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 2023.

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

22 April 2024

Date

22 April 2024

Date

Annual Report
For the year ended 31 December 2023

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 independent non-executive directors are members of the BARC and the chair of the BARC must be an independent non-executive 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 and Governance (ESG) Committee (the BESG). Two independent non-executive directors, one non-executive director and one executive director are members of the BESG and the chair of the BESG must be an independent non-executive director; 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 guidelines.

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 and independent non-executive director is Theresa Gattung. The other independent non-executive directors are Tracey Cross, Michele Embling (appointed on 1 October 2023) and Dame Paula Rebstock. The non-executive directors are Leo Grepin and Damien Mu. Nicholas Stanhope is the executive director. Robert McDonald resigned with effect from 1 October 2023.

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, Michele Embling (appointed on 1 October 2023), Theresa Gattung and Dame Paula Rebstock. Robert McDonald resigned with effect from 1 October 2023.
- The BREM comprised of: Tracey Cross, Michele Embling (appointed on 1 October 2023), Theresa Gattung and Dame Paula Rebstock. Robert McDonald resigned with effect from 1 October 2023.
- The BESG comprised of: Tracey Cross, Dame Paula Rebstock and Nicholas Stanhope and Amita Chaudhury (appointed 28 November 2023).

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 NZ and AIA Group Limited policies 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 localisation of the AIA Group ESG Strategy as amended from time to time. This shall include:

- identifying ESG issues, risks and opportunities relevant to AIANZ;
- reviewing with and providing guidance to Management for the effective management of ESG risk; and
- overseeing ESG reporting.

The Group Climate Statements can be found at www.aia.co.nz/en/about-aia/esg.html.

Corporate Governance (continued)

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 2023, 41% (2022: 40%) of all senior leadership roles and above (permanent and full-time 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	**2023**	2022 Restated
Insurance revenue	3,14	**1,092**	967
Insurance service expenses	5,14	**(925)**	(823)
Net expenses from reinsurance contracts held	14	**(52)**	(74)
Insurance service result		**115**	70
Interest revenue on			
Financial assets not measured at fair value through profit or loss	4	**22**	18
Financial assets measured at fair value though profit or loss	4	**16**	13
Other investment revenue/(loss)	4	**46**	(198)
Investment return/(loss)	4	**84**	(167)
Net finance (expenses)/income from insurance contracts	4	**(64)**	47
Net finance (expenses)/income from reinsurance contracts held	4	**(17)**	2
Movement in investment contract liabilities	4	**(54)**	63
Net investment result	4	**(51)**	(55)
Fee income		**9**	10
Other operating revenue		**9**	7
Other operating expenses	5	**(66)**	(67)
Net profit/(loss) before tax		**16**	(35)
Income tax (expense)/benefit	7	**(9)**	33
Net profit/(loss) after tax attributable to the owners of AIANZ		**7**	(2)

The above statements should be read in conjunction with the accompanying notes on pages 9 to 65 and the Independent Auditor's Report from page 66 to 72.

Statement of Comprehensive Income

$ millions **For the year ended 31 December**	Note	**2023**	2022 Restated
Net profit/(loss) after tax		**7**	(2)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value gains/(losses) on financial assets	4	**10**	(37)
Fair value losses on financial assets reclassified to profit or loss on disposal	4	**21**	19
Net finance (expense)/income from insurance contracts	4	**(18)**	198
Net finance (expense)/income from reinsurance contracts held	4	**(80)**	144
Income tax relating to these items		**25**	(75)
Total other comprehensive (loss)/income		**(42)**	249
Total comprehensive (loss)/income attributable to the owners of AIANZ		**(35)**	247

The above statements should be read in conjunction with the accompanying notes on pages 9 to 65 and the Independent Auditor's Report from page 66 to 72.

Statement of Changes in Equity

$ millions	Note	Contributed capital	Accumulated losses	Fair value reserve	Insurance finance reserve	Total shareholder's equity
For the year ended 31 December 2023						
Balance at 1 January 2023		**863**	**(249)**	**(24)**	**262**	**852**
Net profit/(loss) after tax		**-**	**7**	**-**	**-**	**7**
Other comprehensive income/(loss)		**-**	**-**	**23**	**(65)**	**(42)**
Total comprehensive income/(loss)		**-**	**7**	**23**	**(65)**	**(35)**
Balance as at 31 December 2023		**863**	**(242)**	**(1)**	**197**	**817**
For the year ended 31 December 2022						
Balance at 1 January 2022, as previously reported		863	(211)	-	-	652
Impact of adoption of new accounting standard	33	-	45	(11)	-	34
Balance at 1 January 2022, as restated		863	(166)	(11)	-	686
Net profit/(loss) after tax		-	(2)	-	-	(2)
Other comprehensive (loss)/income		-	-	(13)	262	249
Total comprehensive (loss)/income		-	(2)	(13)	262	247
Ordinary dividend paid	18	-	(81)	-	-	(81)
Balance as at 31 December 2022, as restated		863	(249)	(24)	262	852

The above statements should be read in conjunction with the accompanying notes on pages 9 to 65 and the Independent Auditor's Report from page 66 to 72.

Statement of Financial Position

$ millions	Notes	As at 31-Dec-23	Restated As at 31-Dec-22	Restated As at 1-Jan-22
Assets				
Cash and cash equivalents	10	**79**	102	404
Other assets	13	**22**	22	21
Investments	9	**1,604**	1,593	1,723
Current tax asset		**8**	9	15
Insurance contract assets	14	**1,286**	1,263	1,091
Reinsurance contract assets	14	**4**	9	18
Plant and equipment		**3**	6	9
Right-of-use assets	23	**4**	17	22
Intangible assets	12	**26**	31	34
Deferred tax assets	16	**27**	32	7
Total assets		**3,063**	3,084	3,344
Liabilities				
Derivative liabilities		**-**	-	2
Trade and other payables	17	**55**	65	72
Lease liabilities	23	**4**	18	24
Investment contract liabilities	15	**499**	514	637
Insurance contract liabilities	14	**741**	761	868
Reinsurance contract liabilities	14	**382**	287	535
Deferred tax liabilities	16	**565**	587	520
Total liabilities		**2,246**	2,232	2,658
Shareholder's equity				
Contributed capital	18	**863**	863	863
Accumulated losses		**(242)**	(249)	(166)
Fair value reserve		**(1)**	(24)	(11)
Insurance finance reserve		**197**	262	-
Total shareholder's equity	18	**817**	852	686
Total liabilities and shareholder's equity		**3,063**	3,084	3,344

The Board of Directors authorised these financial statements on 22 April 2024.

Director

Director

The above statements should be read in conjunction with the accompanying notes on pages 9 to 65 and the Independent Auditor's Report from page 66 to 72.

Statement of Cash Flows

$ millions For the year ended 31 December	Notes	2023	Restated(1) 2022
Cash flows from operating activities			
Net profit/(loss) after tax attributable to the owners of AIANZ		**7**	(2)
Adjusted for			
Changes in insurance and reinsurance contract assets/liabilities		**(42)**	(177)
Changes in investment contracts liabilities		**(15)**	(123)
Net realised and unrealised gains/(loss)		**(44)**	207
Amortisation and depreciation		**15**	16
Net foreign exchange gains		**-**	3
Interest income		**(38)**	(31)
Dividend income		**(2)**	(12)
Income tax (benefit)/expense		**9**	(33)
Changes in other working capital balances		**(10)**	(13)
Interest received		**32**	32
Dividends received		**1**	4
Tax refund		**1**	6
Net cash flows from operating activities		**(86)**	(123)
Cash flows from investing activities			
Proceeds from sale of investments		**1,154**	1,248
Purchase of securities		**(1,083)**	(1,333)
Purchase of plant and equipment		**-**	(1)
Purchase and development of intangible assets		**(2)**	(4)
Net settlement of foreign exchange contracts		**-**	(2)
Net cash flows from investing activities		**69**	(92)
Cash flows from financing activities			
Dividends paid	18	**-**	(81)
Repayment of lease liabilities		**(6)**	(6)
Net cash flows from financing activities		**(6)**	(87)
Summary of movements in cash flows			
Net decrease in cash and cash equivalents		**(23)**	(302)
Add: cash and cash equivalents at beginning of period		**102**	404
Cash and cash equivalents at end of period	10	**79**	102

(1) Refer to note 1 in the accounting policies for more information on the restatement of the cash flow statement.

The above statements should be read in conjunction with the accompanying notes on pages 9 to 65 and the Independent Auditor's Report from page 66 to 72.

Notes to the Financial Statements

For the year ended 31 December 2023

1 Statement of 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. The Group's principal areas of business are life and health 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) as issued by the International Accounting Standards Board (IASB) (IFRS Accounting Standards), 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.

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.

Basis of Preparation

The measurement base adopted is historical cost, modified by the fair value measurement of financial instruments at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVOCI), and the fulfilment cash flows and contractual service margin (CSM) measurement of insurance contracts and reinsurance contracts held.

Accounting Standards or Interpretations adopted in the current year

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows.

a) The following standard is effective for the financial year ended 31 December 2023:

NZ IFRS 17 *Insurance Contracts* (NZ IFRS 17)

NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts, and is effective for accounting periods beginning on or after 1 January 2023.

On application of NZ IFRS 17, the classification of certain financial assets held by the Group have been redesignated.

Accounting policies and additional information on the qualitative and quantitative effects of the adoption of the new and revised accounting standards on the Group's financial statements are provided in note 1.11 and note 33.

b) The following relevant new amendments to standards have been adopted for the first time for the financial year ended 31 December 2023:

Deferred tax related to assets and liabilities arising from a single transaction - Amendment to NZ IAS 12 *Income Taxes*

The amendment provides an exception to the initial recognition exemption in NZ IAS 12. Under this amendment, an entity does not need to apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendment had no material impact on the Group's financial statements.

Pillar Two Model Rules - Amendment to NZ IAS 12 *Income Taxes*

The amendments clarify how entities subject to the Organisation for Economic Co-operation and Development (OECD) Pillar Two Model Rules should recognise and disclose information about deferred tax assets and liabilities.

Refer to note 7 for the Group's disclosure relating to Pillar Two tax legislation.

Definition of Accounting Estimates - Amendments to NZ IAS 8

The amendments to NZ IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no material impact on the Group's financial statements.

Disclosure of Accounting Policies - Amendments to NZ IAS 1 and IFRS Practice Statement 2

The amendments to NZ IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policy information with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

These amendments have been considered as part of the adoption of NZ IFRS 17.

Accounting Standards approved but not yet effective

There are no 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2023

1 Statement of Accounting Policies (Continued)

1 General Accounting Policies (continued)

Change in Accounting Policy: Cash Flow Presentation Approach - Change from the Direct to the Indirect Method

The Group previously used the direct method when calculating and presenting the cash flow statement under NZ IAS 7 *Statement of Cash Flows*. On adoption of NZ IFRS 17 the cash flow statement prepared under the direct method resulted in inconsistent line items when compared to cash line items presented in the reconciliation tables in the Insurance Contracts and Reinsurance Contracts Held note (note 14). The changes made to the systems and processes did not allow for an alternative presentation under the direct method that would enable users to clearly see the relationship between items across the financial statements. Therefore, on adoption of NZ IFRS 17 the Group determined that using the direct method was no longer appropriate. The Group has now adopted the indirect method for presenting operating cash flows in the cash flow statement.

This change in accounting policy is effective from the year ended 31 December 2023. The change in accounting policy has been applied retrospectively and the comparative information for the prior year has been restated. The adoption of the indirect method has resulted in changes to the presentation of cash flows from operating activities. However, the underlying cash flows generated and used by the Group remain unchanged.

1.1 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 11); there are no substantial removal rights and it has controlling economic interests.

All intergroup balances and transactions have been eliminated in preparing the 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.

1.2 Foreign Currency Translation

All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date.

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

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

1.3 Revenue Recognition

The principal sources of revenue are insurance revenue (refer to note 1.11.11) and investment fee income (refer to note 1.12).

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 other investment revenue or loss. Unrealised gains and losses from fair value remeasurement of fixed interest securities (other than those backing participating funds and unit-linked contracts) are accounted for at FVOCI. Unrealised gains and losses from all other financial instruments are included in other investment revenue or loss (refer to note 1.6).

Other operating revenue

Other operating revenue primarily relates to Vitality service fee income, which is recognised applying NZ IFRS 15 Revenue from Contracts with Customers. Revenue is recognised over time as the service is delivered.

1.4 Expense Recognition

Operating Expenses

Operating expenses 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.

Certain expenses in the scope of NZ IFRS 17 relate to providing insurance contract services and are included as fulfilment cash flows of insurance contracts. Attributable expenses comprise both direct costs and an allocation of fixed and variable overheads. Cash flows are attributed to acquisition activities, other fulfilment activities and other activities using activity-based costing techniques. Attributable expenses included in the measurement model of the insurance contracts affect the fulfilment cash flows of the insurance contract and the contractual service margin calculation, which is released to profit or loss over the coverage period. Non-attributable operating expenses are recognised in the Income Statement as other operating expenses when incurred if they are not part of the fulfilment cash flows of the insurance contract.

Refer to note 1.11.5 for more information on insurance acquisition cash flows recognition and measurement.

1 Statement of Accounting Policies (continued)

1.5 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.

1.6 Financial Instruments

Basis of Recognition and Measurement

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or fair value through profit or loss (FVTPL). A financial liability is recognised either as at FVTPL or at amortised cost.

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt security is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

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

Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting.

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.

Realised gains and losses on financial assets measured at FVTPL excludes any interest revenue or dividend income.

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

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.

Loss Allowance and Impairment

The Group recognises loss allowances for expected credit loss (ECL) on financial assets measured at amortised cost and debt securities measured at FVOCI.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. 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.

Impairment losses or ECL of financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, and impairment losses for debt securities measured at FVOCI are recognised in other comprehensive income and do not reduce the carrying amount of the financial assets in the statement of financial position.

Financial Assets At Fair Value Through Profit Or Loss

Financial assets and liabilities at FVTPL comprise financial assets or liabilities designated at FVTPL upon initial recognition.

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

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 insurance contract liabilities or investment contract liabilities unless another election under NZ IFRS 9 is made. 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.

Notes to the Financial Statements

For the year ended 31 December 2023

1 Statement of Accounting Policies (Continued)

1.6 Financial Instruments (Continued)

Financial Assets At Fair Value Through Profit Or Loss (continued)

(i) Investments (continued)

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.

(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 remeasurement 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.

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.

Financial Assets At Fair Value Through Other Comprehensive Income

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

(i) Investments

For the Group these are fixed interest securities other than those backing participating funds and unit-linked contracts. These financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. The difference between their cost and nominal value is amortised. Interest revenue is recognised in investment return in the Income Statement using the effective interest method.

Unrealised gains and losses on securities are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences are calculated as if they were carried at amortised cost and so are recognised in the Income Statement as other investment return.

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

Financial Assets at 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.

(ii) Other Assets

Other assets include investment receivables, prepayments 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.

Financial Liabilities At Fair Value Through Profit Or Loss

Investment contract liabilities are measured at fair value, with subsequent gains and losses arising from fair value remeasurement recognised in the Income Statement. Refer to note 1.12 for more details of investment contract liabilities.

Financial Liabilities At Amortised Cost

This category includes all financial liabilities other than those designated by the Group as at FVTPL which are trade and other payables. Trade and other payables includes investment creditors, trade creditors and accruals, amounts due to related parties 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.

Notes to the Financial Statements

For the year ended 31 December 2023

1 Statement of Accounting Policies (continued)

1.7 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, which is 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. If any such indication exists and the asset's carrying amount is greater than its estimated recoverable amount, it is written down immediately to its 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.

1.8 Intangible Assets

Internally developed software

(i) 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 these costs can be directly attributed, measured reliably and allocated on a systematic basis to the development of the assets. 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).

