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 2022.

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	Director
26.4.23	26.4.23.
Date	Date

Annual Report
For the year ended 31 December 2022

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 chair of the BARC must be an independent director other than the chair 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;
- a separate Board Environmental, Social & Governance (ESG) Committee (the BESG). Two non-executive directors and one executive director are members of the BESG and the chair of the BESG must be an independent director other than the chair of the Board; 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 chair 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 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 chair of the Board is Theresa Gattung. The other directors are Tracey Cross, Leo Grepin (appointed on 1 March 2022), Robert McDonald, Damien Mu, Dame Paula Rebstock (appointed on 1 February 2022) and Nicholas Stanhope.

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 three permanent Board committees, being the BARC, the BREM and the BESG. The establishment of the BESG was formally approved by the Board on 27 April 2022. All three 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: Tracey Cross, Theresa Gattung, Robert McDonald and Dame Paula Rebstock (appointed on 1 February 2022) .
- The BREM comprised of: Tracey Cross, Theresa Gattung, Robert McDonald and Dame Paula Rebstock (appointed on 1 February 2022) .
- The BESG comprised of: Tracey Cross and Dame Paula Rebstock (appointed on 1 February 2022).

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.

Board Audit and Risk Committee (BARC) (continued)

2. Ensure the quality, credibility and objectivity of the accounting process, financial reporting and regulatory disclosure.

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 NZ reports to the BARC through its Chair.

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.

Board Environmental, Social and Governance (ESG) Committee (BESG)

The role of the BESG is to oversee the:

- identification and quantification of ESG risks;
- effective ESG risk and compliance management;
- development of an appropriate localised ESG strategy;
- ESG reporting and climate reporting;
- alignment of the ESG framework with AIA Group where appropriate; and
- systems and processes to ensure the Company meets its Climate Related Obligations.

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 2022, 40% (2021: 42%) 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's current target is that at least 40% of all senior leadership roles and above should be held by women.

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	2022	2021
Revenue			
Premium revenue	5	**1,051**	991
Less: Reinsurance expense	5	**(508)**	(476)
Net Premium Revenue		**543**	515
Investment loss	6	**(182)**	(3)
Other revenue	6	**16**	22
Reinsurance commission revenue	7	**135**	113
Total Operating Revenue		**512**	647
Expenses			
Claims expense	8	**563**	529
Less: Reinsurance recoveries	8	**(245)**	(222)
Net Claims Expense		**318**	307
Other operating expenses	9	**459**	415
Decrease in life insurance contract liabilities	19	**(134)**	(122)
(Decrease)/increase in life investment contract liabilities	19	**(63)**	66
Total Expenses		**580**	666
Net Loss before Taxation		**(68)**	(19)
Taxation benefit	11	**(85)**	(46)
Net Profit after Taxation	4	**17**	27

Statement of Comprehensive Income

$ millions For the year ended 31 December	2022	2021
Net Profit after Taxation	**17**	27
Total comprehensive income	**17**	27

These statements are to be read in conjunction with the notes on pages 9 to 47 and the Independent Auditor's Report from pages 48 to 53.

Statement of Changes in Equity

$ millions	Note	Contributed Capital	Accumulated Loss	Total Shareholder's Equity
For the year ended 31 December 2022				
Balance at 1 January 2022		**863**	**(211)**	**652**
Net profit after taxation		**-**	**17**	**17**
Total comprehensive income for the year ended 31 December 2022		**-**	**17**	**17**
Ordinary dividend paid	22	**-**	**(81)**	**(81)**
Balance as at 31 December 2022		**863**	**(275)**	**588**
For the year ended 31 December 2021				
Balance at 1 January 2021		856	(238)	618
Net profit after taxation		-	27	27
Total comprehensive income for the year ended 31 December 2021		-	27	27
Shares issued - portfolio transfer	22,3	7	-	7
Balance as at 31 December 2021		863	(211)	652

These statements are to be read in conjunction with the notes on pages 9 to 47 and the Independent Auditor's Report from pages 48 to 53.

Statement of Financial Position

$ millions As at 31 December	Note	2022	2021
Assets			
Cash and cash equivalents	14	**102**	404
Trade and other receivables	17	**197**	147
Investments	13	**1,593**	1,723
Liabilities ceded under reinsurance	19	**271**	311
Current taxation asset		**9**	15
Plant and equipment		**6**	9
Right-of-use assets	27	**17**	22
Intangible assets	16	**33**	36
Deferred taxation asset	20	**32**	7
Total assets		**2,260**	2,674
Liabilities			
Derivative liabilities		**-**	2
Trade and other payables	21	**243**	228
Lease liabilities	27	**18**	24
Liabilities arising from reinsurance contracts	19	**548**	598
Life investment contract liabilities	19	**513**	636
Life insurance contract assets	19	**(212)**	(88)
Deferred taxation liability	20	**562**	622
Total liabilities		**1,672**	2,022
Shareholder's Equity			
Contributed capital	22	**863**	863
Accumulated loss		**(275)**	(211)
Total shareholder's equity		**588**	652
Total liabilities and shareholder's equity		**2,260**	2,674

The Board of Directors authorised these financial statements for issue on 26 April 2023.

Director

Director

These statements are to be read in conjunction with the notes on pages 9 to 47 and the Independent Auditor's Report from pages 48 to 53.

Statement of Cash Flows

$ millions For the year ended 31 December	2022	2021
Cash flows from operating activities		
Cash was provided from:		
Premium and deposit premium receipts	**1,065**	1,005
Dividend receipts	**4**	7
Interest receipts	**32**	34
Tax refunds	**6**	2
Reinsurance receipts	**323**	316
Other income	**5**	8
	1,435	**1,372**
Cash was applied to:		
Claims, surrenders and maturities payments	**611**	593
Commission payments	**227**	204
Payments to suppliers and employees	**222**	200
Interest payments	**-**	1
Reinsurance premiums	**498**	470
	1,558	1,468
Net cash flows from operating activities	**(123)**	(96)
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of securities	**1,248**	553
Proceeds from sale of plant and equipment	**-**	1
	1,248	554
Cash was applied to:		
Purchase of securities	**1,333**	468
Purchase of plant and equipment	**1**	-
Purchase and development of intangible assets	**4**	7
Net settlement of foreign exchange contracts	**2**	(2)
	1,340	473
Net cash flows from investing activities	**(92)**	81
Cash flows from financing activities		
Cash was applied to:		
Dividends paid	**81**	-
Repayment of lease liabilities	**6**	7
	87	7
Net cash flows from financing activities	**(87)**	(7)
Summary of movements in cash flows		
Net decrease in cash and cash equivalents	**(302)**	(22)
Add: cash and cash equivalents at beginning of period	**404**	426
Cash and cash equivalents at end of period	**102**	404

These statements are to be read in conjunction with the notes on pages 9 to 47 and the Independent Auditor's Report from pages 48 to 53.

Statement of Cash Flows (continued)

$ millions For the year ended 31 December	2022	2021
Reconciliation of net profit after taxation to net cash flows from operating activities		
Net Profit after Taxation	**17**	27
Non-cash items included in net profit after taxation		
Amortisation and depreciation	**16**	17
Net unrealised loss	**189**	87
Non-cash dividends received	**(9)**	(7)
Decrease in life insurance contract liabilities recognised in the Income Statement	**(134)**	(122)
(Decrease)/increase in life investment contract liabilities recognised in the Income Statement	**(63)**	66
Movements in assets and liabilities		
Trade and other receivables - increase	**(50)**	(20)
Net income tax liability - decrease	**(79)**	(46)
Trade and other payables - increase	**15**	17
Decrease in life investment contract liabilities recognised in the Statement of Financial Position	**(60)**	(79)
Items classified as investing/financing activities		
Net realised loss/(gain)	**35**	(36)
Net cash flows from operating activities	**(123)**	(96)

These statements are to be read in conjunction with the notes on pages 9 to 47 and the Independent Auditor's Report from pages 48 to 53.

Notes to the Financial Statements

For the year ended 31 December 2022

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.

Change in Comparatives

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

Accounting Standards or Interpretations adopted in the current year

No new accounting standards were adopted in the current year.

