been set aside for Covid-19-related experience that are confined to the short-term effects. Management will closely monitor the impact of Covid-19 during 2021. If it transpires that longer-term impacts will persist, an informed decision around provisions for longer term adverse experience can be made at a later date.

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33 Risk Management Policies (continued)

Operational and Strategic Business Risk (continued)

Although the risk of direct Covid-19 claims has not completely abated, on balance it appears to be sufficiently unlikely that an additional best estimate provision in respect of direct Covid-19 claims is necessary. This view is based on:

- NZ's successful response in containing past outbreaks.
- Border restrictions remain in place, and quarantine restrictions have been strengthened since the second outbreak and
- The virtual absence of death or illness claims directly caused by Covid-19 experienced by AIANZ in 2020.

We have therefore confined Covid-19 provisions to the indirect effects linked to weakening economic conditions and unemployment pressures, by means of a provision for higher Disability Income claims incidence and lower terminations, as well as a provision for further redundancy claims. In addition, Management will hold a provision against the catch-up of medical claims that were observed to decline over the lockdown periods. Included within Life insurance contract liabilities is $13.1 million relating to the Covid-19 provisions.

(ii) Our People, Customers and Advisors

Mental health of staff, customers and advisers has been a priority, as matters relating to isolation, working from home, and financial uncertainty have increased. Mitigants for AIA staff have included encouraging and enabling social connectivity via MS Teams and other platforms, conducting regular staff check in meetings, offering EAP support, and ensuring staff take leave.

Customers and Adviser initiatives were introduced to ensure that AIA continued to meet customer and community expectations. These included introduction of a Vulnerable Customer Policy; offering enhanced premium suspension benefits; reviewing and providing improved explanation of product features and definitions; assisting advisers with non-face to face processes and providing adviser hardship assistance.

Business Continuity Management

Business Continuity Management (BCM) within the Group involves the development, maintenance and testing of action plans to manage business disruption risk. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of the Group's risk management process by providing a controlled response to potential operational matters that could have a significant impact on the Group's critical processes and revenue streams. It includes both cost effective responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

A BCM programme including plan development, testing and education is in place across all divisions and includes technology disaster recovery planning.

Internal Audit

The New Zealand Internal Audit function reports to the AIA Group, Regional Director in Hong Kong.

Internal audit provides an independent assurance service designed to assist the Group in achieving its objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management systems, the framework of controls, and governance processes. Operational, compliance, financial and systems reviews of the Group's operations are performed based on an assessment of risk. The independent internal audit function is ultimately accountable to the Board through the BARC.

The BARC meets on a regular basis to consider financial reporting, internal control, and corporate governance issues. It reviews the interim and annual financial statements, the activities of the internal and external auditors, and monitors the relationship between management and the external auditors.

33 Risk Management Policies (continued)

Insurance Risk

Insurance risk is risk, other than financial risk, that is transferred from the holder of a contract to the issuer.

The Group's objectives in managing risks arising from insurance business are:

(i) To ensure insurance risk is managed in accordance with the principles set out in the Risk Appetite Statement. The Risk Appetite Statement describes the Group's tolerance and intolerance to key risks via a set of statements and principles.
(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk.
(iii) To ensure that strong internal controls are embedded within the business to mitigate underwriting risk.
(iv) To ensure that internal and external solvency and capital requirements are met.
(v) To use reinsurance as a component of insurance risk management strategy.

Variations in claim levels will affect reported profit and shareholder's equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Group's life insurance business is reviewed regularly.

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals.
- Geographic concentrations due to employee group schemes. During the period ended 31 December 2020, AIANZ participated in the AIA Group catastrophe treaty which provides cover of USD$200 million (2019 USD$200 million) for single event claims in excess of USD$25 million (2019 USD$25 million). In addition, AIANZ has in place a lower layer catastrophe treaty with AIA Reinsurance Limited which provides cover of USD$15 million (2019 USD$15 million) for a single event claims in excess of USD$10 million (2019 USD$10 million).
- Geographic concentrations due to a pandemic affecting lives in a certain country or region. AIANZ entered into a pandemic treaty and has cover of $40 million (2019 $40 million) pandemic reinsurance cover in excess of an Ultimate Net Loss of 0.15940% (2019 0.16630%) of the Mean Retained Net Amount at Risk, or $80 million (2019 $83 million) Ultimate Net Loss in the annual aggregate for the applicable Agreement year whichever the greater.