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

These arrangements are service contracts in which application software is accessed over the internet or a dedicated portal. Costs incurred to configure or customise, and the ongoing fees to obtain access to the provider's application software, are generally recognised as operating expenses when the services are received. In limited cases, some of these costs are incurred for the development of software that enhances, modifies or adds capacity to existing systems that the Group controls and meets the recognition criteria for an intangible asset. These costs are recognised as intangible assets and amortised over the useful life of software on a straight line basis.

Other Intangible Assets

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.

>	Agency purchases	18 - 54 months

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.

1.9 Taxation

Tax expense for the period comprises current and deferred tax. Income 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 it 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 as at balance date taking advantage of all allowable deductions under current tax 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 tax 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 as at balance date.

In accordance with NZ IAS 12 *Income Taxes*, a deferred tax 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 tax 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.

Notes to the Financial Statements

For the year ended 31 December 2023

1 Statement of Accounting Policies (continued)

1.9 Taxation (continued)

Life Insurance Tax

From 1 July 2010, life insurers have been subject to a tax regime where two bases are required to be maintained; the Shareholder Base and the Policyholder Base. The Shareholder Base is subject to tax on life risk products (premiums less claims and expenses) and net investment income from shareholder funds. The Policyholder Base 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%. 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 payables and trade receivables (which are included in insurance contract liabilities), which include GST invoiced.

1.10 Provisions

A provision is recognised under Trade and Other Payables 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.

1.11 Insurance Contracts and Reinsurance Contracts Held

The Group has elected an accounting policy where the estimates made in previous interim financial statements are not changed when applying NZ IFRS 17 in subsequent periods or in the annual reporting period.

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Contracts under which the Group transfers significant insurance risk are classified as insurance contracts, while those contracts which have the legal form of insurance contracts but do not transfer significant insurance risk are classified as financial liabilities and are referred to as 'investment contracts'.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers and has a possibility of incurring a loss on a present value basis, the contract is considered as transferring significant insurance risk and is accounted for as an insurance contract. Contracts held by the Group under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts held. Insurance contracts and reinsurance contracts held can also expose the Group to financial risk and are accounted for in accordance with NZ IFRS 17. Investment contracts are accounted for in accordance with the requirements of NZ IFRS 9 *Financial Instruments* (NZ IFRS 9). Once a contract has been classified as an insurance, reinsurance or investment contract, reclassification is not subsequently performed unless the terms of the agreement are later amended.

Insurance contracts with direct participating features supplement the amount of guaranteed benefits due to policyholders. These contracts are distinct from other insurance and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Policyholders may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. The traditional participating life business is written in participating funds which are distinct from the other assets of the Group. These contracts meet the eligibility criteria for applying the Variable Fee Approach (VFA). The clearly identified underlying items are the net assets of each participating fund including all surpluses arising in the fund shared through 80:20 proportion between policyholder and shareholder. The Group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items, through bonus declarations.

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.1 Insurance Contracts, Reinsurance Contracts Held and Investment Contracts Classification

The Group's products are classified into the following main categories :

Policy type	Description of benefits payable	Basis of accounting for:
Traditional participating life Terms and conditions of life insurance contracts with discretionary participating benefits are provided in note 28.	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of bonus declarations is at the discretion of the insurer. For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared bonuses. For other participating business with distinct portfolios, the allocation of benefits from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time.	Participating products where there is a distinct portfolio meet the definition of an insurance contract with direct participation features and are measured under an approach commonly referred to as the VFA measurement model. The VFA modifies the general measurement model in NZ IFRS 17 to reflect the nature of the income to the insurer is a variable fee.
Retail protection products, annuities and long term health Terms and conditions for retail protection products and long term health with fixed and guaranteed terms and for life annuity contracts are provided in note 28.	For retail protection products the benefits payable are lump sum or disability income payable on prescribed events. For annuities a pension amount is payable for the ongoing survival of the life assured(s), while the long term health benefits provide compensation for medical expenses. The Group determined that for disability income products the insured event is the initial claim under the policy. Payments caused by a claim are treated as a liability for incurred claims.	The general measurement model (GMM) is applied to these insurance contracts.
Group protection / Corporate solutions products Terms and conditions of these insurance contracts with fixed and guaranteed terms are provided in note 28.	The benefits payable are lump sum or disability income payable on prescribed events.	The premium allocation approach (PAA) simplification is applied to these insurance contracts. (see note 1.11.7)

The basis of accounting for insurance contracts and reinsurance contracts held is discussed in notes 1.11.2 to 1.11.11 below.

1.11.2 Separating components from insurance contracts and reinsurance contracts held

At inception, the Group separates distinct investment components from an insurance contract or a reinsurance contract held and accounts for them as if they were stand-alone financial instruments. Distinct investment components are investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.3 Level of Aggregation and Recognition of Group of Insurance Contracts and Reinsurance Contracts Held

Insurance Contracts

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

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

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

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

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

Reinsurance Contracts Held

Reinsurance contracts held by the Group cover underlying insurance contracts. A group of reinsurance contracts held is recognised on the following dates:

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

1.11.4 Fulfilment Cash Flows and Contract Boundaries

Fulfilment cash flows

Fulfilment cash flows comprises:

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

Further details of the related methodology and assumptions in respect of estimation of fulfilment cash flows are provided in note 14.

Contract boundaries

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

Insurance contracts

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

A substantive obligation to provide insurance contract services ends when:

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.4 Fulfilment Cash Flows and Contract Boundaries (continued)

Contract boundaries are dependent on a number of factors which affect the Group’s ability to set premiums that fully reflect the risks of the portfolio, and which may or may not determine whether risks after a premium reassessment date take into account risks beyond that date. The Group's contract boundaries under each measurement model is determined as follows:

- for insurance contracts measured under VFA Traditional Participating Life business premiums are not subject to review, therefore such contracts have a contract boundary corresponding to the full policy term.
- for insurance contracts measured under GMM there is variation depending on the underlying product. The vast majority of GMM business is either annually reviewable, or is reviewed every 5 or 10 years. Such business is determined to have a contract boundary of 1, 5 or 10 years respectively. Contract boundaries of level premium contracts, such as to end at a specified age, have a contract boundary at that age.
- the vast majority of business measured under PAA are Group Schemes, which are determined to have a contract boundary of 3 years, corresponding to the review periods of the schemes.

Reinsurance contracts held

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

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

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

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

1.11.5 Insurance Acquisition Cash Flows

Expenses are included as acquisition cost if, and only if, both conditions are met:

- the expense arises from the costs of selling, underwriting and starting a group of insurance contracts; and
- the expense is directly attributable to the portfolio of insurance contracts to which the group belongs. This includes cash flows that are not directly attributable to individual contracts or group of insurance contract but directly attributable at the portfolio level.

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

The Group treats renewal commissions as insurance acquisitions cash flows as it usually considered as payment for the persistency of acquired insurance contracts rather than compensation for maintenance related services such as claims handling and other administrative work. Therefore, it more closely relates to activities for selling, underwriting and starting a group of insurance contracts and meets the definition of insurance acquisition cash flows.

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

Insurance acquisition cash flows arising before the recognition of the related groups of contracts are recognised as an asset. Such an asset is recognised for each group of contracts to which the insurance acquisition cash flows are allocated. The asset is derecognised, fully or partially, when the insurance acquisition cash flows are included in the measurement of the related groups of contracts. The Group does not accrete any interest on insurance acquisition cash flows.

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

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

Recoverability assessment

The recoverability of the asset for insurance acquisition cash flows is tested twice yearly by doing a full impairment test using up-to-date assumptions. The impairment test compares the projected net cash flows from the inforce business against projected future acquisition cash flow allocations to determine if an impairment is required in any individual future year at the level of a CSM group within each relevant portfolio (GMM Retail protection risk and GMM Retail medical risk). The overall impairment result is the sum of these individual impairment amounts.

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.5 Insurance Acquisition Cash Flows (continued)

At each reporting date, if the asset for insurance acquisition cash flows is impaired, then the Group:

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

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

1.11.6 Measurement – Insurance Contracts Measured under General Measurement Model (GMM) and Variable Fee Approach (VFA)

(i) Initial measurement

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

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

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

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

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

(ii) Subsequent measurement

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

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

- Changes relating to future services are adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous);
- Changes relating to current or past services are recognised in the insurance service result in profit or loss; and
- Effects of the time value of money, financial risk and changes therein on estimated future cash flows are recognised as insurance finance income or expenses.

The Group measures the CSM on a semi-annual basis and does not change interim reporting period estimates once locked in. References to reporting periods below refer to the relevant semi-annual reporting period. The CSM of each group of contracts is calculated at each interim reporting date as follows:

Insurance contracts without direct participation features

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

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.6 Measurement – Insurance Contracts Measured under GMM and VFA (continued)

(ii) Subsequent measurement (continued)

Changes in fulfilment cash flows that relate to future services, that adjust the CSM, mainly comprise:

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

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

Insurance contracts with direct participation features (only applicable to contracts applying the VFA)

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

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

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

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

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

Changes in fulfilment cash flows not varying based on the return on underlying items that relate to future services include:

- the changes relating to future services specified above for contracts without direct participation features (measured at current discount rates); and
- the changes in the effect of the time value of money and financial risks that do not arise from underlying items - e.g. the effect of financial guarantees.

1.11.7 Measurement – Insurance Contracts Measured under PAA

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

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

(i) Initial measurement

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.7 Measurement – Insurance Contracts Measured under PAA (continued)

(ii) Subsequent measurement

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

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group recognises a loss in profit or loss and increases the LRC to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the LRC without loss component. The fulfilment cash flows are adjusted for the time value of money and the effect of financial risk (using current estimates) if the LIC is also adjusted for the time value of money and the effect of financial risk.

In subsequent periods, unless facts and circumstances indicate that the group of contracts is no longer onerous, the loss component is remeasured at each reporting date as the difference between the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) and the carrying amount of the LRC without loss component.

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

1.11.8 Reinsurance Contracts Held

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

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

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

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

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

The Group measures the CSM on a semi-annual basis and does not change interim reporting period estimates once locked in. References to reporting periods below refer to the relevant semi-annual reporting period. The carrying amount of the CSM at each interim reporting date is the carrying amount at the start of the interim reporting period, adjusted for:

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition of the reinsurance contract;
- income recognised in profit or loss in respect of a loss recognised for onerous underlying contracts to that group. A loss-recovery component is established or adjusted in the remaining coverage of reinsurance contracts held for the amount of income recognised;
- reversals of a loss-recovery to the extent that they are not changes in the fulfilment cash flows of the group;
- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition of the reinsurance contract, unless the changes result from changes in fulfilment cash flows of onerous underlying contracts, in which case they are recognised in profit or loss and create or adjust a loss-recovery component;
- the amount recognised in profit or loss for the services received in the period.

Reinsurance of onerous underlying insurance contracts

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

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.8 Reinsurance Contracts Held (continued)

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

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

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

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

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

Reinsurance contracts held measured under PAA

The Group applies the same accounting policies as that applied to insurance contracts without direct participation features, to measure a group of reinsurance contracts held adapted where necessary to reflect features that differ from those of insurance contracts.

These groups of reinsurance contracts qualify for measurement under PAA on the basis that the reinsurance contract boundaries match the underlying contract boundaries and either:

- the coverage period of the underlying insurance contract and the related reinsurance contract is one year or less; or
- the Group expects that measuring the reinsurance contract under PAA would not materially differ from using GMM due to the fact that the underlying insurance contract is measured under PAA and the reinsurance is proportional.

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

1.11.9 Transition Approach

The Group has adopted the fair value approach as it has been determined to be impracticable to use a full retrospective approach in calculating the transition amounts at the NZ IFRS 17 transition date. Refer to Note 33 for further details.

The Group determined the CSM and loss component of the LRC as at 1 January 2022 as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date.

Where FVA has been applied to determine the value of the groups of insurance contracts and reinsurance contracts held at transition, the fair value has been derived in accordance with NZ IFRS 13 Fair Value Measurement (except a demand deposit floor was not applied) and represents the price a market participant would require to assume the insurance contract liabilities in an orderly transaction. As quoted market prices are not available for groups of insurance contracts, valuation models have been used to calculate the fair value of each group at the transition date. The choice of model and inputs to the model involves judgement and this gives rise to a range of plausible fair values at the transition date. To the extent possible, the Group maximised the use of relevant market data (including benchmarking against market transactions, where these exist and the information from the Sovereign Assurance Company Limited business acquisition by AIA International Limited in 2018), with unobservable inputs otherwise used to estimate those that a third party would have applied as at the transition date of 1 January 2022.

The most significant judgements and inputs for the fair value models used were as follows:

- For the groups of insurance contracts that transitioned using the GMM and VFA the expected cash flows under NZ IFRS 17 are adjusted for discounted future distributable earnings (present value of future profit less cost of capital). The Risk Discount Rate (RDR) of 10.4% is used for discounting.
- For the groups of insurance contracts with a short contract boundary of less than two years and to which PAA applied on transition 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, there is little opportunity to achieve a very different profitability or better efficiency than the seller. As such, the unearned premium reserve at the transition date for these groups of insurance contracts would approximate the fair value for these groups.
- The fair value of the groups of reinsurance contracts held is primarily determined by using present value techniques from the perspective of a market participant.
  - (i) The risk premium is used based on a capital metric at a 99.5% confidence interval and using the risk-free yield curve as at 1 January 2022.
  - (ii) the cashflows have been measured under NZ IFRS 13 *Fair Value Measurement* and adjusted for risk premium and profit margin.

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

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.9 Transition Approach (continued)

For some groups of contracts measured under the fair value approach which contain contracts issued more than one year apart:

- the discount rates on initial recognition were determined at 1 January 2022 instead of at the date of initial recognition; and
- the discount rates at 1 January 2022 were used for incurred claims.

The amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 was determined to be zero for all contracts.

Insurance acquisition cash flows under the GMM

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

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

The IACF measured and reported at 1 January 2022 was $2,291m.

The relevant business for which IACF is calculated is the retail risk business for which the contract boundary is earlier than the benefit maturity date, such that a renewal is expected to occur. A majority of the Group's retail risk business falls into this category.

The fair value of IACF was measured by a factor that represented the percentage of premiums needed to recover incurred acquisition costs from future premiums. This factor was determined using the new business issued during 2021. It was then applied by multiplying against the present value of premiums that were outside the contract boundaries of all contracts in force as at transition. On average, this "new business IACF factor" was 19.7%, and the present value of premiums beyond the contract boundary of existing contracts was $11,636m. The balance is sensitive to assumptions within the new business IACF factor. For example an increase in the allocation of acquisition expenses by 10% for the 2021 year of new business would result in the IACF increasing by $112m.

1.11.10 Derecognition and Contract Modification

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

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

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

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

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

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

1.11.11 Presentation

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

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

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

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.11 Presentation (continued)

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

(i) Insurance revenue — insurance contracts not measured under PAA

The Group recognises insurance revenue as it satisfies its performance obligations — i.e. as it provides services under groups of contracts. The insurance revenue relating to services provided for each period represents the total of the changes in the LRC that relate to services for which the Group expects to receive consideration, excluding expected investment components. Insurance revenue comprises the following items:

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

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

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

(ii) Insurance revenue — insurance contracts measured under PAA

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

(iii) Insurance service expenses

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

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

For contracts not measured under PAA, the Group establishes a loss component of the LRC for onerous groups of contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently excluded from insurance revenue when they occur. When the fulfilment cash flows occur, they are allocated between the loss component and the LRC excluding the loss component on a systematic basis where the future cash flows are allocated on a pro rata basis based on expected insurance claims, expected releases of risk adjustment and expected maintenance expenses.

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

(iv) Net expenses from reinsurance contracts held

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

The Group recognises a portion of ceding premiums as reinsurance expenses within net expenses from reinsurance contracts held for the coverage or other services received by the Group under groups of reinsurance contracts held. For contracts not measured under PAA, the allocated ceding premiums, being the total of the changes in the asset for remaining coverage, represent the amount which the Group expects to pay for the coverage or other services received under groups of reinsurance contracts held.