Accounting Standards approved but not yet effective

AIANZ will apply NZ IFRS 17 Insurance Contracts for the first time from 1 January 2023.

Estimated impact of adoption of NZ IFRS 17 will be further addressed in note 37.

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.

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 intangible assets.

1 Statement of Significant Accounting Policies (continued)

Critical Accounting Estimates and Judgements (continued)

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 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 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2022

1 Statement of Significant Accounting Policies (continued)

Critical Accounting Estimates and Judgements (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. Therefore, significant management judgement is required to determine the amount of deferred tax assets arising from tax losses that can be recognised based on the likely timing and quantum of future taxable profits. This assessment has been completed based on the Group's approved strategic plan and financial forecasts, and its current expectation to be able to carry forward losses under tax legislation based on maintaining shareholder or business continuity tests. The strategic plan is dependent on management's ability to generate income and incur expenditure in line with the financial forecasts.

Impairment Testing of Intangible assets

For the purposes of impairment testing, intangible assets, including deferred acquisition cost relating to life investment contract, 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.

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 'Increase/(decrease) in life insurance contract liabilities' 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.

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 Instruments

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 short-term, highly liquid investments with maturity less than or equal to 90 days 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.

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

Computer 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).

Software-as-a-Service (“SaaS”) arrangements

These are arrangements in which application software is accessed over the internet or via a dedicated portal as required. Configuration and customisation costs that the Group incurs to implement and maintain access to providers’ application software over stated time periods are recognised as operating expenses when incurred. In limited cases, when certain criteria are met and the Group is able to demonstrate control over internally generated components of the software, the costs are capitalised and treated as intangible assets.

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

1 Statement of Significant Accounting Policies (continued)

(h) Intangible Assets (continued)

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.

(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 2021 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, this regime offers a concessional tax treatment (known as a transitional adjustment) for level term life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats certain level term policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the previous tax regime.

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.

Fitch Ratings has affirmed the Insurer Financial Strength (IFS) Rating of AIANZ at 'AA' (Very Strong).

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.

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 net of the fair value of the plan's assets. 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.

(s) Related Party Transactions

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

2 Actuarial Policies and Methods

The effective date of the policy liabilities and solvency margin calculation for the Group is 31 December 2022. Charmaine Green FIAA, as the Chief Actuary 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 4.6% pa (31 December 2021 2.5%) and equity investments 7.8% pa (31 December 2021 6.5%). The discount rates used for individual classes of business varied between 4.6% pa and 5.6% pa (31 December 2021 2.5% pa and 3.8%).

(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 4.6% and 4.7% pa were used (31 December 2021 2.3% and 3.1%). The short term inflation rate assumed is taken as the actual annual inflation from the previous September quarter, and is 7.2% (31 December 2021 4.9%).

(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 in agreement with AIA Services New Zealand Limited, a wholly owned subsidiary of AIA NZ, and external fund managers. Future inflation for determining expenses and inflation linked increases in benefits and premiums has been assumed to be 7.2% and 5% for 2023 and 2024 respectively and 2% per annum thereafter (31 December 2021 2%).

(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 2021 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 NZ10 table for Modern products or the NZ97 table for Legacy products. 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 2022, the factors applied to the NZ10 table for the major products range from 84% to 180% (31 December 2021 47% to 96% of the NZ97 table).

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.

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 2022:
- Health claims assumptions have increased
- Claims assumptions for Disability Income (DI) products have increased.
- Claims assumptions for corporate solutions have not changed.
- Claims assumptions for other non life products have been 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 2021, 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 2022											
Life rate for age	**< 30**	**7%**	**12%**	**13%**	**13%**	**12%**	**12%**	**12%**	**10%**	**10%**	**10%**
	30 - 39	**6%**	**10%**	**11%**	**10%**	**10%**	**10%**	**10%**	**8%**	**8%**	**8%**
	40 - 49	**6%**	**9%**	**10%**	**9%**	**9%**	**9%**	**9%**	**9%**	**8%**	**8%**
	50 - 64	**6%**	**10%**	**14%**	**13%**	**12%**	**11%**	**11%**	**11%**	**11%**	**11%**
	65+	**13%**	**17%**	**21%**	**20%**	**19%**	**18%**	**18%**	**18%**	**18%**	**18%**
Life level to age 80	**< 30**	**13%**	**10%**	**8%**	**7%**	**7%**	**7%**	**8%**	**6%**	**5%**	**5%**
	30 - 39	**9%**	**7%**	**6%**	**5%**	**5%**	**5%**	**5%**	**4%**	**3%**	**3%**
	40 - 49	**6%**	**5%**	**4%**	**4%**	**4%**	**4%**	**4%**	**3%**	**2%**	**2%**
	50 - 64	**6%**	**5%**	**5%**	**6%**	**4%**	**5%**	**6%**	**5%**	**3%**	**3%**
	65+	**6%**	**5%**	**5%**	**6%**	**4%**	**5%**	**6%**	**5%**	**3%**	**3%**
As at 31 December 2021											
Life rate for age	< 30	8%	13%	14%	13%	13%	13%	12%	11%	11%	10%
	30 - 39	7%	11%	12%	11%	11%	11%	10%	8%	9%	9%
	40 - 49	7%	9%	11%	10%	10%	10%	10%	9%	9%	8%
	50 - 64	7%	11%	15%	14%	13%	12%	11%	12%	12%	12%
	65+	14%	18%	22%	21%	20%	19%	19%	19%	19%	19%
Life level to age 80	< 30	15%	14%	12%	12%	10%	9%	10%	7%	6%	6%
	30 - 39	11%	10%	9%	8%	6%	6%	7%	5%	4%	4%
	40 - 49	8%	7%	6%	6%	4%	5%	5%	3%	3%	3%
	50 - 64	7%	6%	7%	7%	6%	5%	5%	4%	4%	3%
	65+	7%	6%	6%	7%	6%	5%	5%	4%	4%	3%

		As at 31 December 2022			As at 31 December 2021		
	Age	**Life**	**Non-Life**	**Total**	Life	Non-Life	Total
Other Risk	**< 30**	**13%**	**9%**		17%	10%	
	30 - 39	**11%**	**9%**		13%	11%	
	40 - 49	**9%**	**8%**		10%	9%	
	50 - 64	**8%**	**10%**		9%	10%	
	65+	**6%**	**13%**		6%	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.

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 2021 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		**2022**	2021
Ex-Colonial policies	Bonus rate on sum assured	**0.11%**	0.14%
	Bonus rate on existing bonus	**0.11%**	0.14%
Ex-Prudential policies	Bonus rate on sum assured	**0.02%**	0.02%
	Bonus rate on existing bonus	**0.02%**	0.02%
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	**3.76%**	4.10%

(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 2022**	12 months to 31 December 2021	**12 months to 31 December 2022**	12 months to 31 December 2021
Market related changes to inflation and discount rates	**(116)**	(77)	**28**	(23)
Mortality and morbidity	**(41)**	(26)	**2**	(1)
Discontinuance rates	**65**	(5)	**(2)**	4
Maintenance expenses	**(43)**	(35)	**-**	(1)
Other changes	**(18)**	3	**-**	-

The impact of changes in assumptions above are net of reinsurance and net of deferred tax.

Notes to the Financial Statements

For the year ended 31 December 2022

3 Business Combination

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. 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. The Branch ceased to carry on business and deregistered on 7 September 2021.

As both AIANZ and the Branch were owned by AIA International Limited (AIAI) at the time of the portfolio transfer, this was considered to be a business combination under common control, which is not in scope of NZ IFRS 3 or any other NZ IFRS standard.

Total consideration for the portfolio transfer was $157 million, in-line with the amount of the book value of the net assets included as part of the portfolio transfer.

In 2021, a settlement adjustment of $7 million was required to account for a reduction in the deferred tax liability balance transferred from the Branch. The deferred tax liability adjustment arose as a result of final income tax returns filed and assessed for the Branch.