Terms and conditions of life insurance contracts

The nature of terms of life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of these:

Type of contract	Detail of contract terms and conditions	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability, major medical)	Benefits paid on death, ill health or maturity that are fixed and guaranteed and not at the discretion of the issuer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion.	Benefits, defined by the life insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	- Mortality - Morbidity - Discontinuance rates
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Benefits may also be augmented by Capital Growth Bonuses, which can be added or removed at the discretion of the company.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	- Mortality - Morbidity - Market risk - Discontinuance rates - Market returns on underlying assets
Life annuity contracts	These policies provide guaranteed regular payments to the life assured.	The amount of the payment is set at inception of the policy.	- Longevity - Market returns on underlying assets

33 Risk Management Policies (continued)

Sensitivity to insurance risk

Insurance risk is measured by using sensitivity analysis to show the effects on equity and profit. The below sensitivities are calculated based on all other assumptions remaining unchanged.

Mortality rates

For life insurance contracts, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder's equity. This is offset by increased annuitant mortality which would reduce expected future annuity payments and therefore reduce life insurance contract liabilities.

Morbidity rates

The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration with which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholder's equity. For disability Income claims in payment the deterioration by 10% refers to a reduction of 10% in the claim termination rate assumptions and for Disability Income active lives the deterioration by 10% refers to an increase in expected claims cost of 10%.

Discontinuance

The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome to profits from an increase in discontinuance rates.

The table below illustrates the sensitivity of reported net profit or loss after tax and equity to changes in insurance risk assumptions:

$ millions **As at 31 December**		**Change in following financial year's net (loss)/profit after tax and shareholder's equity**			
		2020		2019	
Insurance risks		**Before reinsurance**	**After reinsurance**	Before reinsurance	After reinsurance
Mortality	Improvement by 10%	**7**	**2**	7	5
	Deterioration by 10%	**(16)**	**(11)**	(23)	(14)
Morbidity	Improvement by 10%	**16**	**5**	11	4
	Deterioration by 10%	**(93)**	**(82)**	(64)	(56)
Discontinuance	Improvement by 20%	**(6)**	**5**	1	-
	Deterioration by 20%	**5**	**(4)**	(13)	(28)
Expenses	Increase by 10%	**(2)**	**(2)**	(3)	(3)
	Decrease by 10%	**2**	**2**	2	2

Credit Risk

Credit risk is the potential risk for loss arising from failure of a counterparty to meet their contractual obligations.

Credit risk principally arises within the Group from investments of shareholder funds or funds where the shareholder participates in investment returns in cash and fixed interest securities, and reinsurer payment obligations. Credit risk also arises from loans to agents, foreign currency contracts, and trade receivables. No collateral exists for any of the securities held by the Group. The maximum credit risk associated with each class of recognised financial asset held by the Group is the carrying value. The Group has a credit policy that covers the approval and management of all credit risk.

Investment concentrations for shareholder funds are managed within established guidelines and limits set by the Investment Committee (IC). Some criteria are referred to the board for approval. Guidelines and limits are set for security credit ratings and aggregate exposure to any single geographic region or counterparty as documented within the investment management agreement.

Reinsurance is entered into for the purpose of risk transfer. The credit risk inherent in reinsurance arrangements is managed by establishing minimum credit standards for reinsurers.

For investment linked contracts the investment credit risk is appropriate for each particular product and the risk is borne by the policyholder. There is no significant credit risk assumed by the Group. The impact on the fair value of life investment contract liabilities due to changes in credit risk is nil (31 December 2019 nil), except to the extent that the market value of securities backing life investment contract liabilities is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of securities balances during the year.