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

1 Statement of Accounting Policies (continued)

1.11 Insurance Contracts and Reinsurance Contracts Held (continued)

1.11.11 Presentation (continued)

(v) Insurance finance income or expenses

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

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

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

Amounts presented in other comprehensive income are accumulated in the insurance finance reserve. The Group presents insurance finance income or expenses for all other contracts in profit or loss.

1.12 Investment Contracts

Investment contracts do not contain sufficient insurance risk to be considered insurance contracts and are accounted for as a financial liability. The majority of the contracts issued by the Group which are classified as investment contracts are unit linked and measured at fair value. 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.

Investment Contract Fee Income

Premiums received are split between a fee portion for investment management services and a deposit portion, 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.

1.13 Retirement Benefits Obligations

AIA Services Limited, a member of the group, acts as a sponsor for the Sovereign Staff Retirement Fund (SSRF) superannuation scheme for its employees and ex-employees.

The assets and liabilities of SSRF are not included in the financial statements of the Group as the Group does not have control of the scheme. The scheme has both a defined benefit and defined contribution section and has been closed to new members since 1 July 2004.

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

1.14 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.

1 Statement of Accounting Policies (continued)

1.15 Share Based Compensation and Cash Incentive Plans

AIA, the ultimate owner of the AIA 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 AIA Group, including AIANZ, for equity-settled share based payment arrangements are offset against the amount recorded in the related party balance for AIA.

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 in the AIANZ financial statements. 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 21 for the details of share-based compensation plans.

1.16 Contingent Liabilities

Contingent liabilities are possible obligations, whose existence will be confirmed by uncertain future extents, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, but are disclosed unless the probability of having to meet obligations is considered to be remote.

1.17 Lease Liabilities and Right-of-use Assets

A contract contains a lease if it conveys the right to control the use of the identified asset for a period of time. The Group's leased assets mainly comprise of premises and motor vehicles. Where the Group identifies a contract as a lessee, it recognises a right of use asset presenting its right to use the leased asset, and a lease liability for future lease payments.

The lease liability is initially measured at the net present value of lease payments, which include fixed payments and variable lease payments. Lease payments are discounted using the interest 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 asset is initially measured at cost comprising the following:

- the initial measurement of the lease liability;
- any lease payments made at or before the commencement date; and
- any initial direct costs.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term or useful life of the underlying asset.

2 Material 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 1.6 and 25), insurance contracts and reinsurance contracts held (notes 1.11 and 14) and deferred tax (refer notes 1.9 and 16). The key judgements applied to each area is further discussed below. In addition 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.

2.1 Transition to NZ IFRS 17 Insurance Contracts

The Group has applied NZ IFRS 17 for the annual reporting period beginning on 1 January 2023. The Group exercises judgement in determining the transition approach, applying the transition methods and measuring the transition impacts on the transition date, which will affect the amounts recognised in the financial statements on the transition date. The Group has determined that it was impracticable to apply the full retrospective approach for groups of contracts because certain historical information was not available or was not available without undue cost and effort that would enable it to be used under this approach. Therefore, the Group has applied the fair value approach for groups of contracts. Further details of the related accounting policies and information on the date of initial application are provided in notes 1.11.9 and 33.

2.2 Measurement of insurance contracts not measured under the premium allocation approach

The asset or liability for a group of insurance contracts is measured as the total of fulfilment cash flows and Contractual Service Margin (CSM) for that group.

The fulfilment cash flows of insurance contracts represent the present value of estimated future cash outflows, the present value of estimated future cash inflows adjusted for a provision for the risk adjustment for non-financial risk. The Group has exercised significant judgement in making appropriate assumptions and applying techniques for estimating fulfilment cash flows and risk adjustments for non-financial risk.

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

The judgements exercised in the valuation of insurance contracts affect the amounts recognised in the financial statements as assets or liabilities of insurance contracts. Further details of the related accounting policies, key risks and variables, and the sensitivities of assumptions to the key variables in respect of insurance contracts are provided in notes 1.11, 14 and 33.

2.3 Determination of coverage units

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

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

For contracts providing predominately insurance coverage, the quantity of services is determined for the contract as a whole based on the expected maximum benefits less investment component. This is applicable to the bulk of the Group's inforce risk business, in which case the quantity of services is determined as the sum assured only. For a small number of products which provide a return of premiums benefit, the value of these is taken as the investment component. For contracts providing multiple services, the quantity of services is determined based on the benefits provided to policyholder for each service with the relative weighting considered in the calculation through the use of factors. In particular, for its participating business the group takes the quantity of investment service as the expected total premiums over the lifetime of the contract, while the quantity of investment service is taken as the sum at risk. For its Medical business the Group applies a Probable Maximum Loss approach to the quantity of benefits for the purpose of coverage units. Relevant elements are considered in determining the quantity of service including among others, benefit payments and premiums. The Group applies judgement in these determinations.

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

2 Material Accounting Estimates and Judgements (Continued)

2.4 Liabilities arising from reinsurance contracts

Liabilities arising from reinsurance contracts can be subject to similar factors to the insurance contract liabilities. The judgements exercised in the valuation of insurance contracts affect the amounts recognised in the financial statements as reinsurance contract assets and reinsurance 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 1.11.8, 14 and 28.

2.5 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.

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 1.6, 25, 26 and 28.

2.6 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.

Further details on the deferred tax assets can be found in note 16.

Notes to the Financial Statements

For the year ended 31 December 2023

3 Insurance Revenue

$ millions **For the year ended 31 December**	**Note**	**2023**	2022 Restated
Contracts measured under VFA			
Amounts related to changes in liabilities for remaining coverage			
CSM recognised for services provided		**5**	5
Expected incurred claims and other insurance service expenses		**17**	17
Total contracts measured under VFA	14.1	**22**	22
Contracts measured under GMM			
Amounts related to changes in liabilities for remaining coverage			
CSM recognised for services provided		**173**	144
Change in risk adjustment for non-financial risk for risk expired		**20**	19
Expected incurred claims and other insurance service expenses		**577**	517
Other		**(5)**	-
Recovery of insurance acquisition cash flows		**223**	178
Total contracts measured under GMM	14.3	**988**	858
Total contracts not measured under PAA		**1,010**	880
Contracts measured under PAA	14.5	**82**	87
Total insurance revenue		**1,092**	967
Insurance revenue represented by:			
Total contracts measured under VFA using fair value approach		**22**	22
Total contracts measured under GMM:			
Fair value approach		**135**	426
Other approach		**853**	432
Total contracts measured under PAA		**82**	87
Total insurance revenue		**1,092**	967

4 Net Investment Result

$ millions **For the year ended 31 December**	**Note**	**2023**	2022 Restated
A. Group's net investment result in profit or loss and other comprehensive income			
Investment return			
Interest revenue on financial assets		**38**	31
Other investment revenue/(loss)		**46**	(198)
Amounts recognised in profit or loss		**84**	(167)
Amounts recognised in other comprehensive income		**31**	(18)
Total investment return		**115**	(185)
Net finance expenses from insurance contracts			
Changes in fair value of underlying items of contracts with direct participation features		**(27)**	68
Interest accreted		**(47)**	(27)
Effect of changes in interest rates and other financial assumptions		**(8)**	180
Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition		**-**	24
Total net finance (expenses)/income from insurance contracts	14.1, 14.3	**(82)**	245
Net finance income from reinsurance contracts held			
Interest accreted		**(52)**	(19)
Effect of changes in interest rates and other financial assumptions		**(34)**	167
Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition		**(11)**	(2)
Total net finance (expenses)/income from reinsurance contracts held	14.7	**(97)**	146
Movement in investment contract liabilities		**(54)**	63
Net investment result		**(118)**	269

Notes to the Financial Statements

For the year ended 31 December 2023

4 Net Investment Result (continued)

$ millions 31 December	Note	2023	2022 Restated
Net investment result is represented by:			
Amounts recognised in profit or loss		**(51)**	(55)
Amounts recognised in other comprehensive income		**(67)**	324
Total net investment result		**(118)**	269
A. Group's net investment result in profit or loss and other comprehensive income			
Insurance finance income or expenses are represented by:			
Net finance (expenses)/income from insurance contracts			
Amounts recognised in profit or loss		**(64)**	47
Amounts recognised in other comprehensive income		**(18)**	198
Total net finance (expenses)/income from insurance contracts	14.1, 14.3	**(82)**	245
Net finance (expenses)/income from reinsurance contracts held			
Amounts recognised in profit or loss		**(17)**	2
Amounts recognised in other comprehensive income		**(80)**	144
Total net finance (expenses)/income from reinsurance contracts held	14.7	**(97)**	146
B. Interest revenue on financial assets and other investment revenue			
Interest revenue on financial assets			
Financial assets measured at amortised cost		**1**	3
Financial assets measured at fair value through other comprehensive income		**21**	15
Financial assets designated at fair value through profit or loss		**16**	12
Financial assets measured mandatorily at fair value through profit or loss		**-**	1
Total interest revenue on financial assets		**38**	31
Other investment revenue			
Financial assets not at fair value through profit or loss			
Net realised losses of debt securities measured at fair value through other comprehensive income		**(21)**	(19)
Net losses of financial assets not at fair value through profit or loss		**(21)**	(19)
Financial instruments at fair value through profit or loss			
Net gains/(losses) on financial assets designated at fair value through profit or loss			
Net gains/(losses) on debt securities		**8**	(88)
Net gains/(losses) on financial instruments mandatorily at fair value through profit or loss			
Net losses on debt investments		**-**	(4)
Net gains/(losses) on equity shares and interests in investment funds		**57**	(96)
Net gains/(losses) in respect of financial instruments at fair value through profit or loss		**65**	(188)
Net foreign exchange (losses)/gains		**-**	(3)
Net gains/(losses)		**44**	(210)
Dividend income		**2**	12
Total other investment revenue/(loss)		**46**	(198)

On transition to NZ IFRS17, the cumulative insurance finance income or expenses recognised in other comprehensive income at 1 January 2022 is determined to be zero. For more information on the transition to NZ IFRS 17 refer to note 33.

The movement in the fair value reserve for the debt securities at fair value through other comprehensive income was as follows:

$ millions	2023 FVOCI	Restated 2022 FVOCI
Balance at 1 January	**(34)**	(16)
Net change in fair value	**10**	(37)
Net amount reclassified to profit or loss	**21**	19
Balance at 31 December	**(3)**	(34)

Notes to the Financial Statements

For the year ended 31 December 2023

5 Expenses

$ millions For the year ended 31 December	2023	2022 Restated
Claims and benefits	**584**	542
Commission and other acquisition expenses incurred	**265**	241
Losses on onerous insurance contracts	**3**	16
Employee benefit expenses	**106**	100
Depreciation	**8**	9
Amortisation of intangible assets	**7**	7
Investment management expenses and other investment expenses	**20**	11
Other operating expenses[1]	**89**	79
Restructuring and other non-operating costs[2]	**11**	12
Amounts attributed to insurance acquisition cash flows	**(332)**	(315)
Amortisation of insurance acquisition cash flows	**230**	188
Insurance service and other expenses	**991**	890

Insurance service and other expenses represented by:

$ millions For the year ended 31 December	Note	2023	2022 Restated
Insurance service expenses			
Contracts measured under VFA	14.1	**13**	13
Contracts measured under GMM	14.3	**829**	732
Contracts measured under PAA	14.5	**83**	78
Total insurance service expenses		**925**	823
Other expenses[3]		**55**	55
Restructuring and other non-operating costs		**11**	12
Total		**991**	890

Notes:

(1) Other operating expenses mainly relate to information technology expenses, intercompany service fees, consultancy fees and other administrative and office expenses.

(2) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of corporate transaction related costs, implementation costs for new accounting standards and other items that are not expected to be recurring in nature.

(3) Other expenses represent general expenses and investment management expenses that are not directly attributable to insurance contracts and reinsurance contracts held.

6 Auditor's Remuneration

$ thousands For the year ended 31 December	2023	2022

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

Fees paid to PricewaterhouseCoopers are as follows:

Audit of financial statements[1]	**3,377**	1,770
Other assurance services[2]	**133**	49
Other services[3]	**200**	-
Total compensation of auditors	**3,710**	1,819

Notes:

(1) Audit of the financial statements includes fees for the audit of the annual financial statements, including the transition to NZ IFRS 17 and reporting to the ultimate parent and related entities.

(2) Other assurance services includes fees for assurance over the solvency return.

(3) Other services includes fees for agreed upon procedures over the 2022 solvency return, fees for climate risk disclosure gap analyses and greenhouse gas emissions preconditions assessment.

Notes to the Financial Statements

For the year ended 31 December 2023

7 Taxation

$ millions **For the year ended 31 December**	**2023**	2022 Restated
Current tax expense / (benefit)	1	-
Deferred tax expense / (benefit)	8	(33)
Total income tax expense / (benefit) recognised in the Income Statement	9	(33)
Deferred tax expense / (benefit) relating to fixed interest securities	**9**	(5)
Deferred tax expense / (benefit) relating to insurance contracts	**(11)**	35
Deferred tax expense / (benefit) relating to reinsurance contracts held	**(23)**	45
Total income tax expense / (benefit) recognised in the Statement of Comprehensive Income	**(25)**	75

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

Net profit / (loss) before tax	16	(35)
Income tax at the current rate of 28% (2022: 28%)	4	(10)
Investment income adjustments	(12)	24
Imputation and PIE tax credit adjustments	(3)	(1)
Non-taxable movement in investment contract liabilities	12	(21)
Non-taxable movement in insurance contract liabilities	10	(23)
Other non-assessable income	(3)	(2)
Other non-deductible expenditure	2	2
Prior period adjustments	(1)	(2)
Total income tax expense / (benefit) recognised in the Income Statement	9	(33)
Weighted average effective tax rate	**56%**	**94%**

Pillar Two tax legislation to incorporate the OECD Model Rules was enacted by the New Zealand Government on 28 March 2024 with an expected effective date of 1 January 2025. At the date of signing the financial statements it is too early to determine the potential impact on the Group's future tax obligations, but this will be determined over the course of 2024.

8 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 NZ Group (ICA Group). The closing balance of imputation credits available to all members of the ICA Group as at 31 December 2023 is $4 million (2022: $4 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.

9 Investments

$ millions	**2023**			2022 (Restated)		
As at 31 December	**Designated at fair value through profit or loss**	**Fair value through other comprehensive income**	**Total**	Designated at fair value through profit or loss	Fair value through other comprehensive income	Total
Equity securities and fund certificates	**618**	**-**	**618**	632	-	632
Fixed interest securities						
New Zealand Government stock	**492**	**334**	**826**	477	302	779
Corporate bonds	**1**	**159**	**160**	-	182	182
Total fixed interest securities	**493**	**493**	**986**	477	484	961
Total investments	**1,111**	**493**	**1,604**	1,109	484	1,593

As at 31 December 2023, no investments were pledged under repurchase agreements or other arrangements (2022: nil). A maturity analysis for equity securities and fund certificates has not been presented because these investments are liquid assets and the timing of realisation is not known.

Notes to the Financial Statements

For the year ended 31 December 2023

9 Investments (continued)

$ millions **As at 31 December**	**2023**	2022
Fixed Interest Securities		
Maturity analysis:		
Under one year	**236**	171
Between one and two years	**83**	73
Between two and three years	**19**	58
Between three and four years	**35**	21
Between four and five years	**88**	70
Greater than five years	**525**	568
	986	961

10 Cash and Cash Equivalents

$ millions **As at 31 December**	**2023**	2022
Cash at bank and on deposit	**79**	91
Cash equivalents	**-**	11
Total cash and cash equivalents	**79**	102

11 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.