4 Sources of Profit

$ millions **For the year ended 31 December**	**2022**	2021
Life insurance		
Planned margins of revenues over expenses	**55**	52
Unwind of discount on policy liabilities	**4**	2
Difference between actual and assumed experience	**(21)**	(36)
Effects of changes in underlying assumptions	**(29)**	(6)
Reversal of future expected losses	**2**	4
Net profit after taxation arising from life insurance contracts	**11**	16
Life investment		
Planned margins of revenues over expenses	**5**	5
Difference between actual and assumed experience	**1**	2
Effects of changes in underlying assumptions	**(1)**	(1)
Net profit after taxation arising from life investment contracts	**5**	6
Shareholder investment earnings	**1**	5
Total life activities	**17**	27
Net profit after taxation attributed to shareholders	**17**	27

Notes to the Financial Statements

For the year ended 31 December 2022

5 Premium Revenue

$ millions For the year ended 31 December	Note	2022	2021
Premium revenue			
Life insurance contract premiums		**1,051**	990
Life investment contract deposit premiums and fee income		**13**	15
Total premiums		**1,064**	1,005
Less: Deposit premiums recognised as an increase in life investment contract liabilities	19	**(13)**	(14)
Total premium revenue		**1,051**	991
Less: Reinsurance expense		**(508)**	(476)
Total net premium revenue		**543**	515

6 Investment and Other Revenue

$ millions For the year ended 31 December	2022	2021
Dividends	**7**	10
Realised and unrealised (losses)/gains	**(81)**	60
Total equity securities and fund certificates	**(74)**	70
Dividends	**6**	5
Realised and unrealised (losses)/gains	**(12)**	11
Total property securities	**(6)**	16
Interest	**31**	33
Realised and unrealised losses	**(131)**	(122)
Total fixed interest securities and cash	**(100)**	(89)
Realised and unrealised losses	**(2)**	-
Total derivatives	**(2)**	-
Total investment loss	**(182)**	(3)
Other revenue		
Investment fees received	**11**	13
Other revenue	**5**	9
Total other revenue	**16**	22

7 Reinsurance Commission Revenue

$ millions For the year ended 31 December	2022	2021
Initial commission	**60**	47
Ongoing commission	**75**	66
Total Reinsurance Commission	**135**	113

8 Claims Expense

$ millions For the year ended 31 December	Note	2022	2021
Death, disability and medical claims		**532**	496
Maturities		**23**	22
Surrenders		**67**	87
Annuities		**3**	3
Total claims		**625**	608
Less: Claims recognised as a decrease in life investment contract liabilities	19	**(62)**	(79)
Total claims expense		**563**	529
Less: Reinsurance recoveries		**(245)**	(222)
Total net claims expense		**318**	307

Notes to the Financial Statements

For the year ended 31 December 2022

9 Other Operating Expenses

$ millions	Life insurance contracts		Life investment contracts		Total	
For the year ended 31 December	**2022**	2021	**2022**	2021	**2022**	2021
Initial commission	**110**	91	**-**	-	**110**	91
Other acquisition expenses	**85**	66	**-**	-	**85**	66
Policy acquisition expenses	**195**	157	**-**	-	**195**	157
Renewal commission	**116**	114	**2**	2	**118**	116
Other maintenance expenses	**140**	136	**2**	2	**142**	138
Policy maintenance expenses	**256**	250	**4**	4	**260**	254
Investment management expenses	**2**	2	**2**	2	**4**	4
Total life expenses	**453**	409	**6**	6	**459**	415
Total other operating expenses					**459**	415
Included above:						
Amortisation of intangible assets					**7**	6
Depreciation					**9**	11
Employee benefits expense						
Wages and salaries					**97**	82
Defined contribution plan expense					**3**	3
Fiduciary expenses					**2**	2

10 Auditor's Remuneration

$ thousands		
For the year ended 31 December	**2022**	2021

PricewaterhouseCoopers is the appointed auditor of the Group for the current and prior period.

Fees paid to PricewaterhouseCoopers are as follows:

	2022	2021
Audit		
Statutory audits and reporting to PwC HK	**1,354**	1,442
Accelerated audit procedures in relation to NZ IFRS 17	**200**	150
Readiness assessment of ICFR performed for PwC HK	**-**	82
Full scope testing of ICFR performed for PwC HK	**216**	-
Other regulatory and assurance services		
Reasonable assurance over solvency return	**49**	47
Limited assurance over QIS for the quarter ended 30 June 2021	**-**	66
Controls Assurance over QIS for the six months period ended 30 December 2021	**-**	136
Total fees paid to auditor	**1,819**	1,923

11 Taxation

$ millions			
For the year ended 31 December	Note	**2022**	2021
Deferred taxation benefit	20	**(85)**	(46)
Total taxation benefit recognised in the Income Statement		**(85)**	(46)

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:

	2022	2021
Net Loss before Taxation	**(68)**	(19)
Income tax at the current rate of 28% (31 December 2021 28%)	**(19)**	(5)
Investment income adjustments	**24**	(19)
Imputation and tax credit adjustments	**(1)**	-
Movement in investment contract liabilities and adjustments	**(21)**	15
Movement in insurance contract liabilities and adjustments	**(66)**	(34)
Other non-assessable income	**(2)**	(2)
Other non-deductible expenditure	**2**	3
Prior period adjustments	**(2)**	(4)
Total taxation benefit recognised in the Income Statement	**(85)**	(46)
Weighted average effective tax rate	**125%**	242%

Notes to the Financial Statements

For the year ended 31 December 2022

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 2022 is $4 million (31 December 2021 $3 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**	**2022**	2021
Equity securities and fund certificates	**632**	608
Fixed interest securities		
New Zealand government stock	**779**	866
Corporate bonds	**182**	165
Foreign government stock	**-**	19
Total fixed interest securities	**961**	1,050
Property securities	**-**	65
Total investments	**1,593**	1,723

As at 31 December 2022, no investments were pledged under repurchase agreements or other arrangements (31 December 2021 nil). A maturity analysis for equity securities, fund certificates, and property securities has not been presented because these investments are liquid assets and there is no fixed maturity.

Fixed Interest Securities

Maturity analysis:		
Under one year	**171**	85
Between one and two years	**73**	99
Between two and three years	**58**	72
Between three and four years	**21**	63
Between four and five years	**70**	16
Greater than five years	**568**	715
	961	1,050

14 Cash and Cash Equivalents

$ millions **As at 31 December**	**2022**	2021
Cash at bank and on deposit	**91**	404
Cash equivalents	**11**	-
Total cash and cash equivalents	**102**	404

Notes to the Financial Statements

For the year ended 31 December 2022

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
AIA Thrive Limited	100	Agency services	31 December
AdviceQual Limited	100	Agency services	31 December

All entities were incorporated in New Zealand.

16 Intangible Assets

$ millions	Life investment contract deferred acquisition costs	Internally developed software	Other intangible assets	Total
Gross carrying value				
Balance as at 1 January 2022	**6**	**59**	**1**	**66**
Additions	**-**	**4**	**-**	**4**
Balance as at 31 December 2022	**6**	**63**	**1**	**70**
Accumulated amortisation and impairment losses				
Balance as at 1 January 2022	**(4)**	**(25)**	**(1)**	**(30)**
Amortisation expense	**-**	**(7)**	**-**	**(7)**
Balance as at 31 December 2022	**(4)**	**(32)**	**(1)**	**(37)**
Net carrying value at 31 December 2022	**2**	**31**	**-**	**33**
Gross carrying value				
Balance as at 1 January 2021	6	52	1	59
Additions	-	7	-	7
Balance as at 31 December 2021	6	59	1	66
Accumulated amortisation and impairment losses				
Balance as at 1 January 2021	(4)	(19)	(1)	(24)
Amortisation expense	-	(6)	-	(6)
Balance as at 31 December 2021	(4)	(25)	(1)	(30)
Net carrying value at 31 December 2021	2	34	-	36

17 Trade and Other Receivables

$ millions **As at 31 December**	**2022**	2021
Investment receivables	**8**	10
Outstanding premiums	**22**	27
Amounts due from related parties	**15**	8
Amounts due from reinsurers	**137**	87
Agent balances receivable	**1**	1
Prepayments	**12**	10
Other assets	**2**	4
Total trade and other receivables	**197**	147

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

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Notes to the Financial Statements

For the year ended 31 December 2022

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 2022. The next triennial actuarial review is scheduled for 31 March 2025.