The credit ratings of counterparties are disclosed in note 31.

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33 Risk Management Policies (continued)

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk is designed to ensure that the Group has the ability to meet its financial obligations as they fall due. The Group manages this risk by holding a pool of readily tradable investment assets and deposits on call.

The maturity of life insurance and life investment contract liabilities are disclosed in notes 19 and 35 respectively.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk arises from the mismatch between assets and liabilities. The Group is exposed to market risk on diverse financial instruments including interest bearing assets, foreign currency investments, equities, and derivative instruments. For each distinct category of liabilities, a separate portfolio of assets is maintained and investment mandates are set that are appropriate for each.

A significant proportion of assets are held for investment linked policies where market risk is transferred to the policyholder. The Group earns fees on investment linked policies that are based on the amount of assets invested and it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided in accordance with the policyholders' fund selections.

Market risk arises on discretionary participation business as these contracts have investment guarantees. Risk is mitigated by using an appropriate bonus / credit rate policy and a suitable growth / income investment allocation.

Market risk arises from returns obtained from investing the shareholders' funds held in the Group. Appropriate investment mandates are set by the IC for the investment of shareholders' funds. As at 31 December 2020, shareholders' funds in the Group were invested 0% (31 December 2019 0%) in growth assets (equity and property) and 100% (31 December 2019 100%) in income assets (cash and fixed interest).

Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

(i) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

The Group does not fully hedge foreign currency denominated equity instruments. Adverse movements in currency rates relating to the New Zealand dollar will subsequently reduce the value of policyholder assets and liabilities.

The Group uses foreign currency forward contracts to mitigate its exposure to currency risk from foreign currency denominated investments. Global equity is hedged within the Collective Investment Vehicle (CIV). The hedge ratio benchmark for Global Equities in the CIV is 50% (2019 100%). All other equity and property investments denominated in foreign currency have a weighted average hedging ratio of 65.3% (31 December 2019 62.5%) and fixed interest investments denominated in a foreign currency have a hedging ratio of 100% (31 December 2019 100%). All investments denominated in emerging market currencies are unhedged.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments and the value of life insurance contract liabilities. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and the mismatch in cash flows of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net profit.

For fixed interest investments held to match fixed interest style products selected by policyholders, the interest rate risk is borne by the policyholder.

Interest rate risk also arises on risk contracts where negative policy liabilities (arising from the deferral of acquisition costs) are valued at current risk-free interest rates.

Cash flow interest rate risk is the potential for a change in interest rates to change interest expense and interest income in the current year and in future years.

The Group reduces interest rate risk by seeking to match the cash flows of assets and liabilities.

Depending on the profile of the investment portfolio, the investment income of the Group will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder's equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.

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Notes to the Financial Statements

For the year ended 31 December 2020

33 Risk Management Policies (continued)

Market Risk (continued)

(iii) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

This risk is managed by ensuring a diverse range of investments, limits on counterparty exposure and restrictions on types of instruments.

Equity Prices

For life investment contracts and life insurance contracts with discretionary participation features, liabilities depend on the value of underlying assets. Equity price risk may be entirely borne by policyholders. However, the Group derives fee income based on the value of the underlying funds; hence revenues are always sensitive to changes in market value. For assets which are not contractually linked to policy liabilities, the Group is exposed to equity price risk. However, currently no such assets are invested in equities.

Sensitivity to market risk

Market risk is measured by using sensitivity analysis to model changes in interest rates, equity values and foreign currency rates.

The table below illustrates the sensitivity of reported profit and loss after tax and equity to changes in market risk assumptions:

$ millions		Change in following financial year's profit after tax and shareholders' equity	
As at 31 December		**2020**	2019
Market risks			
Equity prices	Favourable by 10%	1	1
	Adverse by 10%	(1)	(1)
Interest rates	Increase of 100 bps	(28)	(6)
	Decrease of 100 bps	37	(11)

Interest rate sensitivities have changed from 2019 due to the portfolio transfer that amalgamated the respective books of policies. The health products and long term savings portfolio are the primary drivers of sensitivity to interest rates.