12 Intangible Assets

	2023			2022 (restated)		
$ millions	**Internally developed software**	**Other intangible assets**	**Total**	Internally developed software	Other intangible assets	Total
Gross carrying value						
Balance as at 1 January	**63**	**1**	**64**	59	1	60
Additions	**2**	**-**	**2**	4	-	4
Balance as at 31 December	**65**	**1**	**66**	63	1	64
Accumulated amortisation and impairment losses						
Balance as at 1 January	**(32)**	**(1)**	**(33)**	(25)	(1)	(26)
Amortisation expense	**(7)**	**-**	**(7)**	(7)	-	(7)
Balance as at 31 December	**(39)**	**(1)**	**(40)**	(32)	(1)	(33)
Net carrying value at 31 December	**26**	**-**	**26**	31	-	31

The Group derecognised life investment contract deferred acquisition cost asset (DAC) which was previously presented as part of intangible assets. Investment contract liabilities are measured at FVTPL which implicitly includes DAC as part of the liability balance. This has now appropriately been reflected in the fair value of the investment contract liabilities.

13 Other Assets

$ millions As at 31 December	2023	2022
Investment receivables	**6**	7
Prepayments	**14**	13
Other assets	**2**	2
Total other assets	**22**	22

All other assets have an expected settlement date of less than 12 months, except for prepayments that extend beyond 31 December 2024.

14 Insurance Contracts and Reinsurance Contracts Held

Composition of the Balance Sheet

An analysis of the amounts presented on the statement of financial position for insurance contracts and reinsurance contracts is included in the table below along with reference to the notes where further details can be found on each.

	Note	Insurance Contract Assets		Insurance Contract Liabilities	
$ millions			Restated		Restated
As at 31 December		2023	2022	2023	2022
Contracts measured under VFA	14.1, 14,2	**-**	-	**637**	661
Contracts measured under GMM	14.3, 14.4	**(1,110)**	(1,071)	**22**	32
Total of contracts not measured under PAA		**(1,110)**	(1,071)	**659**	693
Contracts measured under PAA	14.5	**-**	-	**82**	68
Assets for insurance acquisition cash flows	14.6	**2,396**	2,334	**-**	-
Total Insurance Contracts Assets and Liabilities		**1,286**	1,263	**741**	761

	Note	Reinsurance Contract Assets		Reinsurance Contract Liabilities	
$ millions			Restated		Restated
As at 31 December		2023	2022	2023	2022
Contracts measured under GMM	14.7, 14.8	**-**	-	**382**	287
Contracts measured under PAA	14.9	**4**	9	**-**	-
Reinsurance Contracts Assets and Liabilities		**4**	9	**382**	287

Movement in carrying amounts

The following reconciliations show how the net carrying amounts of insurance contracts and reinsurance contracts held under each measurement model changed during the year as a result of cash flows and amounts recognised in the income statement and statement of comprehensive income. The Group presents a table separately analysing the movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the income statement and statement of comprehensive income for contracts measured under GMM, VFA and PAA. A second reconciliation is presented for contracts measured at GMM and VFA, which separately analyses the changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the contractual service margin.

The maturity analysis of insurance contract liabilities and reinsurance contract liabilities have been disclosed in note 29.

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.1 Analysis by remaining coverage and incurred claims of insurance contracts measured under VFA

$ millions	Note	**Year ended 31 December 2023** Liabilities for remaining coverage: Excluding loss component	Liabilities for remaining coverage: Loss component	Liabilities for incurred claims	Total	Year ended 31 December 2022 Restated Liabilities for remaining coverage: Excluding loss component	Liabilities for remaining coverage: Loss component	Liabilities for incurred claims	Total
Opening assets		-	-	-	-	-	-	-	-
Opening liabilities		649	-	12	661	772	-	11	783
Net opening balance		(649)	-	(12)	(661)	(772)	-	(11)	(783)
Insurance revenue	3	22	-	-	22	22	-	-	22
Insurance service expenses									
Incurred claims and other insurance service expenses		-	-	(12)	(12)	-	-	(14)	(14)
Losses and reversal of losses on onerous contracts		-	(1)	-	(1)	-	-	-	-
Adjustments to liabilities for incurred claims		-	-	-	-	-	-	1	1
Total insurance service expenses		-	(1)	(12)	(13)	-	-	(13)	(13)
Investment components		42	-	(42)	-	43	-	(43)	-
Insurance service result		64	(1)	(54)	9	65	-	(56)	9
Net finance expenses from insurance contracts	4	(33)	-	-	(33)	65	-	-	65
Total changes in the income statement and statement of comprehensive income		31	(1)	(54)	(24)	130	-	(56)	74
Cash flows									
Premiums received		(6)	-	-	(6)	(7)	-	-	(7)
Claims and other insurance service expenses paid, including investment components		-	-	57	57	-	-	56	56
Insurance acquisition cash flows paid		-	-	-	-	-	-	-	-
Other amounts received		-	-	(3)	(3)	-	-	(1)	(1)
Total cash flows		(6)	-	54	48	(7)	-	55	48
Net closing balance		(624)	(1)	(12)	(637)	(649)	-	(12)	(661)
Closing assets		-	-	-	-	-	-	-	-
Closing liabilities		624	1	12	637	649	-	12	661
Net closing balance		(624)	(1)	(12)	(637)	(649)	-	(12)	(661)

Insurance contract liabilities of $58m (2022: $58m) are expected to be settled in the 12 months after the reporting date.

Notes to the Financial Statements

For the year ended 31 December 2023

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.2 Analysis by measurement component of insurance contracts measured under VFA

$ millions	Note	**Year ended 31 December 2023**					Year ended 31 December 2022 Restated				
				CSM					CSM		
		Estimates of present value of future cash flows	**Risk adjustment for non-financial risk**	**Contracts under fair value approach**	**Other contracts**	**Total**	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under fair value approach	Other contracts	Total
Opening assets		**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Opening liabilities		**606**	**4**	**51**	**-**	**661**	729	5	49	-	783
Net opening balance		**(606)**	**(4)**	**(51)**	**-**	**(661)**	(729)	(5)	(49)	-	(783)
Insurance service result											
Changes that relate to current services		**5**	**-**	**5**	**-**	**10**	1	-	5	-	6
CSM recognised for services provided		**-**	**-**	**5**	**-**	**5**	-	-	5	-	5
Experience adjustments		**5**	**-**	**-**	**-**	**5**	1	-	-	-	1
Changes that relate to future services		**(10)**	**-**	**9**	**-**	**(1)**	6	1	(7)	-	-
Changes in estimates that adjust the CSM		**(9)**	**-**	**9**	**-**	**-**	6	1	(7)	-	-
Changes in estimates that result in losses and reversal of losses on onerous contracts		**(1)**	**-**	**-**	**-**	**(1)**	-	-	-	-	-
Changes that relate to past services		**-**	**-**	**-**	**-**	**-**	2	-	-	-	2
Total insurance service result		**(5)**	**-**	**14**	**-**	**9**	9	1	(2)	-	8
Net finance expenses from insurance contracts	4	**(33)**	**-**	**-**	**-**	**(33)**	66	-	-	-	66
Total changes in the income statement and statement of comprehensive income		**(38)**	**-**	**14**	**-**	**(24)**	75	1	(2)	-	74
Cash flows	14.1	**48**	**-**	**-**	**-**	**48**	48	-	-	-	48
Net closing balance		**(596)**	**(4)**	**(37)**	**-**	**(637)**	(606)	(4)	(51)	-	(661)
Closing assets		**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Closing liabilities		**596**	**4**	**37**	**-**	**637**	606	4	51	-	661
Net closing balance		**(596)**	**(4)**	**(37)**	**-**	**(637)**	(606)	(4)	(51)	-	(661)

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.3 Analysis by remaining coverage and incurred claims of insurance contracts measured under GMM

		Year ended 31 December 2023				Year ended 31 December 2022 Restated			
		Liabilities for remaining coverage		Liabilities for incurred claims	Total	Liabilities for remaining coverage		Liabilities for incurred claims	Total
$ millions	Note	Excluding loss component	Loss component			Excluding loss component	Loss component		
Opening assets		(572)	(24)	(475)	(1,071)	(705)	(8)	(487)	(1,200)
Opening liabilities		30	-	2	32	26	-	-	26
Net opening balance		(602)	(24)	(477)	(1,103)	(731)	(8)	(487)	(1,226)
Insurance revenue	3	988	-	-	988	858	-	-	858
Insurance service expenses									
Incurred claims and other insurance service expenses		-	42	(695)	(653)	-	27	(715)	(688)
Amortisation of insurance acquisition cash flows		(223)	-	-	(223)	(179)	-	-	(179)
Losses and reversal of losses on onerous contracts		-	(44)	-	(44)	-	(42)	-	(42)
Adjustments to liabilities for incurred claims		-	-	91	91	-	-	177	177
Total insurance service expenses		(223)	(2)	(604)	(829)	(179)	(15)	(538)	(732)
Investment components		10	-	(10)	-	5	-	(5)	-
Insurance service result		775	(2)	(614)	159	684	(15)	(543)	126
Net finance expenses from insurance contracts	4	(25)	(2)	(22)	(49)	142	(1)	38	179
Total changes in the income statement and statement of comprehensive income		750	(4)	(636)	110	826	(16)	(505)	305
Cash flows									
Premiums received		(1,007)	-	-	(1,007)	(958)	-	-	(958)
Claims and other insurance service expenses paid, including investment components		-	-	610	610	-	-	515	515
Insurance acquisition cash flows paid		141	-	-	141	135	-	-	135
Total cash flows		(866)	-	610	(256)	(823)	-	515	(308)
Adjusted for:									
Other non-cash items		117	-	-	117	126	-	-	126
Total non-cash items		117	-	-	117	126	-	-	126
Net closing balance		(601)	(28)	(503)	(1,132)	(602)	(24)	(477)	(1,103)
Closing assets		(581)	(28)	(501)	(1,110)	(572)	(24)	(475)	(1,071)
Closing liabilities		20	-	2	22	30	-	2	32
Net closing balance		(601)	(28)	(503)	(1,132)	(602)	(24)	(477)	(1,103)

The Group is expecting to settle $15m of the $1,110m negative insurance contract asset in the 12 months after the reporting date (2022: $15m of $1,071m). The Group is expecting to settle $4m for the insurance contract liability of $22m in the 12 months after the reporting date (2022: $5m settled of the $32m insurance contract liability).

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.4 Analysis by measurement component of insurance contracts measured under GMM

$ millions	Note	Year ended 31 December 2023					Year ended 31 December 2022 Restated				
		Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM		Total	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM		Total
				Contracts under fair value approach	Other contracts				Contracts under fair value approach	Other contracts	
Opening assets		**(745)**	**(60)**	**(192)**	**(74)**	**(1,071)**	(793)	(64)	(343)	-	(1,200)
Opening liabilities		**27**	**-**	**5**	**-**	**32**	20	-	6	-	26
Net opening balance		**(772)**	**(60)**	**(197)**	**(74)**	**(1,103)**	(813)	(64)	(349)	-	(1,226)
Insurance service result							-	-	-	-	-
Changes that relate to current services		**(77)**	**17**	**18**	**155**	**113**	(161)	10	70	74	(7)
CSM recognised for services provided		**-**	**-**	**18**	**155**	**173**	-	-	70	74	144
Change in risk adjustment for non-financial risk		**-**	**17**	**-**	**-**	**17**	-	10	-	-	10
Experience adjustments		**(77)**	**-**	**-**	**-**	**(77)**	(161)	-	-	-	(161)
Changes that relate to future services		**150**	**(23)**	**5**	**(177)**	**(45)**	30	(18)	91	(146)	(43)
Contracts initially recognised in the year		**166**	**(23)**	**-**	**(196)**	**(53)**	158	(21)	-	(178)	(41)
Changes in estimates that adjust the CSM		**(24)**	**-**	**5**	**19**	**-**	(127)	4	91	32	-
Changes in estimates that result in losses and reversal of losses on onerous contracts		**8**	**-**	**-**	**-**	**8**	(1)	(1)	-	-	(2)
Changes that relate to past services		**87**	**4**	**-**	**-**	**91**	165	12	-	-	177
Total insurance service result		**160**	**(2)**	**23**	**(22)**	**159**	34	4	161	(72)	127
Net finance expenses from insurance contracts	4	**(36)**	**-**	**(7)**	**(6)**	**(49)**	189	-	(9)	(2)	178
Total changes in the income statement and statement of comprehensive income		**124**	**(2)**	**16**	**(28)**	**110**	223	4	152	(74)	305
Cash flows	14.3	**(256)**	**-**	**-**	**-**	**(256)**	(308)	-	-	-	(308)
Other non-cash items		**117**	**-**	**-**	**-**	**117**	126	-	-	-	126
Net closing balance		**(787)**	**(62)**	**(181)**	**(102)**	**(1,132)**	**(772)**	**(60)**	**(197)**	**(74)**	**(1,103)**
Closing assets		**(775)**	**(62)**	**(171)**	**(102)**	**(1,110)**	(745)	(60)	(192)	(74)	(1,071)
Closing liabilities		**12**	**-**	**10**	**-**	**22**	27	-	5	-	32
Net closing balance		**(787)**	**(62)**	**(181)**	**(102)**	**(1,132)**	**(772)**	**(60)**	**(197)**	**(74)**	**(1,103)**

Notes to the Financial Statements

For the year ended 31 December 2023

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.5 Analysis by remaining coverage and incurred claims of insurance contracts measured under the PAA

		Year ended 31 December 2023					Year ended 31 December 2022 Restated				
		Liabilities for remaining coverage		**Liabilities for incurred claims**			Liabilities for remaining coverage		Liabilities for incurred claims		
$ millions		**Excluding loss component**	**Loss component**	**Estimate of present value of future cash flows**	**Risk adjustment for non-financial risk**	**Total**	Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total
Opening assets		**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Opening liabilities		**6**	**-**	**59**	**3**	**68**	5	-	51	3	59
Net opening balance		**(6)**	**-**	**(59)**	**(3)**	**(68)**	(5)	-	(51)	-	(59)
Insurance revenue	3	**82**	**-**	**-**	**-**	**82**	87	-	-	-	87
Insurance service expenses											
Incurred claims and other insurance service expenses		**-**	**-**	**(83)**	**-**	**(83)**	-	-	(74)	(1)	(75)
Amortisation of insurance acquisition cash flows		**(8)**	**-**	**-**	**-**	**(8)**	(10)	-	-	-	(10)
Adjustments to liabilities for incurred claims		**-**	**-**	**7**	**-**	**7**	-	-	6	1	7
Total insurance service expenses		**(8)**	**-**	**(76)**	**-**	**(84)**	(10)	-	(68)	-	(78)
Insurance service result		**74**	**-**	**(76)**	**-**	**(2)**	77	-	(68)	-	9
Total changes in the income statement and statement of comprehensive income		**74**	**-**	**(76)**	**-**	**(2)**	77	-	(68)	-	9
Cash flows											
Premiums received		**(85)**	**-**	**-**	**-**	**(85)**	(88)	-	-	-	(88)
Claims and other insurance service expenses paid, including investment components		**-**	**-**	**64**	**-**	**64**	-	-	60	-	60
Insurance acquisition cash flows paid		**9**	**-**	**-**	**-**	**9**	10	-	-	-	10
Total cash flows		**(76)**	**-**	**64**	**-**	**(12)**	(78)	-	60	-	(18)
Net closing balance		**(8)**	**-**	**(71)**	**(3)**	**(82)**	(6)	-	(59)	-	(68)
Closing assets		**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Closing liabilities		**8**	**-**	**71**	**3**	**82**	6	-	59	3	68
Net closing balance		**(8)**	**-**	**(71)**	**(3)**	**(82)**	(6)	-	(59)	(3)	(68)

Insurance contract liabilities of $82m (2022: $68m) are expected to be settled in the 12 months after the reporting date.