$ millions	SSRF	
As at 31 December	**2022**	2021
Reconciliation of amounts recognised in the Statement of Financial Position		
Present value of funded obligations	**(3)**	(4)
Fair value of fund assets	**9**	10
Surplus	**6**	6
Adjustment for limit on the use of net assets *	**(6)**	(6)
Total retirement benefit surplus (inclusive of specified superannuation contribution withholding tax)	**-**	-

* SSRF's estimated net assets at 31 December 2022 were $9 million (31 December 2021 $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	**2022**	2021	**2022**	2021
Reconciliation of movements in policy liabilities				
Balance at the beginning of the period	**(88)**	8	**636**	648
(Decrease)/increase in liabilities recognised in the Income Statement, excluding reinsurance and deferred fee income reserve	**(124)**	(96)	**(62)**	67
Investment contract fees	**-**	-	**(11)**	(13)
Decrease in deferred fee income reserve recognised in the Income Statement	**-**	-	**(1)**	(1)
Deposit premium recognised as an increase in policy liabilities	**-**	-	**13**	14
Claims recognised as a decrease in policy liabilities	**-**	-	**(62)**	(79)
Total policy liabilities	**(212)**	(88)	**513**	636

$ millions As at 31 December	Life insurance contracts 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 2022	**79**	**(127)**	**(164)**	**(212)**
Expected realisation of policy liabilities as at 31 December 2021	61	(86)	(63)	(88)

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 34 for a contractual maturity analysis of life investment contract liabilities.

The following table provides information on liabilities arising from reinsurance contracts.

$ millions	Life insurance contracts		Life investment contracts	
For the year ended 31 December	**2022**	2021	**2022**	2021
Balance at the beginning of the period	**(287)**	(313)	**-**	-
Amount recognised in the Income Statement	**10**	26	**-**	-
Total	**(277)**	(287)	**-**	-
Maturity analysis				
Under one year	**(25)**	(28)	**-**	-
Greater than one year	**(252)**	(259)	**-**	-
	(277)	(287)	**-**	-

Notes to the Financial Statements

For the year ended 31 December 2022

19 Life Insurance and Life Investment Contract Liabilities (continued)

$ millions **As at 31 December**	**Life insurance contracts** **2022**	 2021
Policy liabilities related to guarantees		
Policy liabilities with a discretionary participation feature	**484**	587
Valuation of policy liabilities		
Cash flows net of tax:		
Future policy benefits	**12,936**	13,789
Future bonuses	**74**	77
Future expenses	**4,816**	4,919
Future planned margins of revenue over expenses	**1,969**	2,090
Future premiums	**(19,351)**	(20,241)
Unvested policyholder benefits	**47**	55
Deferred tax gross up	**(703)**	(777)
Total policy liabilities	**(212)**	(88)

Life investment contract policy liabilities with an investment performance guarantee at 31 December 2022 were $13.5 million (31 December 2021 $14.3 million).

Life insurance contract liabilities future net cash inflows		
Under one year	**301**	286
Between one and five years	**1,285**	1,166
Greater than five years	**5,163**	4,718
	6,749	6,170

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

$ millions **As at 31 December**	Note	**2022**	2021
Deferred Taxation Asset			
Balance at beginning of period		**7**	-
Recognised in the Income Statement		**25**	7
Total deferred taxation asset		**32**	7
Deferred taxation relates to:			
Losses available for offset against future taxable income		**31**	8
Other		**1**	(1)
Total deferred taxation asset		**32**	7
Deferred taxation recognised:			
Losses available for offset against future taxable income		**23**	8
Other		**2**	(1)
Total Deferred taxation recognised		**25**	7
Deferred Taxation Liability			
Balance at beginning of period		**622**	668
Balance arising from portfolio transfer	3	**-**	(7)
Recognised in the Income Statement		**(60)**	(39)
Total deferred taxation liability		**562**	622
Deferred taxation relates to:			
Life insurance and life investment contract liabilities		**639**	681
Losses available for offset against future taxable income		**(73)**	(56)
Other		**(4)**	(3)
Total deferred taxation liability		**562**	622

20 Deferred taxation (continued)

$ millions As at 31 December	Note	2022	2021
Deferred taxation recognised:			
Life insurance and life investment contract liabilities		**(42)**	(29)
Losses available for offset against future taxable income		**(17)**	(7)
Other		**(1)**	(10)
Total deferred taxation recognised		**(60)**	(46)

Deferred tax assets of $31 million and $73 million (31 December 2021: $8 million and $56 million) relating to tax losses for the Policyholder Base and the Shareholder Base respectively have been recognised on the basis that future taxable profits will be available against which the unused tax losses will be utilised. The timeframe for utilising these losses is estimated to be 5 to 7 years.

For the Policyholder Base, the deferred tax asset has arisen due to investment losses that are not expected to recur to the same extent. For the Shareholder Base, the deferred tax asset has arisen due to investment losses, expenses incurred in generating new business and one-off project expenditure that are not expected to recur to the same extent. The key assumption in the assessment of future taxable profits is that the Group will generate income and incur expenditure in line with the strategic plan and financial forecasts. Any reasonable deviation from the financial forecasts is not expected to materially impact the timeframe within which the deferred tax asset is expected to be progressively utilised. However, any material adverse deviation from the financial forecasts (for example, further prolonged investment losses and significant variations in new business assumptions) could impact the carrying amount of the deferred tax asset or the timeframe within which it is expected to be progressively utilised.

21 Trade and Other Payables

$ millions As at 31 December	2022	2021
Outstanding claims	**104**	93
Expense creditors	**24**	31
Prepaid premiums	**11**	14
Employee benefits	**18**	15
Investment creditors	**-**	1
Agent balances	**9**	8
Amounts due to reinsurers	**49**	39
Provisions	**2**	4
Amounts due to related parties	**26**	23
Total trade and other payables	**243**	228

As at 31 December 2022, $238 million of trade and other payables have an expected settlement date of less than 12 months (31 December 2021 $223 million).

A maturity analysis of current and non-current financial liabilities is presented in note 34.

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	2022	2021
Issued ordinary share capital			
Balance at beginning of period		**863**	856
Shares issued - portfolio transfer	3	**-**	7
Balance at end of period		**863**	863

As at 31 December 2022, share capital includes 248,217,572 ordinary shares (31 December 2021 248,217,572).

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.

Dividend of $81 million was paid during the year ended 31 December 2022 (31 December 2021 $0).

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 AIA NZ 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 AIA NZ to hold a solvency margin of at least $0 (2021: $0) in the Other Fund and up to $46.25 million as at 31 December 2022 (2021: $92.5 million) in the Statutory Fund depending on the level of the 10-year NZ Government bond rate. As at 31 December 2022, the minimum solvency margin in the Statutory Fund was $0. The minimum Statutory Fund solvency margin as required by the RBNZ was reduced from a maximum of $46.25 million to $0 on 1 January 2023.

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 the 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 2022			
Actual solvency capital	**314**	**151**	**465**
Minimum solvency capital	**198**	**127**	**325**
Solvency margin	**116**	**24**	**140**
Solvency ratio	**159%**	**119%**	**143%**
As at 31 December 2021			
Actual solvency capital	419	164	583
Minimum solvency capital	154	144	298
Solvency margin	265	20	285
Solvency ratio	273%	114%	196%

24 Related Party Transactions and Balances

a) Immediate and ultimate controlling party

AIANZ's immediate holding company is AIA Sovereign Limited. As at 31 December 2022, 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.

* Effective 1 January 2023, there were updates in the controlling parties. Information on the change is disclosed in note 38.

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.