34 Derivative Financial Instruments

The Group enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment. The Group enters into foreign currency forward contracts as economic hedges to manage currency risk (refer note 1(f)). Gains or losses on the forward contracts have been recorded in investment income with the gains or losses on the investments they have hedged.

The forward currency contracts taken out do not exceed three months. At balance date these contracts have varying maturity dates.

Face and Fair Values

The face value is the contractual amount of the derivatives and provides a basis for comparison with instruments recognised in the Statement of Financial Position. This amount is not exchanged and does not indicate the Group's exposure to credit risk. The amount predominantly acts as a reference value upon which the net settlements can be calculated and on which revaluation is based. The face value of derivative financial instruments on hand, the favourable or unfavourable market values of these instruments, and the consequent aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Notes to the Financial Statements

For the year ended 31 December 2020

34 Derivative Financial Instruments (continued)

The fair values of derivative financial instruments held are set out in the following table:

$ millions As at 31 December	2020	2019
Financial instruments subject to enforceable master netting agreements		
Forward contract assets	-	9
Total derivative financial assets	-	9
Total net derivative financial instruments	-	9

The Group does not have any collateral arrangements in relation to these financial instruments.

	2020	2019
Currency contracts face value		
Forward contract assets	61	251
Forward contract liabilities	111	4

35 Maturity Analysis of Financial Liabilities

$ millions	On Demand	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Total	Carrying Value
As at 31 December 2020								
Non-derivative financial liabilities								
Trade and other payables	37	138	-	1	1	2	179	179
Life investment contracts	641	-	-	-	-	7	648	648
Lease liabilities	-	3	3	6	15	2	29	29
	678	141	3	7	16	11	856	856
As at 31 December 2019								
Non-derivative financial liabilities								
Trade and other payables	23	117	-	1	2	2	145	145
Life investment contracts	678	-	-	-	-	-	678	678
Lease liabilities	-	2	2	5	15	5	29	29
	701	119	2	6	17	7	852	852

The above analysis is based on contractual undiscounted cash flows. Where the counterparty has discretion in requesting payment, liabilities have been classified according to the earliest time period in which the Group may be required to pay. Refer to note 33 for details of how the Group manages liquidity risk.

36 Funds Under Management and Administration

The Group manages and administers investment products that are closed to new business. As at 31 December 2020, the Group had $647 million funds under management and administration (31 December 2019 $685 million). The Group utilises external fund managers and investment consultants in the management of these funds.

Notes to the Financial Statements

For the year ended 31 December 2020

37 Commitments and Contingencies

Commitments under operating leases

The Group has adopted NZ IFRS 16 Leases from 1 January 2019. Refer to note 1 and note 27 for further details on the Group's lease commitments.

Contingent Liabilities

The Group is subject to regulation from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies and claims. The Group believes that these matters are adequately provided for in these financial statements.

There are no other known material contingent liabilities at reporting date (31 December 2019 nil).

38 Events after the Reporting Period

There were no events subsequent to the reporting period which would materially affect the financial statements.

Independent auditor's report

To the shareholder of AIA New Zealand Limited

Our opinion

In our opinion, the accompanying financial statements of AIA New Zealand Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group as provider of a reasonable assurance engagement over the solvency return. Subject to certain restrictions, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These services and relationships have not impaired our independence as auditor of the Group.

Key audit matters

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

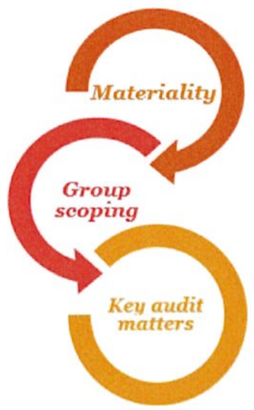
Description of the key audit matter	How our audit addressed the key audit matter
Measurement of Life insurance contract liabilities and associated liabilities ceded under and arising from reinsurance	

As at 31 December 2020 the Group has life insurance contract liabilities of $8 million (31 December 2019: -$4 million), liabilities ceded under reinsurance of $334 million (31 December 2019: $43 million) and liabilities arising from reinsurance contracts of $647 million (31 December 2019: $668 million).
 	