Notes to the Financial Statements

For the year ended 31 December 2023

14 Insurance Contracts and Reinsurance Contracts Held (continued)

14.6 Analysis of assets for insurance acquisition cash flows

$ millions **For the year ended 31 December**	**2023**	2022 Restated
Opening balance presented in insurance contract assets	**2,334**	2,291
Opening balance presented in insurance contract liabilities	**-**	-
Total opening balance	**2,334**	2,291
Assets recognised for insurance acquisition cash flows paid during the period	**177**	169
Allocation to groups of insurance contracts	**(115)**	(126)
Total closing balance	**2,396**	2,334
Closing balance presented in insurance contract assets	**2,396**	2,334
Closing balance presented in insurance contract liabilities	**-**	-
Total closing balance	**2,396**	2,334

The following table illustrates when the Group expects to derecognise the assets for insurance acquisition cash flows and include those cash flows in the measurement of the group of insurance contracts to which they are allocated.

$ millions	**Total**	**Five year or less**	**After five years through ten years**	**After ten years**
As at 31 December 2023				
Assets for insurance acquisition cash flows	**2,396**	**298**	**317**	**1,781**
As at 31 December 2022 (Restated)				
Assets for insurance acquisition cash flows	2,334	301	319	1,714

Notes to the Financial Statements

For the year ended 31 December 2023

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.7 Analysis by remaining coverage and incurred claims of reinsurance contracts held measured under the GMM

		Year ended 31 December 2023				Year ended 31 December 2022 Restated			
		Asset for remaining coverage				Asset for remaining coverage			
$ millions	**Note**	**Excluding loss-recovery component**	**Loss recovery component**	**Asset for incurred claims**	**Total**	Excluding loss-recovery component	Loss recovery component	Asset for incurred claims	Total
Opening assets		-	-	-	-	-	-	-	-
Opening liabilities		**625**	**(10)**	**(328)**	**287**	799	(4)	(260)	535
Net opening balance		**(625)**	**10**	**328**	**(287)**	(799)	4	260	(535)
Changes in the income statement and statement of comprehensive income									
Net expenses from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers)		**(334)**	**4**	**282**	**(48)**	(329)	6	255	(68)
Net expenses from reinsurance contracts held		**(334)**	**4**	**282**	**(48)**	(329)	6	255	(68)
Investment components		-	-	-	-	-	-	-	
Other changes		-	-	-	-	-	-	-	-
Net finance income from reinsurance contracts held	4	**(103)**	**-**	**5**	**(98)**	154	-	(8)	146
Total changes in the income statement and statement of comprehensive income		**(437)**	**4**	**287**	**(146)**	(175)	6	247	78
Cash flows									
Premiums paid		**351**	**-**	**-**	**351**	349	-	-	349
Amounts received		-	-	**(300)**	**(300)**	-	-	(179)	(179)
Other amounts paid		-	-	-	-	-	-	-	-
Total cash flows		**351**	**-**	**(300)**	**51**	349	-	(179)	170
Net closing balance		**(711)**	**14**	**315**	**(382)**	(625)	10	328	(287)
Closing assets		-	-	-	-	-	-	-	-
Closing liabilities		**711**	**(14)**	**(315)**	**382**	625	(10)	(328)	287
Net closing balance		**(711)**	**14**	**315**	**(382)**	(625)	10	328	(287)

Reinsurance contract liabilities of $29m (2022: $27m) are expected to be settled in the 12 months after the reporting date.

Notes to the Financial Statements

For the year ended 31 December 2023

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.8 Analysis by measurement component of reinsurance contracts held measured under the GMM

		Year ended 31 December 2023					Year ended 31 December 2022 Restated				
				CSM					CSM		
$ millions	**Note**	**Estimates of present value of future cash flows**	**Risk adjustment for non-financial risk**	**Contracts under fair value approach**	**Other contracts**	**Total**	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contracts under fair value approach	Other contracts	Total
Opening assets		-	-	-	-	-	-	-	-	-	-
Opening liabilities		**1,267**	**(226)**	**(697)**	**(57)**	**287**	1,489	(224)	(730)	-	535
Net opening balance		**(1,267)**	**226**	**697**	**57**	**(287)**	(1,489)	224	730	-	(535)
Net expenses from reinsurance contracts held											
Changes that relate to current services		**42**	**(5)**	**(63)**	**(7)**	**(33)**	104	(7)	(75)	(3)	19
CSM recognised for services received		-	-	**(63)**	**(7)**	**(70)**	-	-	(75)	(3)	(78)
Change in risk adjustment for non-financial risk		-	**(5)**	-	-	**(5)**	-	(7)	-	-	(7)
Experience adjustments		**42**	-	-	-	**42**	104	-	-	-	104
Changes that relate to future services		**14**	**4**	**(68)**	**54**	**4**	(98)	14	29	59	4
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM		-	-	**4**	-	**4**	-	-	6	-	6
Contracts initially recognised in the year		**(73)**	**27**	-	**46**	-	(71)	21	-	50	-
Changes in estimates that adjust the CSM		**87**	**(23)**	**(72)**	**8**	-	(27)	(7)	23	9	(2)
Changes that relate to past services		**(17)**	**(2)**	-	-	**(19)**	(86)	(5)	-	-	(91)
Total net expenses from reinsurance contracts held		**39**	**(3)**	**(131)**	**47**	**(48)**	(80)	2	(46)	56	(68)
Net finance income from reinsurance contracts held	4	**(115)**	-	**14**	**3**	**(98)**	132	-	13	1	146
Total changes in the income statement and statement of comprehensive income		**(76)**	**(3)**	**(117)**	**50**	**(146)**	52	2	(33)	57	78
Cash flows	14.7	**51**	-	-	-	**51**	170	-	-	-	170
Net closing balance		**(1,292)**	**223**	**580**	**107**	**(382)**	(1,267)	226	697	57	(287)
Closing assets		-	-	-	-	-	-	-	-	-	-
Closing liabilities		**1,292**	**(223)**	**(580)**	**(107)**	**382**	1,267	(226) -	697 -	57	287
Net closing balance		**(1,292)**	**223**	**580**	**107**	**(382)**	(1,267)	226	697	57	(287)

Notes to the Financial Statements

For the year ended 31 December 2023

14 Insurance Contracts and Reinsurance Contracts Held (continued)

Movement in carrying amounts (continued)

14.9 Analysis by measurement component of reinsurance contracts held measured under the PAA

$ millions	Year ended 31 December 2023					Year ended 31 December 2022 Restated				
	Asset for remaining coverage		Asset for incurred claims			Asset for remaining coverage		Asset for incurred claims		
	Excluding loss recovery component	Loss recovery component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total	Excluding loss recovery component	Loss recovery component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total
Opening assets	(14)	-	22	1	9	(4)	-	21	1	18
Opening liabilities	-	-	-	-	-	-	-	-	-	-
Net opening balance	(14)	-	22	1	9	(4)	-	21	-	18
Changes in the income statement and statement of comprehensive income										
Net expenses from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers)	(23)	-	19	-	(4)	(18)	-	11	-	(7)
Net expenses from reinsurance contracts held	(23)	-	19	-	(4)	(18)	-	11	-	(7)
Total changes in the income statement and statement of comprehensive income	(23)	-	19	-	(4)	(18)	-	11	-	(7)
Cash flows										
Premiums paid	23	-	-	-	23	8	-	-	-	8
Amounts received	-	-	(24)	-	(24)	-	-	(10)	-	(10)
Total cash flows	23	-	(24)	-	(1)	8	-	(10)	-	(2)
Net closing balance	(14)	-	17	1	4	(14)	-	22	-	9
Closing assets	(14)	-	17	1	4	(14)	-	22	1	9
Closing liabilities	-	-	-	-	-	-	-	-	-	-
Net closing balance	(14)	-	17	1	4	(14)	-	22	1	9

Reinsurance contract assets of $4m (2022: $9m) are expected to be recovered in the 12 months after the reporting date.

14 Insurance Contracts and Reinsurance Contracts Held (continued)

14.10 Effect of contracts initially recognised in the year

The following tables summarise the effect on the measurement components of insurance contracts and reinsurance contracts held arising from the initial recognition of contracts not measured under the premium allocation.

Insurance contracts measured under the GMM

$ millions	Profitable contracts issued	Onerous contracts issued	Profitable contracts acquired	Total
Year ended 31 December 2023				
Estimates of present value of future cash outflows				
Insurance acquisition cash flows	**200**	**54**	**-**	**254**
Claims payable and other expenses	**446**	**197**	**-**	**643**
Total estimates of present value of future cash outflows	**646**	**251**	**-**	**897**
Estimates of present value of future cash inflows	**(856)**	**(207)**	**-**	**(1,063)**
Risk adjustment for non-financial risk	**16**	**7**	**-**	**23**
Contractual service margin	**196**	**-**	**-**	**196**
Losses recognised on initial recognition	**2**	**51**	**-**	**53**
Year ended 31 December 2022 (Restated)				
Estimates of present value of future cash outflows				
Insurance acquisition cash flows	208	49	-	257
Claims payable and other expenses	419	145	-	564
Total estimates of present value of future cash outflows	627	194	-	821
Estimates of present value of future cash inflows	(820)	(159)	-	(979)
Risk adjustment for non-financial risk	15	6	-	21
Contractual service margin	178	-	-	178
Losses recognised on initial recognition	-	41	-	41

Reinsurance contracts held measured under the GMM

$ millions	2023			2022 Restated		
For the year ended 31 December	**Contracts originated**	**Contracts acquired**	**Total**	Contracts originated	Contracts acquired	Total
Estimates of present value of future cash inflows	**(338)**	**-**	**(338)**	(282)	-	(282)
Estimates of present value of future cash outflows	**411**	**-**	**411**	353	-	353
Risk adjustment for non-financial risk	**(27)**	**-**	**(27)**	(21)	-	(21)
Contractual service margin	**46**	**-**	**46**	50	-	50

14.11 Analysis of contractual service margin

The following table illustrates when the Group expects to recognise the remaining contractual service margin as revenue for contracts not measured under the premium allocation approach.

$ millions	Total	Five year or less	After five years through ten years	After ten years
31 December 2023				
Insurance contracts	**(320)**	**(157)**	**(51)**	**(112)**
Reinsurance contracts held	**687**	**290**	**168**	**229**
31 December 2022 (Restated)				
Insurance contracts	(322)	(163)	(56)	(103)
Reinsurance contracts held	754	317	186	251

14.12 Fulfilment cash flows

Estimates of future cash flows

Estimates of future cash flows are applicable to GMM and VFA and impacts both LRC and LIC. It is also relevant to PAA LIC.

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

14 Insurance Contracts and Reinsurance Contracts Held (continued)

14.12 Fulfilment cash flows (continued)

Estimates of future cash flows (continued)

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

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

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

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

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

Methodology and assumptions

Key assumptions disclosed below for material balances include:

- Mortality, morbidity and termination assumptions applicable to GMM and impacts the LIC and LRC (note 14.3);
- Persistency applicable to GMM and impacts the LRC (note 14.3);
- Future rates of discontinuance which are all applicable to GMM LRC (note 14.3), except for Participating and Savings which is relevant to VFA LRC (note 14.1);
- Expense assumptions which are applicable to GMM and VFA and impacts the LRC (note 14.1 and 14.3);
- Yield curves which are consistently applied across all measurement models.

Mortality

Assumptions have been developed based on recent historical experience, and from expectations of current and expected future experience including mortality improvement. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available. Mortality assumptions have been expressed as a percentage of standard industry experience tables.

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 2023, the factors applied to the NZ10 table for the major products range from 84% to 180% (2022: 84% to 180% of the NZ97 table). For legacy product grouping Term moved to NZ10 with assumption changed to 113% (2022: 59% of NZ97)and legacy MetLife claim ratio changed to 70% (2022: 63%).

Morbidity

Projected future morbidity experience is 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.

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

Termination

Assumptions have been developed based on recent historical experience, and from expectations of current and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available. In general, disability income assumptions are reviewed based on annual experience studies. Disability income experience for all products has been reasonably consistent with the current assumptions.

Termination assumptions have been expressed as a percentage of the Australian FSC-KPMG 2007-2011 ADI termination assumption table. Projected future rates of termination experience are based on this table. These termination assumptions vary based on a wide variety of factors, including product group, occupation class, claims cause, age band, gender, duration, wait period, benefit period, sum assured band and benefit type. These are then adjusted by comparing the standard tables with the Group's own experience using comparisons between actual and expected.

Over 2023, the product factors applied to the ADI table for the major products range from 65% to 140%. These were unchanged from 2022. However, there were changes from 2022 to 2023 for four of the assumption factors. For accident termination post wait period, the white-collar occupation factor was adjusted downward by 7%, the male factor strengthened by 2% and female factor strengthened by 7%. For sickness termination post wait period, the 60 day wait period assumption was strengthened by 9%.

14 Insurance Contracts and Reinsurance Contracts Held (continued)

14.12 Fulfilment cash flows (continued)

Methodology and assumptions (continued)

Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, and partial withdrawals.

Assumptions have been developed based on recent historical experience, and from best estimate expectations of current and expected future experience. Persistency assumptions may vary by policy year and product type.

Where experience for a particular product has not been credible enough to allow any meaningful analysis to be performed, experience for similar products has been used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

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 2022, for the current financial year. Future rates of discontinuance are:

As at 31 December	Policy duration (years)	2023	2022
Life rate for age	1 - 5	**11%**	12%
	6 - 9	**11%**	12%
	10+	**11%**	11%
Life level to age 80	1 - 5	**6%**	6%
	6 - 9	**4%**	5%
	10+	**4%**	3%

	As at 31 December 2023			As at 31 December 2022		
As at 31 December	**Life**	**Non-Life**	**Total**	Life	Non-Life	Total
Other Risk	**9%**	**10%**		10%	10%	
Participating			**3%**			3%
Savings			**8%**			8%

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.

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% (2022: 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		2023	2022
Ex-Colonial policies	Bonus rate on sum assured	**0.00%**	0.11%
	Bonus rate on existing bonus	**0.00%**	0.11%
Ex-Prudential policies	Bonus rate on sum assured	**0.00%**	0.02%
	Bonus rate on existing bonus	**0.00%**	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	**5.49%**	3.76%

14 Insurance Contracts and Reinsurance Contracts Held (continued)

14.12 Fulfilment cash flows (continued)

Methodology and assumptions (continued)

Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition, maintenance and other activities, and then to allocate these acquisition and maintenance expenses that can be directly attributed to the portfolio of insurance contracts to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities that can be directly attributed to the portfolio of insurance contracts, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense inflation has been set in line with the Group's forecast budget with long term expense inflation applied thereafter.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

Reinsurance

Reinsurance assumptions have been developed based on the reinsurance arrangements in-force as at the reporting date and the recent historical and expected future experience. Methods used to measure reinsurance contracts held have been applied using inputs, assumptions and estimation techniques that are consistent with those used to measure the underlying insurance contracts.

Policyholder dividends, profit sharing and interest crediting

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

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future reversionary and final bonuses so that there are no residual assets at the end of the projection period.

The assumed estimated crediting rates and participation percentages are generally based on interest rate guarantees.

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

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

A bottom-up approach has been adopted under which discount rates are determined by adjusting the liquid risk-free yield curve to reflect the characteristics of the cash flows and liquidity of the insurance contracts. The illiquidity premium is determined as a credit spread between corporate and government bonds minus a long term credit risk deduction. This is determined with reference to a spread of bonds in the US market as the NZ bond market is not sufficiently deep or liquid. A percentage factor is applied to this illiquidity premium which reflects the liquidity characteristics of the (re)insurance liabilities it is applied to. This factor is 100% for contracts which have a significant surrender value or have pre-funded premiums such as traditional participating business or risk business with level premiums. Otherwise the factor is 0%.

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

The tables below set out the yield curves used to discount the cash flows of insurance contracts.