24 Related Party Transactions and Balances (continued)

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**	**2022**	2021
Related Party Transactions		
Income		
Reinsurance commission from AIA Reinsurance Limited	**44**	32
Reinsurance claims recoveries from AIA Reinsurance Limited	**31**	26
	75	58
Expenses		
Paid to AIA Reinsurance Limited for reinsurance premiums	**79**	62
Paid to AIA Australia Limited for group service fee and recharge costs of group integration	**9**	5
Paid to AIA Company Limited for group service fee	**7**	7
Paid to AIA Shared Services (Hong Kong) Limited for Vitality project costs	**3**	2
Paid to AIA Shared Services Sdn Bhd for group service fee	**3**	2
Paid to AIA Group Limited for staff recharge costs	**1**	1
Paid to AIA Company (Guangzhou) Limited for group service fee	**1**	1
	103	80
Related Party Balances		
Assets		
Trade and other receivables from AIA Reinsurance Limited	**15**	8
Liabilities		
Trade and other payables to AIA Reinsurance Limited	**6**	3
Trade and other payables to AIA Australia Limited	**17**	16
Trade and other payables to AIA Company Limited	**2**	3
Trade and other payables to AIA Shared Services Malaysia	**1**	-
Trade and other payables to AIA Shared Services Sdn Bhd	**-**	1
	26	**23**

Refer to the Statement of Changes in Equity and note 22 for details of dividends paid to the Shareholder.

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 2022, 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.

25 Share Based Compensation

Stock compensation plans

During the year ended 31 December 2022, 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 2010 and 2020 RSU Schemes, the vesting of granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective 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 respective vesting period. For most RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. The maximum number of shares that can be granted under the scheme is 302,264,978 (2021: 302,264,978) representing approximately 2.5 per cent of the number of shares in issue on the reference date, being the 2020 AGM date.

	Number of Shares	
For the year ended 31 December	**2022**	2021
Restricted share units		
Outstanding at beginning of financial year	**272,969**	247,256
Granted	**112,670**	79,265
Vested or exercised	**(53,506)**	(12,323)
Transfer out	**(45,732)**	(17,646)
Forfeited or expired	**(42,219)**	(23,583)
Outstanding at end of financial year	**244,182**	272,969

Employee Share Purchase Plan (ESPP)

Under the 2011 and 2020 ESPPs, eligible employees of the Group can purchase ordinary shares of AIA with qualified employee contributions and AIA will grant one matching restricted stock purchase unit (RSPU) 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 relevant vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group in order to qualify to receive the matching shares upon the vesting of the matching RSPUs. The granted matching RSPUs are expected to be settled in equity. Under the 2020 ESPP, the level of qualified employee contribution is subject to a maximum amount equal to 10 per cent of the annual base salary or HK$150,000 per annum, whichever is lower. For the year ended 31 December 2022, eligible employees of the Group paid NZ$770,302 (2021: NZ$703,963) to purchase 48,907 ordinary shares (2021: 41,227 ordinary shares) of AIA.

Valuation methodology

AIA utilises a binomial lattice model to calculate the fair value of the SO grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP grants, taking into account the terms and conditions upon which the grants were made. 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 Hong Kong Stock Exchange. The expected life of the SOs 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. An allowance for forfeiture prior to vesting is not included in the valuation of the grants.

The fair value calculated for SOs is inherently subjective due to the assumptions made and the limitations of the model utilised.

25 Share Based Compensation (continued)

	12 months to 31 December 2022			12 months to 31 December 2021		
	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**	**1.57%**	**0.84% - 4.27%**	N/A	0.27%	0.14% - 0.83%
Volatility	**N/A**	**26.00%**	**N/A**	N/A	26.00%	0.00%
Dividend yield	**N/A**	**1.70%**	**1.70%**	N/A	1.60%	1.70%
Weighted average fair value per option / unit at measurement date (HK$)	**N/A**	**N/A**	**70.87%**	N/A	N/A	71.76%

The weighted average share price for granted SO valuation is $0 for the year ended 31 December 2022 as no options were awarded. (31 December 2021 $0).

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 2022 is NZ$899,912 (2021: NZ$1,001,964).

26 Directors and Key Management Personnel

$ millions **For the year ended 31 December**	**2022**	2021
Short term employee benefits	**7**	6
Directors fees	**1**	-
Total directors and key management personnel compensation	**8**	6

$ millions **As at 31 December**	**2022**	2021
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	**2022**	2021
Right-of-use Assets		
As at 1 January	**22**	27
New lease agreements	**-**	1
Depreciation	**(5)**	(6)
Carrying amount as at 31 December	**17**	22
Lease Liabilities		
As at 1 January	**24**	29
New lease agreements	**-**	1
Interest expense	**-**	1
Lease payments	**(6)**	(7)
Carrying amount as at 31 December	**18**	24

95% of the leases relate to property lease, which the Group uses as office premises. The remaining leases relate to motor vehicles. The maturity analysis of lease liabilities is included in Note 34.

28 Capital commitments

The Group has no material capital commitments as at 31 December 2022 (31 December 2021 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.

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 2022				
Financial assets				
Investments:				
Equity securities and fund certificates	**-**	**632**	**-**	**632**
Fixed interest securities	**901**	**60**	**-**	**961**
Property securities	**-**	**-**	**-**	**-**
Derivative assets	**-**	**-**	**-**	**-**
Total financial assets measured at fair value	**901**	**692**	**-**	**1,593**
Financial liabilities				
Life investment contract liabilities	**-**	**513**	**-**	**513**
Total financial liabilities measured at fair value	**-**	**513**	**-**	**513**
As at 31 December 2021				
Financial assets				
Investments:				
Equity securities and fund certificates	194	414	-	608
Fixed interest securities	789	261	-	1,050
Property securities	65	-	-	65
Total financial assets measured at fair value	1,048	675	-	1,723
Financial liabilities				
Derivative liabilities	-	2	-	2
Life investment contract liabilities	-	636	-	636
Total financial liabilities measured at fair value	-	638	-	638

(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 2022		
Financial Assets		
Cash and cash equivalents	**102**	**102**
Trade and other receivables	**185**	**185**
Total financial assets not measured at fair value	**287**	**287**
Financial Liabilities		
Trade and other payables	**214**	**214**
Total financial liabilities not measured at fair value	**214**	**214**

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 2021		
Financial Assets		
Cash and cash equivalents	404	404
Trade and other receivables	147	147
Total financial assets not measured at fair value	551	551
Financial Liabilities		
Trade and other payables	199	199
Total financial liabilities not measured at fair value	199	199

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 2022					
Financial assets					
Cash and cash equivalents	**-**	**102**	**-**	**102**	**102**
Trade and other receivables	**-**	**185**	**-**	**185**	**185**
Investments	**1,593**	**-**	**-**	**1,593**	**1,593**
Total financial assets	**1,593**	**287**	**-**	**1,880**	**1,880**
Financial liabilities					
Trade and other payables	**-**	**-**	**214**	**214**	**214**
Life investment contract liabilities	**513**	**-**	**-**	**513**	**513**
Total financial liabilities	**513**	**-**	**214**	**727**	**727**
As at 31 December 2021					
Financial assets					
Cash and cash equivalents	-	404	-	404	404
Trade and other receivables	-	147	-	147	147
Investments	1,723	-	-	1,723	1,723
Total financial assets	1,723	551	-	2,274	2,274
Financial liabilities					
Trade and other payables	-	-	199	199	199
Derivative liabilities	2	-	-	2	2
Life investment contract liabilities	636	-	-	636	636
Total financial liabilities	638	-	199	837	837

31 Asset Quality

The Group has no materially 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	2022	2021
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	2022	2021	2022	2021	2022	2021
$ millions	Investment-linked*		Non-Linked		Total	
Ratings						
AAA	**2**	34	**785**	843	**787**	877
AA+	**-**	-	**-**	15	**-**	15
AA	**-**	2	**18**	23	**18**	25
AA-	**-**	7	**113**	71	**113**	78
A	**-**	1	**9**	2	**9**	3
A-	**-**	1	**25**	34	**25**	35
BBB+	**-**	-	**5**	5	**5**	5
BBB	**-**	-	**4**	12	**4**	12
Total fixed interest securities	**2**	45	**959**	1,005	**961**	1,050

* For investment-linked assets, the liability to policyholders is linked to the performance 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.