The Directors' valuation of these balances involves subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in a material impact to the measurement of these balances as determined by complex actuarial valuation models and methodologies.
 	
We considered this a key audit matter due to the subjective judgements made by the Directors around the key actuarial assumptions used in determining these balances. These represent best estimate assumptions at reporting date and include:
• Expected amount, timing and duration of all expected future payments and premiums, likely rates of discontinuance, mortality and morbidity rates, investment and maintenance expenses; and
• Long term economic assumptions including discount rates and inflation rate.
 	
Further, the Directors perform a liability adequacy test (for traditional participating business) to ensure that any deficiency in the measurement of life insurance contract liabilities are appropriately recognised at the reporting date. This involves a comparison of the amount of life insurance contract liabilities against the estimated future cash flows calculated based on best estimate assumptions. Any deficiencies in the measurement of life insurance contract liabilities are recognised through the statement of comprehensive income.
 	
Refer to the following notes in the financial statements: Note 1(k) for related accounting policies, Note 1 for critical accounting estimates and judgements, Note 2 and Note 19.
	Together with PwC actuarial experts, we:
	• Assessed the reasonableness of the key assumptions including rates of discontinuance, mortality and morbidity rates, investment and maintenance expenses, discount and inflation rates. Our assessment of the assumptions included:
	  o Obtaining an understanding of, and testing, the processes and controls in place to determine the assumptions;
	  o Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience; and
	  o Comparing the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
	• Assessed the reasonableness of the analysis of profit to consider whether assumption changes are consistent with experience and whether the movement in the life insurance contract liabilities and associated liabilities ceded under and arising from reinsurance from the prior reporting period have been adequately explained.
	• Assessed the valuation methodologies used by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectations derived from experience of market practice.
	• Reperformed the calculation of the liability adequacy test and assessed the outcome in order to ascertain whether the life insurance contract liabilities are adequate in the context of a valuation on best estimate assumptions at reporting date.
	
	Policy data (future payments and premiums) is a key input to the actuarial estimates. Accordingly, we, together with our actuarial experts:

	• Evaluated the design effectiveness and tested the operating effectiveness of controls over underwriting and policy administration processes; • Tested the reconciliation of data between source systems and actuarial valuation models; and • Tested a sample of policy data against underlying policy documents to ensure key data attributes in the source systems which are used within the actuarial valuation models are accurate.
Operation of financial reporting Information Technology (IT) systems and controls	
We focused on this area because the Group's operations and financial reporting processes are heavily dependent on complex IT systems, including certain system calculations, system generated reports and automated controls. Our reliance is dependent on the Group's IT General Controls (ITGCs) environment, in particular user access maintenance and that changes to IT systems are authorised and made in an appropriate manner. Complexity in the Group's IT systems also arises because the general ledger is fed information from a number of different sources including multiple administration systems. During the year, there have been significant changes to the Group's IT environment as a result of: • The transfer of various systems previously hosted by one third party provider to another third party provider (in April 2020).; and • The implementation of a new general ledger system for transactions and balances associated with the acquired Sovereign business (in July 2020).	Our procedures included evaluating and testing the design and operating effectiveness of certain ITGCs that are relevant to financial reporting. These procedures included testing over the significant changes which have occurred to the Group's IT environment during the year. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain automated controls. We noted exceptions arising from the testing outlined above. As a result we performed alternative or additional audit procedures. This involved a combination of the following procedures: • Testing mitigating controls; • Investigating to determine that the exception has not been exploited; • Validating the appropriateness of transactions associated with the identified exception; and • Determining whether key programs have changed during the period under audit. Where these additional audit procedures did not fully address the exceptions, we performed additional substantive tests of detail by testing a sample of transactions processed through key systems against relevant source documents. To test completeness of transactions, we also tested a sample of source documents against transactions processed through the key systems.