	1 year	5 years	10 years	15 years	20 years
As at 31 December 2023					
Short contract boundary yield curve	**5.06%**	**4.24%**	**4.41%**	**4.68%**	**n/a**
Long contract boundary yield curve	**6.11%**	**5.29%**	**5.46%**	**5.73%**	**0.00%**
As at 31 December 2022 (Restated)					
Short contract boundary yield curve	5.14%	4.60%	4.52%	4.71%	n/a
Long contract boundary yield curve	6.14%	5.60%	5.52%	5.71%	5.71%

14 Insurance Contracts and Reinsurance Contracts Held (continued)

14.13 Risk adjustments for non-financial risk

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

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

Risk adjustment factors are required for each of the following risk areas:

- expenses;
- mortality/morbidity; and
- lapse.

The calculation of the risk adjustment is calibrated to the Group's pricing and capital allocation framework, leveraging externally available shock parameter methodologies and AIA Group guidance. The Group determined the confidence level to be 75% net of reinsurance.

14.14 Contractual service margin

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

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

14.15 Investment components

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

14.16 Underlying items of contracts with direct participation features

The following table sets out the composition and the fair value of the underlying items for the Group's contracts with direct participation features at the reporting date:

$ millions **As at 31 December**	**2023**	2022 Restated
Cash and cash equivalents	**1**	10
Financial investments and policy loans	**618**	617
Other assets	**9**	10
Less: payables and other liabilities	**(3)**	13
Total	**625**	650

15 Investment Contract Liabilities

$ millions **As at 31 December**	**2023**	2022 Restated
Balance at the beginning of the period	**514**	637
Net investment return	**55**	(62)
Investment contract fees	**(11)**	(11)
Decrease in deferred fee income reserve recognised in the Income Statement	**(1)**	(1)
Contributions received	**12**	13
Benefits paid	**(70)**	(62)
Total investment contract liabilities	**499**	514

The maturity value of investment contract liabilities is determined by the fair value of the linked assets at maturity date. Refer to note 29 for a contractual maturity analysis of investment contract liabilities.

16 Deferred Tax

$ millions **As at 31 December**	**2023**	2022 Restated
Deferred tax assets		
Balance at beginning of period	**32**	7
Recognised in the Income Statement	**(5)**	25
Total deferred tax assets	**27**	32
Deferred tax relates to:		
Losses available for offset against future taxable income	**28**	31
Other	**(1)**	1
Total deferred tax assets	**27**	32
Deferred tax assets recognised in the Income Statement		
Losses available for offset against future taxable income	**(3)**	23
Other	**(2)**	2
Total deferred tax assets recognised in the Income Statement	**(5)**	25

The deferred tax asset relates to the Policyholder Base and cannot be offset against the deferred tax liability of the Shareholder Base.

$ millions **As at 31 December**	Note	**2023**	2022 Restated
Deferred tax liabilities			
Balance at beginning of period, as previously reported		**587**	622
Effect of change in accounting policy	33	**-**	(102)
Balance at beginning of period, as restated		**587**	520
Recognised in the Income Statement		**3**	(8)
Recognised in the Statement of Comprehensive Income		**(25)**	75
Total deferred tax liability		**565**	587
Deferred tax relates to:			
Insurance, reinsurance and investment contracts		**694**	652
Losses available for offset against future taxable income		**(125)**	(73)
Other		**(4)**	8
Total deferred tax liability		**565**	587
Deferred tax liabilities recognised in the Income Statement			
Insurance, reinsurance and investment contracts		**71**	11
Losses available for offset against future taxable income		**(79)**	(12)
Other		**11**	(7)
Total deferred tax liability recognised in the Income Statement		**3**	(8)
Deferred tax recognised in the Statement of Comprehensive Income			
Insurance and reinsurance contracts		**(29)**	57
Losses available for offset against future taxable income		**27**	(5)
Other		**(23)**	23
Total deferred tax recognised in the Statement of Comprehensive Income		(25)	75

Deferred tax assets of $28 million and $125 million (2022: $31 million and $73 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 15 to 18 years (2022: 6 to 9 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 costs that are not expected to recur to the same extent and NZ IFRS 17 impacting the valuation of life financial reinsurance. 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 timeframe within which it is expected to be progressively utilised.

17 Trade and Other Payables

$ millions As at 31 December	Note	2023	2022 Restated
Expense creditors		**33**	25
Employee benefits		**18**	19
Provisions		**1**	1
Amounts due to related parties	20	**3**	20
Total trade and other payables		**55**	65

As at 31 December 2023, $37 million of trade and other payables have an expected settlement date of less than 12 months (2022: $46 million).

A maturity analysis of current and non-current financial liabilities is presented in note 29.

AIA operates a number of share based compensation schemes. Further information on these share based compensation schemes is disclosed in note 21.

18 Share Capital and Reserves

$ millions As at 31 December	2023	2022
Issued ordinary share capital		
Balance at beginning/end of period	**863**	863

As at 31 December 2023, share capital includes 248,217,572 ordinary shares (2022: 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.

No dividends were paid during the year ended 31 December 2023 (2022: $81 million at $0.33 per share).

Reserves

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

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

19 Capital Management

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

(i) maintain a level of target surplus which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;

(ii) maintain a strong capital base to cover the inherent risks of the business; and

(iii) support the future development and growth of the business to maximise shareholder value.

The AIANZ board (the Board) has ultimate responsibility for compliance with the solvency standard and managing capital. The Board approves the capital management policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target solvency margin in excess of solvency margin requirements under the Interim Solvency Standard 2023 issued in accordance with Insurance (Prudential Supervision) Act 2010.

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, 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.

Under its licence, the RBNZ requires AIANZ to hold a solvency margin of at least $0 in the Statutory Fund and at least $0 overall as at 31 December 2023 (2022: $0 in the Other Fund and up to $46.25 million in the Statutory Fund depending on the level of the 10-year NZ Government bond rate). Following the Interim Solvency Standard 2023 being effective 1 January 2023, a minimum solvency margin is no longer specified for the Other Fund, only for the Statutory Fund and for the entity as a whole.

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 three 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 four times a year, at three monthly intervals, and reported to the RBNZ. The Group have complied with all capital requirements as set out by RBNZ for the year ending 31 December 2023.

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

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For the year ended 31 December 2023

19 Capital Management (continued)

The December 2023 Solvency figures have been prepared under the Interim Solvency Standard 2023. The comparative December 2022 Solvency figures disclosed here are the previously published solvency figures calculated under the Solvency Standard for Life Insurance Business issued in accordance with the Insurance (Prudential Supervision) Act 2010 and have not been restated.

The solvency position of AIA NZ is as follows:

$ millions	Statutory Fund	AIANZ
As at 31 December 2023		
Solvency capital	**807**	**1,127**
Adjusted prescribed solvency capital	**676**	**977**
Adjusted solvency margin	**131**	**150**
Adjusted solvency ratio	**119%**	**115%**
As at 31 December 2022		
Actual solvency capital	314	465
Minimum solvency capital	198	325
Solvency margin	116	140
Solvency ratio	159%	143%

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

20 Related Party Transactions and Balances

a) Immediate and ultimate controlling party

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 (domiciled in Bermuda) who owned 100% of AIA Sovereign Limited as at 31 December 2022. The ultimate holding company remains AIA Group Limited, a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange.

b) Key management personnel

Key management personnel have been identified as members of the New Zealand Group executive committee. More information for key management personnel is disclosed in note 22.

c) Share based compensation

Information on share based compensation is outlined in note 21.

d) Transactions with related parties

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

$ millions **For the year ended 31 December**	**2023**	2022
Related Party Transactions		
Income		
Received from AIA Reinsurance Limited for commission	**57**	44
Received from AIA Reinsurance Limited for claims recoveries	**42**	31
Expenses		
Paid to AIA Reinsurance Limited for reinsurance premiums	**100**	79
Paid to AIA Australia Limited for group service fee and recharge costs of group integration	**9**	9
Paid to AIA Company Limited for group service fee	**6**	7
Paid to AIA Shared Services (Hong Kong) Limited for Vitality administration costs	**3**	3
Paid to AIA Shared Services Sdn Bhd for group service fee	**2**	3
Paid to AIA Group Limited for recharge of share based payment issued by AIA Group Limited	**1**	1
Paid to AIA Company (Guangzhou) Limited for IT support services	**1**	1
Paid to Amplify Health Asia - HK for AIA Vitality programme initiatives	**2**	-
Related Party Balances		
Reinsurance Contract Assets and Liabilities		
Receivables from AIA Reinsurance Limited	**5**	15
Payables to AIA Reinsurance Limited	**3**	6

20 Related Party Transactions and Balances (continued)

d) Transactions with related parties (continued)

$ millions **As at 31 December**	**2023**	2022
Liabilities		
Trade and other payables to AIA Australia Limited	**-**	17
Trade and other payables to AIA Company Limited	**1**	2
Trade and other payables to AIA Group Limited	**1**	-
Trade and other payables to AIA Shared Services Malaysia	**-**	1
Trade and other payables to Amplify Health Asia - HK	**1**	-
	3	20

Refer to the Statement of Changes in Equity and note 19 for details of dividends paid to the Shareholder.

During the period ended 31 December 2023, 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 28 "Risk Management Policies" under Insurance Risk.

21 Share Based Compensation

Restatement of prior year comparatives for Share Option Scheme disclosure

The 2022 financial statements incorrectly showed that there were no share options (SOs) granted. The prior year comparatives have been restated to disclose the correct number and value of SOs on issue at 1 January 2022 and the movement to 31 December 2022.

Stock compensation plans

During the year ended 31 December 2023 the ultimate parent, AIA Group Limited (AIA) made grants under the SO Scheme and made grants of restricted share units (RSU) to certain employees, directors and officers of AIA under the RSU Scheme and the Employee Share Purchase Plan (ESPP).

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 weighted average fair value of units granted in 2023 was HK$63.37.

For the year ended 31 December	**Number of Shares**	
Restricted share units	**2023**	Restated 2022
Outstanding at beginning of financial year	**244,182**	272,969
Granted	**85,336**	112,670
Vested or exercised	**(41,141)**	(53,506)
Transfer in	**8,188**	-
Transfer out	**(3,054)**	(45,732)
Forfeited or expired	**(60,575)**	(42,219)
Outstanding at end of financial year	**232,936**	244,182

Share Option Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the AIAGL shareholders by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period, during which, the eligible participants are required to remain in employment with the AIA Group. If the SO grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. The granted share options expire ten years from the date of grant.

The range of exercise prices for the share options outstanding as of 31 December 2023 and 2022 is summarised in the table below.

For the year ended 31 December	**2023**		2022 Restated	
Range of exercise price	**Number of share options outstanding**	**Weighted average remaining contractual life (years)**	Number of Share options	Weighted average remaining contractual life (years)
HK$76 – HK$85	10,268	9.21	14,052	8.21
Outstanding at end of financial year	10,268	9.21	14,052	8.21

21 Share Based Compensation (continued)

Information about share options outstanding and share options exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

For the year ended 31 December	2023		2022 Restated	
Share Options	Number of Share options	Weighted Average Exercise Price (HK$)	Number of Share options	Weighted Average Exercise Price (HK$)
Outstanding at beginning of financial year	**24,949**	**87.48**	10,897	97.33
Granted	**10,268**	**80.73**	14,052	79.85
Outstanding at end of financial year	**35,217**	**85.52**	24,949	87.48
Share options exercisable at end of financial year	**27,577**	**85.73**	19,318	87.87
Weighted average remaining contractual life (years)				

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 2023, eligible employees of the Group paid NZ$774,223 (2022: NZ$770,302) to purchase 49,740 ordinary shares (2022: 48,907 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 behaviour 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.

12 months to 31 December	2023			2022 Restated		
	Share options	Restricted share units	Restricted stock purchase units	Share options	Restricted share units	ESPP Restricted stock purchase units
Risk-free interest rate	**3.19%**	**3.27%**	**3.16% - 4.17%**	1.93%	1.57%	0.84% - 4.27%
Volatility	**28.00%**	**28.00%**	**N/A**	26.00%	26.00%	N/A
Dividend yield	**1.60%**	**1.60%**	**1.70%**	1.70%	1.70%	1.70%
Weighted average fair value per option / unit at measurement date (HK$)	**85.52**	**N/A**	**62.08**	87.48	N/A	70.87

The weighted average share price for granted SO valuation is HK$80.73 for the year ended 31 December 2023 (2022: HK$79.85). At the respective dates on which the SOs were exercised, the weighted average share price of the Company was HK$85.73 for the year ended 31 December 2023 (2022: HK$87.87).

Recognised compensation cost

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 2023 is NZ$1,243,504 (2022: NZ$899,912).

22 Directors and Key Management Personnel

$ millions For the year ended 31 December	2023	2022 Restated
Short term employee benefits	**5**	5
Share based payments	**1**	1
Directors fees	**1**	1
Total directors and key management personnel compensation	**7**	7

$ millions As at 31 December	2023	2022
Provisions for short term benefits	**1**	1
Provisions for long term benefits	**-**	-

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.

Notes to the Financial Statements

23 Lease Liabilities and Right-of-Use Assets

$ millions As at 31 December	2023	2022
Right-of-use Assets		
As at 1 January	**17**	22
Lease modifications	**(8)**	-
Depreciation	**(5)**	(5)
Carrying amount as at 31 December	**4**	17
Lease Liabilities		
As at 1 January	**18**	24
Lease modifications	**(8)**	-
Lease payments	**(6)**	(6)
Carrying amount as at 31 December	**4**	18

97% of the leases relate to property lease (2022: 95%), which the Group uses as office premises. The remaining leases relate to motor vehicles. The maturity analysis of lease liabilities is included in note 29.

The Group will be exiting its lease of AIA House at Smales Farm in February 2024 in order for extensive renovations to take place. A new lease agreement for AIA House is currently being negotiated but is expected to commence early in 2025. While renovations are completed at AIA House the Group will be relocating to two interim premises for which it has entered into two new lease agreements that commence in January 2024 and are estimated to have a cost of approximately $2m over the expected lease term. The cost of these two lease agreements have not been included in the Right-of-use-asset (ROUA) and Lease liability disclosed as their lease terms have not yet commenced at the end of 2023. The cost of the future lease at AIA House has also not been included in the ROUA or Lease liability as this does not meet the requirement for recognition at year end.

For more information on capital commitments refer to note 24.

24 Capital Commitments

As part of the refurbishment of AIA House at Smales Farm the Group has committed to capital expenditure costs for new fitout, furniture and equipment. It is estimated that this capital expenditure in 2024 and 2025 will amount to approximately $28m.

The Group has no other material capital commitments as at 31 December 2023 (2022: nil).

25 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.

25 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	Note	Level 1	Level 2	Level 3	Total
As at 31 December 2023					
Financial assets					
At fair value through other comprehensive income					
Investments - Fixed interest securities		**433**	**60**	**-**	**493**
At fair value through profit or loss					
Investments:					
Equity securities and fund certificates		**-**	**618**	**-**	**618**
Fixed interest securities		**493**	**-**	**-**	**493**
Total financial assets measured at fair value	9	**926**	**678**	**-**	**1,604**
Financial liabilities					
Investment contract liabilities	15	**-**	**499**	**-**	**499**
Total financial liabilities measured at fair value		**-**	**499**	**-**	**499**
As at 31 December 2022 (Restated)					
Financial assets					
At fair value through other comprehensive income					
Investments - Fixed interest securities		424	60	-	484
At fair value through profit or loss					
Investments:					
Equity securities and fund certificates		-	632	-	632
Fixed interest securities		477	-	-	477
Total financial assets measured at fair value	9	901	692	-	1,593
Financial liabilities					
Investment contract liabilities	15	-	514	-	514
Total financial liabilities measured at fair value		-	514	-	514

(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	Note	Fair Value	Carrying Value
As at 31 December 2023			
Financial Assets			
Cash and cash equivalents	10	**79**	**79**
Other assets	13	**8**	**8**
Total financial assets not measured at fair value		**87**	**87**
Financial Liabilities			
Trade and other payables	17	**36**	**36**
Total financial liabilities not measured at fair value		**36**	**36**

Notes to the Financial Statements

25 Fair Value of Financial Instruments (continued)

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

$ millions	Note	Fair Value	Carrying Value
As at 31 December 2022 (Restated)			
Financial Assets			
Cash and cash equivalents	10	102	102
Other assets	13	9	9
Total financial assets not measured at fair value		111	111
Financial Liabilities			
Trade and other payables	17	45	45
Total financial liabilities not measured at fair value		45	45

26 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 1.6 for a description of the categories and how fair values are estimated.