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 credit ratings for the Group's major reinsurers are :

As at 31 December	Rating Agency	2022	Rating Agency	2021
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-

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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	Life insurance contracts	Life investment contracts	Total	Other Fund Total
For the year ended 31 December 2022				
Premium revenue	**894**	**1**	**895**	**156**
Investment (loss)/revenue	**(115)**	**(68)**	**(183)**	**8**
Claims expense	**468**	**-**	**468**	**95**
Other operating expenses	**383**	**6**	**389**	**74**
Investment loss allocated to policyholders	**(85)**	**(68)**	**(153)**	**-**
Net (loss)/profit before tax	**(41)**	**1**	**(40)**	**(22)**
Net profit/(loss) after tax	**31**	**4**	**35**	**(12)**
Net distributions made from funds	**(78)**	**-**	**(78)**	**(3)**
For the year ended 31 December 2021				
Premium revenue	848	1	849	142
Investment (loss)/revenue	(71)	63	(8)	5
Claims expense	441	-	441	88
Other operating expenses	334	6	340	70
Investment (loss)/revenue paid or allocated to policyholders	(37)	64	27	-
Net (loss)/profit before tax	(8)	5	(3)	(12)
Net profit/(loss) after tax	33	4	37	(8)
Net distributions made from funds	(2)	-	(2)	2
As at 31 December 2022				
Life insurance contract assets	**(77)**	**-**	**(77)**	**(135)**
Life investment contract liabilities	**-**	**513**	**513**	**-**
Other liabilities	**1,264**	**(20)**	**1,244**	**44**
Retained (losses)/profits directly attributable to shareholders	**(273)**	**11**	**(262)**	**(6)**
Investment assets	**1,048**	**487**	**1,535**	**58**
Other assets	**541**	**6**	**547**	**42**
As at 31 December 2021				
Life insurance contract liabilities/(assets)	69	-	69	(157)
Life investment contract liabilities	-	636	636	-
Other liabilities	1,366	(13)	1,353	52
Retained (losses)/profits directly attributable to shareholders	(226)	7	(219)	9
Investment Assets	1,127	549	1,676	47
Other Assets	763	71	834	50

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 2022				
Participating net profit after tax	**-**	**-**	**-**	**-**
Non-participating net profit/(loss) after tax	**31**	**4**	**35**	**(12)**
Net profit/(loss) allocated to shareholders	**31**	**4**	**35**	**(12)**
For the year ended 31 December 2021				
Participating net profit after tax	-	-	-	-
Non-participating net profit/(loss) after tax	33	4	37	(8)
Net profit/(loss) allocated to shareholders	33	4	37	(8)

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.

(i) Product and Financial

In prior year, provisions were made for Covid-19 Reserve for both Disability Income (DI) and Medical, with anticipation of higher short-term claims.

The 2022 claims experience shows that an expected medical catchup of claims has not happened. While there may still be some effects of Covid-19 to materialise in medical claims from “long Covid-19” and later stage detection of health conditions from deferred medical checks, it appears that much of the medical claims cost has been avoided rather than deferred and the medical reserve of $1 million for short term Covid-19 impacts was released during 2022.

DI has experienced a higher level of claims in 2022 than expected. However, it is challenging to separate Covid-19 impacts from other drivers of adverse disability income experience. The most likely driver of increased DI claims over the near future is likely to be the economic environment which is generally factored into judgement applied in long term claims assumptions rather than making short term adjustments. Longer term impacts of increased risk to survivors of Covid-19 on both heart and brain health are also included in long-term claims assumptions. Hence, the $10 million (net of tax) DI Covid-19 reserve was released during 2022.

(ii) Our People, Customers and Advisors

Our Covid-19 response has prioritised the health, safety and wellbeing of our staff, and in turn customers and advisers. In response to community transmission of the Delta and Omicron variants, the majority of staff worked from home under the red traffic light setting, with many continuing to work from home throughout the orange setting. In line with changes to the traffic light settings, our Covid-19 Vaccination in the Workplace Policy was rescinded in April 2022, meaning that My Vaccine Passes were no longer required to access our buildings or attend work gatherings, events and meetings.

To support the mental, social, physical and financial wellbeing of our staff, during this time we have both continued initiatives introduced in 2021, and implemented additional initiatives as the pandemic has evolved e.g. isolation support network, flu vaccination vouchers, and the introduction of an employee wellbeing strategy. Leaders have led regular check-ins in team meetings and Health, Safety and Wellbeing Representatives have conducted working from home checks with team members as part of the quarterly workplace inspection process. Staff have been encouraged to use EAP (Employee Assistance Programme) for support and to take leave as needed.

33 Risk Management Policies (continued)

Environmental, Social and Governance impacts

The New Zealand government has introduced a mandatory framework for climate-related disclosure, making climate-related disclosures mandatory for certain organisations, including most insurers. In the future, all Climate Reporting Entities (CREs) will be required to make annual disclosures covering governance arrangements, risk management, strategies and metrics and targets for mitigating and adapting to climate change impacts.

The mandatory framework was introduced in 2022 and applies to all reporting periods commencing from January 2023. CREs will be required to prepare and file a Climate Statement based on standards issued by the External Reporting Board (XRB). The XRB issued the first climate standard in December 2022, requiring Climate Statements to be lodged from early 2024, for accounting periods starting on or after 1 January 2023.

In order to meet its obligations under the mandatory framework and comply with the climate standards issued by the XRB, the Group has embarked on a programme of work with the assistance of external consultants to establish greenhouse gas emissions (GHG) targets and future initiatives to respond to the climate reporting and disclosure requirements.

AIA New Zealand Limited and AIA Services New Zealand Limited recently achieved Toitū carbonreduce certification, meaning that its GHG are measured to the ISO 14064-1:2018 global standard, reinforcing the Group's commitment to setting GHG reduction targets. The Toitū carbonreduce certification is a major milestone in its sustainability journey to becoming carbon net zero by 2050 and in understanding its GHG sources, measuring emissions and in creating an action plan to bring those to net-zero. Driving this is a robust AIA Environmental, Social and Governance (ESG) strategy with strong leadership from the Board and the Executive Team, including the establishment of a Board ESG (BESG) Committee.

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.

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.

33 Risk Management Policies (continued)

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, appropriate product design, and claims management, 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 2022, AIANZ participated in the AIA Group catastrophe treaty which provides cover of USD$215 million (2021 USD$175 million) for single event claims in excess of USD$35 million (2021 USD$25 million). In addition, AIANZ has in place a lower layer catastrophe treaty with AIA Reinsurance Limited which provides cover of USD$25 million (2021 USD$15 million) for a single event claims in excess of USD$10 million (2021 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 $40 million (2021 $40 million) pandemic reinsurance cover in excess of an Ultimate Net Loss of 0.15940% (2021 0.15940%) of the Mean Retained Net Amount at Risk, or $80 million (2021 $80 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

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.

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33 Risk Management Policies (continued)

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**			
		2022		2021	
Insurance risks		**Before reinsurance**	**After reinsurance**	Before reinsurance	After reinsurance
Mortality	Improvement by 10%	**2**	**(1)**	5	1
	Deterioration by 10%	**(12)**	**(8)**	(12)	(8)
Morbidity	Improvement by 10%	**18**	**5**	17	5
	Deterioration by 10%	**(178)**	**(165)**	(143)	(131)
Discontinuance	Improvement by 20%	**(4)**	**2**	(5)	3
	Deterioration by 20%	**4**	**(1)**	4	(3)
Expenses	Increase by 10%	**-**	**-**	(1)	(1)
	Decrease by 10%	**-**	**-**	1	1

Credit Risk

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

Credit default risk is the risk of interest and/or principal payment not paid in full and/or not paid timely by a credit counterparty. Credit default risk principally can arise within the Group from investments of shareholder funds in cash and fixed interest securities, and reinsurer payment obligations. Note 13 Investments provides the size of the Group's investments in fixed interest securities where the credit risk can arise.

The Group's credit risk can also arise from third-party rating downgrades which can result in partial losses in the interest and/or principal payment amounts from bond investments and can result in a need to hold more regulatory capital as a result of reinsurer downgrades. 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 manages the credit risk inherent in its investments to corporate bonds and in its reinsurance arrangements by establishing minimum standards to ratings and by applying risk limits as documented by a set of Risk Standards where the management, escalation and monitoring of credit risk are documented. There are associated Management/Board thresholds to cap the amount of credit risk taken due to investments in corporate bonds, e.g. maximum investment limits for a counterparty or a sector or maximum percentage investments in issuers below a certain rating. These get monitored regularly by the Financial Risk Committee (FRC) and any breaches to these limits will be escalated to the Board Audit and Risk Committee (BARC). The credit risk of downgrades are also monitored at the FRC via the use of credit watchlists.