Our audit approach

Overview



Overall group materiality: $9.4 million, which represents approximately 1% of premium revenue.

We chose premium revenue because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is not as volatile as other profit or loss measures, and is a generally accepted benchmark for life insurers. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted revenue related thresholds.

We selected transactions and balances to audit based on their materiality to the Group, rather than determining the scope of procedures to perform by auditing only specific subsidiaries.

As reported above, we have two key audit matters, being:

- Measurement of Life insurance contract liabilities and associated liabilities ceded under and arising from reinsurance
- Operation of financial reporting Information Technology (IT) systems and controls

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
15 March 2021

Auckland

Appointed Actuary's Report

To the Directors of AIA New Zealand Limited

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (the **Act**) is prepared in respect of the financial statements of AIA New Zealand Limited (**AIA NZ**) for the 12 month period ended 31 December 2020.

I have undertaken a review of the actuarial information contained in, and used in the preparation of, the financial statements of AIA NZ (the **Financial Statements**) as required under section 77(1) of the Act.

My review has been carried out in accordance with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand under section 55 of the Act (the **Life Solvency Standard**) and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

(a) I, Marco Welgemoed FNZSA, am the Appointed Actuary for AIA NZ, and that I have prepared this report.

(b) The work that I have done to review the actuarial information contained in, or used in the preparation of the Financial Statements, includes a review of:

- (i) information relating to AIA NZ's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;
- (ii) information relating to assessments of the probability of uncertain future events occurring and the financial implications for AIA NZ if those events do occur;
- (iii) AIA NZ's Policy Liability, as defined in the Life Solvency Standard;
- (iv) reinsurance and other recovery assets relevant to the Policy Liability, or relevant to outstanding claims reserves incurred but not reported claims reserves held outside of the Policy Liability;
- (v) any deferred or other tax asset relevant to the Policy Liability;
- (vi) any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;
- (vii) the unvested policyholder benefits liability;
- (viii) the crediting and bonus rates used for participating and investment account contracts;
- (ix) the analysis of AIA NZ's profit and the movement in the solvency margin;
- (x) the sensitivity of AIA NZ's profit to changes in insurance and market risk assumptions;

(xi) the assumptions used in the calculation of the Policy Liability and the solvency margin and the impacts of changes in those assumptions;

(xii) the methodology used to calculate the Policy Liability and the Solvency Margin;

(xiii) the consistency between the New Zealand Society of Actuaries Professional Standard 20 "Determination of Life Insurance Policy Liabilities", AIA NZ's valuation methodology document, and the calculated Policy Liability; and

(xiv) AIA NZ's checks and controls over data, valuation and solvency calculation processes.

(c) I am an employee of AIA Services New Zealand Limited, a subsidiary of AIA NZ. I do not have any other relationship with, or interests in, AIA NZ or any of its subsidiaries apart from holding retail risk insurance policies as a customer and employee of AIA NZ.

(d) I have obtained all information and explanations that I have required in order to conduct my review under section 77 of the Act.

(e) I consider that in my opinion as Appointed Actuary and from an actuarial perspective:

(i) the actuarial information contained in the Financial Statements has been appropriately included in those Financial Statements; and

(ii) the actuarial information used in the preparation of the Financial Statements has been used appropriately.

(f) I consider that in my opinion and from an actuarial perspective AIA NZ, as at 31 December 2020, is maintaining a solvency margin that complies with that required under the Life Solvency Standard for the purposes of section 21(2)(b) of the Act.

(g) I consider that in my opinion, and from an actuarial perspective and as at 31 December 2020, AIA NZ is maintaining solvency margins that comply with those required under the Life Solvency Standard for the purposes of section 21(2)(c) of the Act.

I have prepared, dated and signed this report solely in my capacity as AIA NZ's Appointed Actuary under section 76(1) of the Act. To the fullest extent permitted by law, I do not accept responsibility to anyone other than the Reserve Bank of New Zealand, AIA NZ, its Board and shareholder for the contents of this report.

Dated **15 March 2021**

Marco Welgemoed
Appointed Actuary

Auckland