$ millions	Designated at fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Fair Value
As at 31 December 2023						
Financial assets						
Cash and cash equivalents	**-**	**-**	**79**	**-**	**79**	**79**
Other assets	**-**	**-**	**8**	**-**	**8**	**8**
Investments	**1,111**	**493**	**-**	**-**	**1,604**	**1,604**
Total financial assets	**1,111**	**493**	**87**	**-**	**1,691**	**1,691**
Financial liabilities						
Trade and other payables	**-**	**-**		**36**	**36**	**36**
Investment contract liabilities	**499**	**-**	**-**	**-**	**499**	**499**
Total financial liabilities	**499**	**-**	**-**	**36**	**535**	**535**
As at 31 December 2022 (Restated)						
Financial assets						
Cash and cash equivalents	-	-	102	-	102	102
Other assets	-	-	9	-	9	9
Investments	1,109	484	-	-	1,593	1,593
Total financial assets	1,109	484	111	-	1,704	1,704
Financial liabilities						
Trade and other payables	-	-		45	45	45
Investment contract liabilities	514	-	-	-	514	514
Total financial liabilities	514	-	-	45	559	559

Notes to the Financial Statements

27 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	2023	2022
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	2023	2022	2023	2022	2023	2022
$ millions	Investment-linked*		Non-Linked		Total	
Ratings						
AAA	**2**	2	**810**	785	**812**	787
AA	**-**	-	**36**	18	**36**	18
AA-	**-**	-	**75**	113	**75**	113
A	**-**	-	**36**	9	**36**	9
A-	**-**	-	**25**	25	**25**	25
BBB+	**-**	-	**2**	5	**2**	5
BBB	**-**	-	**-**	4	**-**	4
Total fixed interest securities	**2**	2	**984**	959	**986**	961

* 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.

Reinsurance contracts held

The following table sets out information about the credit quality of reinsurance contract assets and liabilities:

$ millions	Reinsurance contract assets		Reinsurance contract liabilities	
As at 31 December	**2023**	2022	**2023**	2022
Ratings				
AA+	**-**	-	**(92)**	(89)
AA-	**3**	3	**474**	376
A+	**(2)**	4	**-**	-
A	**1**	1	**-**	-
A-	**2**	1	**-**	-
	4	9	**382**	287

28 Risk Management Policies

Introduction

The Group is exposed to risk through its financial assets, financial liabilities, reinsurance contract assets and liabilities and insurance contract assets and liabilities. Risk management policies focus on ensuring cash flows from assets are sufficient to fund obligations arising from life insurance and 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.

Environmental, Social and Governance impacts

Under the New Zealand Government’s mandatory framework for Climate Reporting Entities (CREs) the Group is required to make annual disclosures covering governance, risk management, strategy, and metrics and targets for mitigating and adapting to climate change impacts. As part of this framework CREs are required to prepare and file a Climate Statement based on standards issued by the External Reporting Board (XRB).

To meet its obligations under the mandatory framework and comply with the climate standards, the Group embarked on a programme of work to establish greenhouse gas emissions (GHG) targets and future initiatives to respond to the climate reporting and disclosure requirements. The Group will lodge its inaugural Climate Statement in April 2024 for the year ended 31 December 2023.

AIA New Zealand Limited and AIA Services New Zealand Limited achieved Toitū carbonreduce certification in 2022 and was recertified in 2023, 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 Environmental, Social and Governance (ESG) strategy with strong leadership from the Board, through the Board ESG (BESG) Committee, and the Executive Team.

The Group’s ESG strategy is built around five pillars, with two of the pillars, sustainable investment and sustainable operations, focusing on climate-related matters. Sustainable investment is focused on delivering long-term value by allocating capital to companies that commit to sustainable outcomes, investing for the future and lowering exposure to the risk of stranded assets in the future low-carbon economy. Sustainable operations is aimed at improving the environmental performance of the Group’s operations as well as incorporating ESG factors in sourcing considerations.

Impact of climate-related risks on the Group's financial statements

The Group has considered the potential impact of climate-related risks on its financial statements, including both physical risks and transitional risks. Claims, lapse, expense and other assumptions in the Financial Statements reflect historic experience and expectations of current and future experience. The Group has concluded that based on the information and methodologies currently used, climate-related risks do not have a material impact on the judgements, assumptions and estimates for the year ended 31 December 2023.

The effect of climate change represents a source of uncertainty in the medium to long term which may affect the Group’s financial statements in the future. Climate-related risks will continue to be monitored and assessed and strategies developed to mitigate the physical and transitional risks of climate change and a low-carbon future.

28 Risk Management Policies (continued)

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 of Internal Audit 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

Under a insurance contract the Group agrees to compensate a policyholder if a specified uncertain future event ('the insured event') adversely affects the policyholder and thereby the Group accepts significant insurance risk from the policyholder. Insurance risk is risk, other than financial risk, that is transferred from the holder of a contract to the issuer.

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

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

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

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, 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 2023, AIANZ participated in the AIA Group catastrophe treaty which provides cover of USD$215 million (2022: USD$215 million) for single event claims in excess of USD$35 million (2022: USD$35 million). In addition, AIANZ has in place a lower layer catastrophe treaty with AIA Reinsurance Limited which provides cover of USD$25 million (2022: USD$25 million) for a single event claims in excess of USD$10 million (2022: 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 (2022: $40 million) pandemic reinsurance cover in excess of an Ultimate Net Loss of 0.16380% (2022: 0.15940%) of the Mean Retained Net Amount at Risk, or $84 million (2022: $80 million) Ultimate Net Loss in the annual aggregate for the applicable Agreement year, whichever the greater.

28 Risk Management Policies (continued)

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
Life insurance contracts with fixed and guaranteed terms (retail protection products, long term health, group protection/corporate solutions products)	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 (annuities)	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

Classification and measurement approaches for life insurance contracts are provided in note 1.11.1.

Sensitivity to insurance risk

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

Mortality rates

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

Morbidity rates

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

Discontinuance

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

28 Risk Management Policies (continued)

Expense

Expense risk is the risk of greater than expected trends in, or sudden shocks to, the amount or timing of expenses incurred by the business. Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Group's very substantial experience within the markets in which we operate.

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 **2023**		2022 Restated	
Insurance risks		**Before reinsurance**	**After reinsurance**	Before reinsurance	After reinsurance
Mortality and morbidity	Increase by 10%	**(14)**	**4**	(14)	3
	Decrease by 10%	**14**	**(5)**	14	(4)
Termination rate	Increase by 10%	**10**	**4**	9	3
	Decrease by 10%	**(11)**	**(4)**	(9)	(4)
Discontinuance	Increase by 10%	**-**	**13**	-	14
	Decrease by 10%	**-**	**(16)**	-	(18)
Expenses	Increase by 10%	**(2)**	**(2)**	(3)	(3)
	Decrease by 10%	**2**	**2**	3	3

Claims development

The disclosure required for the Claims development would only be required for the Group's disability income (DI) products where the uncertainty in the timing of settlement is longer than one year. The value of LIC for DI as at 31 December 2023 under GMM was gross $312m, or $144m net of reinsurance (2022: $285m, or $141m net of reinsurance).

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 9 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 (which are included in insurance contract liabilities). 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 (2022: 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 Group monitors concentrations of credit arising from investment in debt securities by type, nature and rating as shown in note 27. The Group does not have excessive credit risk with any single insurer and credit ratings of counterparties and the credit quality of reinsurance contract assets are disclosed in note 27.

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 insurance contract, reinsurance contract and investment contract liabilities are disclosed in note 29.

28 Risk Management Policies (continued)

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 2023, 100% of shareholders' funds were invested in fixed interest, cash and cash equivalents (2022: 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 potential gain or loss from fluctuations in the exchange rate of foreign denominated assets when converted back to NZD. The Group may choose to hedge some or all of its currency risk if it is considered favourable to so. As at 31st December 2023, AIA Group had foreign exchange exposure to World Listed Equities which were 49% (2022: 50%) hedged back to 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.

(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) Concentration risk

The greatest aggregate concentration of fair value to an individual issuer (excluding all government bonds) was [approximately/less than] 1 per cent (2022: [approximately/less than] 1 per cent) of the total equity and debt investments as at 31 December 2023.

28 Risk Management Policies (continued)

(v) 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 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.

Sensitivity analysis to the key variables, namely interest rate and equity risk, affecting insurance contracts and reinsurance contracts held, and financial instruments held by the Group is set out below. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders.

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

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

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

$ millions		**2023**		2022 Restated	
31 December	Changes	**Impact on profit before tax**	**Impact on equity**	Impact on profit before tax	Impact on equity
Market risks					
Interest rate risk					
Insurance contracts and reinsurance contracts held	Increase of 50 bps	**30**	**111**	17	105
	Decrease of 50 bps	**(33)**	**(120)**	(19)	(114)
Financial instruments	Increase of 50 bps	**(29)**	**(36)**	(16)	(21)
	Decrease of 50 bps	**31**	**39**	18	22
Equity prices					
Insurance contracts and reinsurance contracts held	Increase by 10%	**(14)**	**(14)**	(15)	(15)
	Decrease by 10%	**14**	**14**	15	15
Financial instruments	Increase by 10%	**13**	**13**	14	14
	Decrease by 10%	**(13)**	**(13)**	(14)	(14)

29 Maturity Analysis for 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 2023								
Non-derivative financial liabilities								
Trade and other payables	**3**	**33**	**-**	**-**	**-**	**-**	**36**	**36**
Investment contract liabilities	**490**	**-**	**-**	**-**	**-**	**9**	**499**	**499**
Lease liabilities	**-**	**1**	**-**	**1**	**1**	**1**	**4**	**4**
	493	**34**	**-**	**1**	**1**	**10**	**539**	**539**
As at 31 December 2022 (restated)								
Non-derivative financial liabilities								
Trade and other payables	20	25	-	-	-	-	45	45
Investment contract liabilities	504	-	-	-	1	11	516	514
Lease liabilities	-	3	3	6	5	1	18	18
	524	28	3	6	6	12	579	577

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 28 for details of how the Group manages liquidity risk.

Maturity analysis for insurance and reinsurance contract liabilities (present value of future cash flows basis)

$ millions	2023						
	Up to 1 year	1–2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
As at 31 December 2023							
Insurance contract liabilities measured under	**144**	**58**	**53**	**49**	**46**	**391**	**741**
VFA	**58**	**55**	**50**	**47**	**44**	**383**	**637**
GMM	**4**	**3**	**3**	**2**	**2**	**8**	**22**
PAA	**82**	**-**	**-**	**-**	**-**	**-**	**82**
Reinsurance contract liabilities measured under GMM	**29**	**31**	**29**	**28**	**27**	**238**	**382**
Total net discounted cashflows	**115**	**27**	**24**	**21**	**19**	**153**	**359**
As at 31 December 2022 (restated)							
Insurance contract liabilities measured under	132	58	53	48	45	425	761
VFA	59	54	49	45	42	412	661
GMM	5	4	4	3	3	13	32
PAA	68	-	-	-	-	-	68
Reinsurance contract liabilities measured under GMM	28	27	25	24	23	160	287
Total net discounted cashflows	104	31	28	24	22	265	474

30 Funds Under Management and Administration

The Group manages and administers investment products that are closed to new business. As at 31 December 2023, the Group had $496 million funds under management and administration (2022: $510 million). The Group utilises external fund managers and investment consultants in the management of these funds.

31 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 (2022: Nil).

32 Events after the Reporting Period

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

33 Effects of Adoption of New Accounting Standard

Accounting Standards or Interpretations adopted in the current year

33.1 NZ IFRS 17 *Insurance Contracts*

The Group has adopted NZ IFRS 17, including any consequential amendments to other standards, with a date of initial application of 1 January 2023.

Transition - Insurance contracts and reinsurance contracts held

The Group applied the fair value approach (FVA) in NZ IFRS 17 to identify, recognise and measure groups of contracts at 1 January 2022 because it was impracticable to apply the full retrospective approach. The Group considered the full retrospective approach impracticable for contracts because:

- The Group is unable to determine actual premiums received at a group of contracts level during various historical years (separated by bounded and unbounded contracts), as these amounts are available only at a higher level whereas mapping to each group of contract level requires accurate mapping to NZ IFRS 17 group of contracts under the full retrospective approach. Hence, there is a data gap in allocating insurance acquisition cash flows before transition date. This resulted in impracticability to determine the CSM for the group of contracts at transition.
- The effects of retrospective application were not determinable because the information required had not been collected (or had not been collected with sufficient granularity) and was unavailable because of system migrations, data retention requirements or other reasons.
- The full retrospective approach required assumptions about what management's intentions would have been in previous periods or significant accounting estimates that could not be made without the use of hindsight, the application of full retrospective approach is considered as impracticable if such assumptions and estimates were not determinable.

For more information on how the FVA was applied at transition to refer to the accounting policy note at 1.11.9. To indicate the effect of applying the fair value approach on the CSM, insurance revenue and insurance finance income or expenses, the Group has provided additional disclosures in note 14.

On transition to NZ IFRS 17, the cumulative insurance finance income or expenses recognised in other comprehensive income at 1 January 2022 is determined to be zero.

The following table set out the impact of initial adoption of these standards on the Group's equity at 1 January 2022.

$ millions	As at 31 December 2021 (As previously reported)	Impact upon initial adoption of IFRS 17	As at 1 January 2022 (Restated)
Equity			
Contributed capital	**863**	**-**	**863**
Accumulated loss	**(211)**	**45**	**(166)**
Fair value reserve	**-**	**(11)**	**(11)**
Total Equity	**652**	**34**	**686**

The restated opening statement of financial position is driven by the following key remeasurements under NZ IFRS 17:

- $274m negative impact from the increase in liability for reinsurance contracts from NZ IFRS 4 to NZ IFRS 17 as a result of adopting a FVA;
- $305m positive impact from implementing the contract boundary requirements on insurance contracts and the FVA methodology used to calculate the assets for insurance acquisition cash flows;
- $77m negative impact from the level premium business due to the difference in measurement of future renewals of the insurance contract after end of the contract boundary between NZ IFRS 4 and NZ IFRS 17;
- $23m negative impact for the group protection risk business mainly due to the change from a negative liability under NZ IFRS 4 to applying the premium allocation approach with no assets for insurance acquisition cash flows recognised under NZ IFRS 17;
- $103m positive impact related to the impacts on deferred tax due to the changes above;
- the fair value reserve recognised at transition represents the unrealised gains and losses previously recognised in the income statement at FVTPL for assets that were still held at the date of transition and is now accounted for through FVOCI. This restatement moves the $11m out of the accumulated losses where it was previously recognised and therefore has a no impact to overall equity position.

The following table shows the effect of applying the fair value approach on CSM at 1 January 2022

CSM	**As at 1 January 2022 (Restated)**
Contracts under the fair value approach	332
Total CSM	**332**

33 Effects of adoption of new accounting standards (continued)

Transition - Assets for insurance acquisition cash flows

The Group also applied the fair value approach to identify, recognise and measure certain assets for insurance acquisition cash flows under the GMM at 1 January 2022. It was impracticable to apply the full retrospective approach because:

- data had not been collected with sufficient granularity;
- information required to identify fixed and variable overheads as relating to acquisition activities and to allocate them to groups of contracts was not available; or
- original assumptions about the manner in which the Group would have expected insurance acquisition cash flows to be recovered, which were required to allocate them to renewals, could not be made without the use of hindsight.