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 2021 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.

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 34 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 investing the Groups shareholders' funds. Investment mandates are approved by the Investment Committee. As at 31 December 2022, 100% of shareholders' funds were invested in fixed interest, cash and cash equivalents (2021 100%).

Market risk comprises four types of risk: currency risk, interest rate risk, credit spread 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 foreign currency hedge ratio for Global Equities is 50% (2021 50%). World listed equity (property) is not hedged (2021 0%). All fixed income investments are denominated in NZD.

(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.

33 Risk Management Policies (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.

(iv) Credit Spread Risk

Credit spread risk can arise due to fluctuations in market values of fixed interest corporate bonds as a result of a change in the market perception of credit worthiness of a bond's issuer or in some cases resulting from a loss of confidence in the credit worthiness of a segment of the bond market. The Group manages credit spread risk as part of its management of credit risk which has been outlined under the Credit Risk section.

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. The Group derives fee income based on the value of the underlying funds; hence revenues are 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 net profit and loss after tax and equity to changes in market risk assumptions:

$ millions		**Change in following financial year's net profit after tax and shareholders' equity**	
As at 31 December		**2022**	2021
Market risks			
Equity prices	Favourable by 10%	**1**	1
	Adverse by 10%	**(1)**	(1)
Interest rates	Increase of 100 bps	**(19)**	(21)
	Decrease of 100 bps	**23**	27

34 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 2022								
Non-derivative financial liabilities								
Trade and other payables	**35**	**176**	**-**	**-**	**2**	**1**	**214**	**214**
Life investment contracts	**504**	**-**	**-**	**-**	**1**	**11**	**516**	**513**
Lease liabilities	**-**	**3**	**3**	**6**	**5**	**1**	**18**	**18**
	539	**179**	**3**	**6**	**8**	**13**	**748**	**745**
As at 31 December 2021								
Non-derivative financial liabilities								
Trade and other payables	31	164	-	-	2	2	199	199
Life investment contracts	628	-	-	-	-	8	636	636
Lease liabilities	-	3	3	6	10	2	24	24
	659	167	3	6	12	12	859	859

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.

35 Funds Under Management and Administration

The Group manages and administers investment products that are closed to new business. As at 31 December 2022, the Group had $510 million funds under management and administration (31 December 2021 $636 million). The Group utilises external fund managers and investment consultants in the management of these funds.

36 Commitments and Contingencies

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 2021 nil).

37 Estimated Impact of adoption of NZ IFRS 17 Insurance Contracts

AIA New Zealand will apply NZ IFRS 17 Insurance Contracts (NZ IFRS 17) for the first time from 1 January 2023. NZ IFRS 17 replaces NZ IFRS 4 Insurance Contracts. NZ IFRS 17 will bring significant changes to the Company's accounting for insurance and reinsurance contracts. It is expected to have a material impact on the Company's financial statements in the initial period of application. Based on assessments undertaken to date, the Company expects to report a reduction in its equity balance on transition to NZ IFRS 17.

Fair value approach

On transition, the Company has applied the fair value approach for groups of term-life contracts as, prior to transition, it grouped contracts from multiple cohorts and years into a single unit for accounting purposes. Obtaining reasonable and supportable information to apply the full retrospective approach was determined to be impracticable without undue cost or effort. Key reasons for the impracticability decision related to data gaps in separating historical expenses into attributable and non-attributable expenses; the inability to retrospectively generate modelling data with the attributes required for NZ IFRS 17; and transactional data not being available to the required level of granularity for NZ IFRS 17. Once the Company determined it was impracticable to apply the full retrospective approach, it chose to apply the fair value approach as permitted by NZ IFRS 17.

The Company has determined the Contractual Service Margin (CSM) of the liability for remaining coverage at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows measured at that date. In determining fair value, the Company has applied the requirements of NZ IFRS 13 Fair Value Measurement (NZ IFRS 13).

For the application of the fair value approach, the Company will use reasonable and supportable information available at the transition date in order to:

- Determine whether any contracts are direct participating insurance contracts; and
- Identify cash flows for insurance contracts without direct participation features.

The discount rate for the group of contracts applying the fair value approach will be determined at the transition date.

For all groups of contracts measured under the General Measurement Model the Company has elected to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income and reset the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to zero. The Company will use the income approach to determine the fair value amount used for establishing the insurance contract liabilities at transition date. The Company has identified that certain investments no longer be designated at fair value through profit or loss as this designation no longer significantly eliminates an accounting mismatch in profit or loss. The company will elect to measure these investments at fair value through other comprehensive income utilising options available within NZ IFRS 9 Financial Instruments, and NZ IFRS 17.

Transition

NZ IFRS 17 transition date for AIA New Zealand is 1 January 2022, and the date of initial adoption is 1 January 2023. As of 31 December 2022, the Company's transitional assessment is not yet finalised as aspects of the work are ongoing and the governance processes have yet to be completed. The actual transitional impact of implementing NZ IFRS 17 may change because of this ongoing work. While the Company expects to report a decrease in equity on transition to NZ IFRS 17, at present the Company is not in a position to reliably estimate this opening equity impact.

The most significant driver of the expected after-tax decrease in equity on transition is the liability for reinsurance contracts. The liability for reinsurance contracts is expected to increase under NZ IFRS 17 as a result of the Company adopting the Fair Value Approach (FVA), which has the effect of decreasing net assets (or equity) on transition to NZ IFRS 17. It is not possible to disclose a direct link between each driver behind the decrease in equity, and the significant transition judgements and estimates disclosed below. Each judgement or estimate is impacted by multiple drivers, with many having a positive equity driver impact, offset by a negative and vice versa.

Significant transition estimates and judgements

The Company has applied the following significant estimates and judgements as part of its NZ IFRS 17 transition assessment.

(i) Contract Boundaries

The Company has assumed a contract boundary of one year for its yearly renewable term (YRT) business. YRT retail business represents the majority of the Company's in-force book and new business, open market offering. The one-year contract boundary assumption for YRT is consistent with other New Zealand insurers with similar products.

Reinsurance contracts have contract boundaries which align with the natural expiry of expected renewals of the underlying contracts, irrespective of the contract boundary of the underlying contract. This is generally due to the compulsion for the ceding company to keep paying premiums and the reinsurer to continue to provide services in the event that the premium review produces no change in premiums.

(ii) Indirect Fair Value Approach (Observable Inputs)

The fair value measurement techniques used to apply the fair value approach are dependent on the characteristics of the business being valued. Under NZ IFRS 13, the fair value is the price a market participant would pay to purchase the business. This is considered an Indirect Fair Value Approach (IFVA).

The Company has applied the IFVA to value retail level and unbound risk business; participating business; and annuities. Observable inputs in the valuation make reference to the Sovereign Assurance Company Limited business acquisition by AIA International Limited.

37 Estimated Impact of adoption of NZ IFRS 17 Insurance Contracts (continued)

(iii) Indirect Fair Value Approach (Unearned Premium Reserve)

The NZ IFRS 17 contract boundary for bounded contracts (1-2 years), for example yearly renewable term (YRT), is significantly different from the economic contract boundary in observable market transaction data. Therefore, it is not suitable to use an acquisition value for these YRT contracts. As such, the FVL as at transition date of the bounded contracts will be determined using a modified Unearned Premium Reserve (UPR) approach.

The most relevant and recent transaction and pricing for this kind of NZ IFRS 17 bounded contracts' hypothetical Fair Value is the premium charged to policyholders at the last contract renewal date. For example, an entity would have the practical ability to reassess the risks and fully reflect the risks in their price; and also, the premium has not considered future risk beyond the NZ IFRS17 contract boundary. The premium charged would reflect the price that the insurers would require to assume the obligation (e.g. it allows for expected claims, risk, profit margin etc.). If a market participant purchases these bounded contracts, given the short-term nature of the remaining contract boundary (i.e. on or less than 2 years), there is little opportunity to achieve a very different profitability or better efficiency than the seller. As such, the hypothetical Fair Value for these bounded contracts at transition would be very close to the unearned premium reserve as at transition date.

(iv) Direct Fair Value

The Direct Fair Value approach was adopted for reinsurance contracts, due to the lack of applicable, observable market transaction data. The Direct Fair Value approach involves discounting the reinsurance cash flows using best estimate assumptions and deducting a risk premium for the uncertainty about the amount and timing of cash flows that arises from non-financial risk.

(v) Pre-coverage Asset

Determination of the transition approach for PCA (insurance acquisition cash flows) at the 1 January 2022 transition date is an area of significant judgement under NZ IFRS 17. NZ IFRS 17 requires a full retrospective approach, however when it is impracticable to apply retrospectively, companies can adopt either the modified retrospective approach (MRA) or the fair value approach (FVA).

AIA New Zealand has applied the FVA and has exercised judgement in three key areas: determining the quantum of directly attributable acquisition expenses to include; how to apportion these expenses to underlying contracts; and the discount rate selected.

New accounting policies, assumptions, judgements and estimation techniques adopted as part of the NZ IFRS 17 transition are subject to change until the point that the Company finalises its first set of interim financial statements for the six months ended 30 June 2023, and subsequent full set of financial statements prepared under NZ IFRS 17 for the year-ended 31 December 2023.

Interim reporting

NZ IFRS 17 permits an accounting policy choice to change the treatment of accounting estimates made in previous interim financial statements, when applying NZ IFRS 17 in a subsequent annual reporting period. It is expected that AIA Group will not elect to apply this policy choice for Group reporting. Whereby estimates in the first six-month interim reporting period will not change when reported in the subsequent six months, as part of annual reporting. AIA New Zealand intends to align with Group and apply this policy choice to 'lock in' accounting estimates made in the first six months, so they will be unchanged for the annual reporting period.

Changes to classification, measurement, presentation and disclosure

The adoption of NZ IFRS 17 will not change the classification of the Company's insurance contracts. However, NZ IFRS 17 establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features.

NZ IFRS 17 requires more granular information and introduces significant changes (when compared to NZ IFRS 4), to the presentation and disclosure of insurance and reinsurance contracts. Changes include: separate disclosure of assets and liabilities related to insurance contracts issued and reinsurance contracts held. NZ IFRS 4 balance sheet disclosures for items such as due premiums; reinsurance and other recoveries; deferred acquisition costs; amounts due to reinsurers; unearned premium liabilities and outstanding claims liabilities are now reclassified into insurance contract assets and insurance contract liabilities under NZ IFRS 17. Additional granularity is provided in the NZ IFRS 17 income statement, with components of the NZ IFRS 4 item 'Movement in Insurance Liabilities' now separated into Insurance Revenue; CSM Release; Risk Adjustment Release and Expected Claims and Expenses.

38 Events after the Reporting Period

Effective 1 January 2023, AIA Holdings Pte. Limited (domiciled in Singapore) owns 100% of AIA Sovereign Limited, AIA NZ's immediate holding company, replacing AIA International Limited. The ultimate holding company remains AIA Group Limited, a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange.

There were no other 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 2022, 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 2022;
- 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. These services include assurance services over the Annual Solvency Return and Quarterly Insurer Survey. 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 other 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
1. The measurement of life insurance contract assets and associated liabilities ceded under and arising from reinsurance	
As at 31 December 2022 the Group has life insurance contract assets of $212 million (31 December 2021: $88 million), liabilities ceded under reinsurance of $271 million (31 December 2021: $311 million) and liabilities arising from reinsurance contracts of $548 million (31 December 2021: $598 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. The balances are 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 at reporting date. These subjective judgements 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 rates. Further, the Directors perform a liability adequacy test (for the Group's traditional participating business) to ensure that any deficiencies in the measurement of life insurance contract assets are appropriately recognised at 31 December 2022. This involves a comparison of the amount of life insurance contract liabilities against the estimated future cash flows calculated based on best estimate assumptions.	Together with PwC actuarial experts, we: ● assessed the reasonableness of the key assumptions including rates of discontinuance, mortality and morbidity, investment and maintenance expenses, discount rates and inflation. Our assessment of the assumptions included: – obtaining an understanding of, and testing on a sample basis, the processes and controls in place to determine the assumptions; – examining the approach used by the Group to derive the assumptions by applying our industry knowledge and experience; and – comparing the key assumptions used by the Group 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 assets 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 are consistent with recognised actuarial practices and expectations derived from experience of market practice. ● assessed the appropriateness of the actuarial valuation model by: – understanding the valuation model changes during the year and, on a sample basis, testing management's validation and change control processes; and – obtaining management's actuarial valuation model testing calculations and understanding the variances compared to actuarial valuation model outputs. ● assessed the outcome of the liability adequacy test in order to ascertain whether the life insurance contract assets are adequate in the context of a valuation using the best estimate assumptions at 31 December 2022.

Description of the key audit matter	How our audit addressed the key audit matter
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.	Policy data and reinsurance attributes are key inputs to the actuarial estimates. Accordingly, we, together with our actuarial experts: ● evaluated the design effectiveness and tested the operating effectiveness of certain controls over the underwriting and policy administration processes; ● tested the reconciliation of policy data and reinsurance attributes between source systems and actuarial valuation models; and ● tested, on a sample basis, the accuracy of policy data and reinsurance attributes used within the actuarial valuation models against the source systems.
2. Recoverability of the deferred tax asset arising from tax losses	
As at 31 December 2022 the Group has a deferred tax asset arising from tax losses of $104 million (31 December 2021: $64 million). We considered recoverability of the deferred tax asset a key audit matter because utilisation of the asset is sensitive to the Group's expected future profitability and sufficient continuity of the ultimate shareholder or business activity. Management judgement is involved in forecasting the timing and quantum of future taxable profits, which are inherently uncertain, and whether it is probable the tax losses will be utilised in the foreseeable future. Refer to the following notes in the financial statements: Note 1(i) for related accounting policies, Note 1 for critical accounting estimates and judgements, and Note 20.	In considering the recoverability of the deferred tax asset arising from tax losses, together with PwC actuarial, accounting and tax experts, we: ● obtained and reviewed management's tax forecast and assessed the reasonableness of the key assumptions (including in particular projected new business growth, premiums from continuing business, and expenses) used to determine future taxable profits with reference to: – the company's recent performance and the key factors that have driven recent tax losses – our own industry knowledge and experience; ● obtained an understanding of, and testing on a sample basis, the processes and controls in place to determine the assumptions; ● performed a sensitivity analysis and our own independent assessment over the key assumptions to determine whether possible changes in key assumptions impact our view over the probability of recoverability; ● assessed the Group's ability to maintain sufficient continuity of the ultimate shareholder or to meet the business continuity test and therefore its entitlement to offset the tax losses against future taxable profits; and ● determined whether it was probable (more likely than not) that the tax losses would be utilised in the foreseeable future.

Description of the key audit matter	How our audit addressed the key audit matter
3. 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.	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 tested, on a sample basis, 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. Where technology services were provided by a third party, we considered assurance reports from the third party's auditor on the design and operating effectiveness of controls and/or management's monitoring controls over third parties. We noted exceptions arising from the testing outlined above. As a result we performed alternative or additional audit procedures. Where applicable this involved a combination of the following procedures: • Testing mitigating controls; • Investigating to determine whether the risk associated with the exception has materialised; and • Determining whether key programs have changed during the period under audit.

Our audit approach

Overview

Overall group materiality: $10.5 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 three key audit matters, being:

- The measurement of life insurance contract assets and associated liabilities ceded under and arising from reinsurance
- Recoverability of the deferred tax asset arising from tax losses
- 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
26 April 2023

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 2022.

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 (2014) 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.

The scope of my review is limited to the accounting and solvency standards applicable as at 31 December 2022 and excludes any disclosures made in the Financial Statements about NZ IFRS 17.

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 and 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 2022, 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 as at 31 December 2022, 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 **26 April 2023**

Marco Welgemoed
Appointed Actuary

Auckland