Effect of initial application

The Group has applied the transition provisions in NZ IFRS 17 with transition date 1 January 2022 and has not disclosed the impact of the adoption of NZ IFRS 17 on each financial statement line item.

33.2 Impacts of adoption of NZ IFRS 17 on NZ IFRS 9 *Financial Instruments*

The Group has previously adopted NZ IFRS 9, effective from 1 January 2018. However, as a consequence of adopting NZ IFRS 17 certain assets and liabilities measured under NZ IFRS 9 have been restated in the prior period as stated below.

Restatement of investment contract liabilities

The Group has some investment contracts with minimum death benefits, which represents an embedded floor on that contract. Previously the investment contract (host contract) was separated from the embedded floor and accounted for separately. The investment contract portion was accounted for under NZ IFRS 9 at FVTPL with the fair value of the liability based on the fair value of the financial assets backing this liability. The embedded floor was accounted for under NZ IFRS 4 as an insurance contract.

On adoption of NZ IFRS 17, the embedded floor is out of scope of NZ IFRS 17 due to the economic characteristics and risks of the embedded derivative being closely related to the that of the host contract and is therefore not separated from the host. The entire contract is therefore now accounted for under NZ IFRS 9. This resulted in a restatement of the investment contract liability balance as at 1 January 2022 from $636 million previously reported to $637 million, as the value of embedded derivative is now presented in the same balance sheet line as investment contract liabilities.

Reclassification of financial assets

As permitted under NZ IFRS 17, the Group has elected to revoke its previous designation of certain financial asset as measured at FVTPL as this measurement no longer eliminates or significantly reduces a measurement or recognition inconsistency, due to the application of NZ IFRS 17. These assets are fixed interest securities other than those backing participating funds and unit-linked contracts and are now classified as FVOCI based on the criteria in NZ IFRS 9.

The Group is able to restate the prior period without the use of hindsight and has therefore elected to restate comparative information and apply the full requirements of NZ IFRS 9 to these assets. The classification overlay has been applied to all financial assets that had been derecognised before 1 January 2023 based on how those assets are expected to be classified on initial application of NZ IFRS 9. In applying the classification overlay to financial assets derecognised during the comparative period, the Group has applied the impairment requirements of NZ IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2023:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets as measured at FVTPL.

The following table shows the original and new measurement category of the Group's financial assets. There were no changes to the carrying amounts of financial assets on redesignation.

1 January 2023

$ millions	Original classification	New classification	Carrying amount at 1 January 2023
Financial assets			
Fixed interest securities	FVTPL (designated)	FVOCI	**484**

1 January 2022

$ millions	Original classification	New classification	Carrying amount at 1 January 2022
Financial assets			
Fixed interest securities	FVTPL (designated)	FVOCI	480
Fixed interest securities	FVTPL (designated)	FVTPL (mandatory)	43

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 2023, 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 Accounting Standards (IFRS Accounting Standards).

What we have audited

The Group's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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 over the Annual Solvency Return, agreed-upon procedures for the 31 December 2022 Annual Solvency Return prepared under Interim Solvency Standards, a gap analysis for the climate risk disclosures and a greenhouse gas emissions assurance preconditions assessment. In addition, 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
Transition to NZ IFRS 17 *Insurance Contracts* Effective 1 January 2023, the Group applied the new accounting standard NZ IFRS 17 *Insurance Contracts* ("NZ IFRS 17" or "the standard") which replaced NZ IFRS 4 *Insurance Contracts* (NZ IFRS 4). The adoption of NZ IFRS 17 brought significant changes to the Group's valuation of insurance and reinsurance contracts and the judgements applied. Given this, we considered the adoption to be a key audit matter. In particular, the following components and areas of judgement were deemed to be significant to the overall impact of the transition to NZ IFRS 17 on adoption: • the determination of measurement models (general measurement model, variable fee approach or premium allocation approach (PAA)) to apply to groups of contracts; • the use of the fair value approach, as the information required to apply a full retrospective approach was not sufficiently available; • the level of aggregation used for the valuation of insurance contracts, including: the identification of groups of contracts with similar risks which are managed together, the allocation of contracts to measurement models and cohorts, the determination of contract boundaries, and the onerous contracts assessment; and • the determination of the risk adjustments for non-financial risks and discount rates (adjusted for an illiquidity premium to reflect the liquidity characteristics of insurance and reinsurance contracts). The significant judgements involved in determining the fair value of insurance and reinsurance contracts at the date of initial adoption (1 January 2022) include: • the determination of the cash flows and discount rates applied to those cash flows; • adjustments to the cash flows in relation to the expense assumption, discounted future distributable earnings, risk premium and profit margins; and • the assumption with respect to the percentages of premium required to recover the incurred acquisition cost from future premiums and the present value of the premiums outside the contract boundaries, used in the measurement of the assets for insurance acquisition cash flows (IACF asset).	In considering the NZ IFRS 17 transition, together with PwC actuarial and technical accounting experts, we: • assessed the accounting policies, measurement models, and methodologies used against the requirements of the standard; • assessed the analysis prepared by management to support the conclusion to apply the fair value approach against the requirements of the standard; • tested on a sample basis key attributes of contract policy information to determine the level of aggregation and groups used for valuation purposes, including the classification of groups of contracts identified as onerous; and • evaluated the methodology used in the determination of the risk adjustment for non financial risk and the discount rate (including the illiquidity premium) to external market data and our own industry knowledge (where applicable) and the requirements of the standard. Together with PwC actuarial experts, our procedures over the fair value of the insurance and reinsurance contracts at transition, included: • assessing the completeness and accuracy of the cash flows used in the fair value calculation by comparing them against the cash flows used in the audited 31 December 2021 NZ IFRS 4 actuarial valuation and assessed the reasonableness of the discount rates used against market data applying our own knowledge of the Group and industry; • testing material adjustments to the cash flows against our own expectations based on historical and market observable data (where applicable), applying our knowledge of the Group's business and the requirements of the standard; • assessing the reasonableness of the percentages of premium required to recover the incurred acquisition cost from future premiums and present value of the premium outside the contract boundaries, used for the calculation of the IACF asset, against our own expectations, based on historical data applying our knowledge of the Group's business and the requirements of the standard; and • On a sample basis, we assessed the output of the fair value calculations through a combination of reperformance, using the Group's data in our tools, and assessing the validity of the relationships of key inputs.

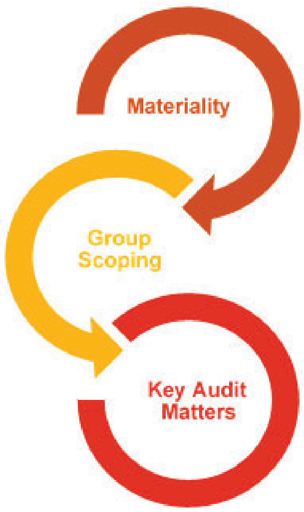
Description of the key audit matter	How our audit addressed the key audit matter
NZ IFRS 17 has also had a significant impact on presentation and disclosures in the financial statements. Refer to the following notes in the financial statements: Note 1.11 for related accounting policies, Note 1.11.9 for transition approach, Note 2 for material accounting estimates and judgements, and Note 33 for the effects of adoption of NZ IFRS 17.	We assessed the appropriateness of the presentation and disclosures in the financial statements against the requirements of NZ IFRS 17 and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*
Valuation of insurance and reinsurance contract assets and liabilities not measured under PAA As at 31 December 2023, the Group held: ● Insurance contract assets not measured under PAA: $1,286m (2022: $1,263m) ● Insurance contract liabilities not measured under PAA: $659m (2022: $693m) ● Reinsurance contract liabilities not measured under PAA: $382m (2022: $287m) There is inherent complexity and significant judgement in setting actuarial assumptions and methodologies for the measurement of fulfillment cash flows and contractual service margin for insurance and reinsurance contracts not measured under PAA. Hence the valuation of these insurance and reinsurance contracts is considered a key audit matter. **Fulfilment Cash Flows (FCF)** Valuation of FCF requires: ● Complex valuation methodologies and the application of assumptions. Key assumptions include: mortality, morbidity, persistency, rates of discontinuance, surrender values, expenses, investment return, claims recovery, discount rates (or yield curve) (adjusted for an illiquidity premium to reflect the liquidity characteristics of insurance and reinsurance contracts) and an explicit risk adjustment for non-financial risk. ● The aggregation of groups of contracts with similar risks which are managed together, the allocation of contracts to measurement models and cohorts, the determination of contract boundaries and tagging contracts as onerous. ● The allocation of acquisition cash flows to determine the IACF asset. The recoverability assessment over the IACF asset is a key area of judgement due to inherent complexity and the use of assumptions in the projection of future premium cash flows required to recover the incurred acquisition cash flows.	Together with PwC actuarial experts, we have understood the components of the insurance and reinsurance contract assets and liabilities, and assessed the material movements in the components against our expectations of the impacts of the methodologies adopted and the assumptions applied by the Group. **Fulfilment Cash Flows (FCF)** In respect of the actuarial methodologies and assumptions used in the measurement of FCF we: ● understood and evaluated the effectiveness of the design and, where deemed appropriate, tested the operating effectiveness of the key controls in place over: the valuation methodologies, material model changes, the systems used and in determining assumptions; ● read the actuarial methodology documentation and assessed material changes against the requirements of the standard; ● tested the implementation of the actuarial methodologies and the accuracy of the output from the actuarial models, on a sample basis, by: – recalculating policy cash flow projections over their determined contract boundaries from the models; and – recalculated the reinsurance allocation on incurred claims; ● assessed the appropriateness of the methodologies used to derive the assumptions by applying our industry knowledge and experience; and ● compared the assumptions used against past experience, market observable data (where available) and our experience of industry practice. We further tested the application of the methodologies and assumptions on a sample basis by: ● agreeing key attributes of contract policy information to each underlying contract to determine the level of aggregation and groups used for valuation purposes; ● comparing the onerous contract tagging to the modelled outputs of the FCF; ● assessing the reasonableness of the modelled outputs by understanding the relationships of key assumptions and inputs to the material movements; and

Description of the key audit matter	How our audit addressed the key audit matter
Contractual Service Margin (CSM) The CSM of a group of contracts represents the unearned profits that will be recognised as the Group provides and receives services under the insurance and reinsurance contracts. The unwinding of CSM, including the determination of discount rates used at initial recognition and coverage units, involves a high degree of management judgement to identify the quantity of services provided. **Data** There is inherent risk associated with the completeness and accuracy of policy and claims data used in the valuation given the volume of data and changes to data required through the valuation process. Refer to the following notes in the financial statements: Note 1.11 for related accounting policies, Note 2 for material accounting estimates and judgements, and Note 14 for insurance contracts and reinsurance contracts held.	• evaluating management's impairment assessment of the IACF asset, and tested the projection of premium cash flows used in the impairment assessment against the Group's historical experience and application of expenses and rates of discontinuance assumptions. **Contractual Service Margin (CSM)** Our procedures included: • assessing the unwind of coverage units in respect to the services to be provided or received against our understanding of the product groups; and • assessing the methodology to determine the discount rates at initial recognition against market observable data and our experience of industry practice. **Data** Our procedures included: • understanding and evaluating the design and testing of the operating effectiveness of key controls in place to ensure data integrity from policy administration and claim systems, into the actuarial models; and • testing, on a sample basis, the accuracy of the policy, claims and reinsurance attributes used within the actuarial models against the source systems and/or supporting documents.
Recoverability of the deferred tax asset arising from tax losses As at 31 December 2023 the Group had a deferred tax asset arising from tax losses of $153m (2022: $104m). We considered recoverability of the deferred tax asset a key audit matter because significant 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. The utilisation of the asset is over 15 to 18 years and is sensitive to the expected future taxable profits and sufficient continuity of the ultimate shareholder or business activity. The valuation of life reinsurance treaties has been impacted by the adoption of NZ IFRS 17 which has a material impact on the deferred tax asset. Refer to the following notes in the financial statements: Note 1.9 for related accounting policies, Note 2.6 for material accounting estimates and judgements, and Note 16 for deferred taxation.	In considering the recoverability of the deferred tax asset arising from tax losses, together with PwC actuarial, accounting and tax experts, we: • obtained management's tax forecast and assessed the reasonableness of the key assumptions (including, in particular, projected new business growth, discount rates, premiums from continuing business and expenses) used to determine future taxable profits with reference to: – the Group's recent performance and the key factors that have driven recent tax losses; – our own industry knowledge and experience; and – the impacts on the adoption of NZ IFRS 17 on the valuation of life financial reinsurance treaties; • obtained an understanding of, and tested on a sample basis, the processes and controls in place to determine the assumptions; and • 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.

Description of the key audit matter	How our audit addressed the key audit matter
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 provided information, directly and indirectly, from a number of different source 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. Where exceptions were noted from the testing outlined above, we performed alternative or additional audit procedures. Where appropriate, this involved a combination of the following procedures: • Testing mitigating controls; • Investigating to determine whether the risk associated with the exception had materialised; and • Determining whether key functionality of the applications changed during the period under audit.

Our audit approach

Overview



Overall group materiality: $9.5 million, which represents approximately 1% of insurance revenue.

We chose insurance revenue as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is a generally accepted benchmark for life insurers. The application of approximately 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 four key audit matters, being:

- Transition to NZ IFRS 17 *Insurance Contracts*
- Valuation of insurance and reinsurance contract assets and liabilities not measured under PAA
- 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 Accounting Standards, 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 Vatsana Vanpraseuth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
22 April 2024

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 (**Act**) is prepared in respect of the financial statements of AIA New Zealand Limited (**AIA NZ**) for the 12-month period ended 31 December 2023.

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

My review has been carried out in accordance with the Interim Solvency Standard 2023 issued by the Reserve Bank of New Zealand under section 55 of the Act (**Interim Solvency Standard**) and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

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

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

  (i) information relating to AIA NZ's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;

  (ii) information relating to assessments of the probability of uncertain future events occurring and the financial implications for AIA NZ if those events do occur;

  (iii) the liability for remaining coverage, including:

    a. central estimate of expected claims and recoveries;

    b. allowance for policy administration and claim-handling expenses;

    c. the contractual service margin;

    d. a risk adjustment; and

    e. discounting as required.

  (iv) the liability for incurred claims, including:

    a. central estimate of expected claims and recoveries;

    b. allowance for claim-handling expenses;

    c. a risk adjustment; and

    d. discounting as required.

  (v) the reinsurance liability for remaining coverage;

  (vi) the reinsurance liability for incurred claims;

  (vii) any deferred acquisition costs or deferred fee revenue relevant to the liability for remaining coverage;

  (viii) the policyholder share of the estate for participating life business;

  (ix) results of any tests for onerousness, as detailed in NZ IFRS 17;

  (x) the crediting and bonus rates used for participating and investment account contracts;

(xi) the analysis of the Company's profit and the movement in the solvency margin;

(xii) the sensitivity of the Company's profit to changes in insurance and market risk assumptions;

(xiii) the assumptions used in the calculation of the liability for remaining coverage, the liability for incurred claims and the solvency margin and the impacts of changes in those assumptions;

(xiv) the methodology used to calculate the liability for remaining coverage, the liability for incurred claims and the solvency margin;

(xv) the consistency between NZ IFRS 17, the Company's valuation methodology document and the calculated liability for remaining coverage and the liability for incurred claims; and

(xvi) the Company'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:

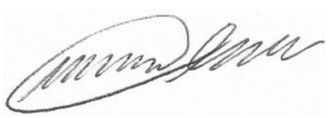
(i) the actuarial information contained in the Financial Statements has been appropriately included in those Financial Statements; and

(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 2023, is maintaining a solvency margin that complies with that required under the Interim 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 2023, AIA NZ is maintaining solvency margins that comply with those required under the Interim 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 22 April 2024

Marco Welgemoed
Appointed Actuary

Auckland