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CHWEE LIAN

AIA SINGAPORE PRIVATE LIMITED

(Incorporated in Singapore. Registration Number: 201106386R)

ANNUAL REPORT

For the financial year ended 31 December 2019

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

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AIA SINGAPORE PRIVATE LIMITED
(Incorporated in Singapore. Registration Number: 201106386R)

ANNUAL REPORT
For the financial year ended 31 December 2019

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ANNUAL REPORT
For the financial year ended 31 December 2019

Contents

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

The directors present their statement to the member together with the audited financial statements of the Company for the financial year ended 31 December 2019.

In the opinion of the directors,

(a) the financial statements as set out on pages 6 to 133 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Company for the financial year ended 31 December 2019; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors in office at the date of this statement are as follows:

Tan Hak Leh	(appointed on 24 June 2019)
Jacky Chan	(resigned on 28 January 2020)
Patrick Teow	
Mitchell New	
Liew Heng San	
Ho Hon Cheong	
Ong Sim Ho	
Sim Beng Mei, Mildred	(appointed on 2 January 2020)
Jayne Lynn Plunkett	(appointed on 28 January 2020)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

The directors who held office at the end of the financial year have been granted exemption from compliance with Section 201(16) and paragraph 9 of the Twelfth Schedule of the Companies Act, Chapter 50 (the "Act"). Full detailed information regarding directors' interests in shares or debentures of the Company or of related corporations, either at the beginning of the financial year, or at the end of the financial year, can be obtained at the registered office of the Company, in accordance with Section 164(8) and (9) of the Act.

Share options

There were no options granted during the financial year to subscribe for unissued shares of the Company.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

Tan Hak Leh
Director

Patrick Teow
Director

27 MAR 2020

INDEPENDENT AUDITOR'S REPORT
To the Member of AIA Singapore Private Limited
For the financial year ended 31 December 2019

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying financial statements of AIA Singapore Private Limited (the "Company") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Company for the financial year ended on that date.

What we have audited

The financial statements of the Company comprise:

- the statement of comprehensive income for the financial year ended 31 December 2019;
- the balance sheet as at 31 December 2019;
- the statement of changes in equity for the financial year then ended;
- the statement of cash flows for the financial year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). 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 Company in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement 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 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, 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 Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

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 SSAs 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.

INDEPENDENT AUDITOR'S REPORT
To the Member of AIA Singapore Private Limited
For the financial year ended 31 December 2019 (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP

Public Accountants and Chartered Accountants
Singapore,
27 MAR 2020

AIA SINGAPORE PRIVATE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Revenue			
Premium and fee income	5	**5,614,163**	4,983,313
Premiums ceded to reinsurers	6	**(618,583)**	(537,820)
Net premiums and fee income		**4,995,580**	4,445,493
Investment return	7	**2,539,675**	1,119,188
Other operating revenue		**10,204**	7,081
Total revenue		**7,545,459**	5,571,762
Expenses			
Insurance and investment contract benefits		**(7,202,728)**	(4,000,598)
Insurance and investment contract benefits ceded		**833,968**	470,797
Net insurance and investment contract benefits		**(6,368,760)**	(3,529,801)
Commission and other acquisition expenses		**(741,464)**	(691,098)
Operating expenses		**(376,713)**	(362,120)
Investment management expenses and others		**(149,855)**	(140,298)
Finance costs		**(9,678)**	(14,903)
Total expenses	9	**(7,646,470)**	(4,738,220)
(Loss)/profit before tax		**(101,011)**	833,542
Income tax (expense)/credit	10	**(60,078)**	30,800
(Loss)/profit after tax		**(161,089)**	864,342
Other comprehensive income ("OCI"):			
Items that may be reclassified subsequently to profit or loss:			
Fair value gains/(losses) on available for sale financial assets	34	**2,831,316**	(1,655,206)
Fair value gains on available for sale financial assets transferred to profit or loss on disposal	34	**(138,152)**	(329,040)
		2,693,164	(1,984,246)
Tax on Transfer from Fair Value Reserve	34	**3,649**	2,398
Other reserves (loss)/gain		**(1,654,809)**	1,362,618
Items that will not be reclassified subsequently to profit or loss:			
Revaluation gains on land and buildings	34	**5,302**	22,730
Remeasurement of defined benefit		**-**	68
Other comprehensive income/(loss), net of tax		**1,047,306**	(596,432)
Total comprehensive income		**886,217**	267,910

The accompanying notes form an integral part of these financial statements.

AIA SINGAPORE PRIVATE LIMITED

BALANCE SHEET
As at 31 December 2019

	Note	**2019** **$'000**	2018 $'000
ASSETS			
Intangible assets	11	**59,545**	56,933
Investment in subsidiaries	12	**47,250**	47,250
Investment in associated companies	13	*****	*
Property and equipment	14	**520,795**	429,115
Investment property	16	**190,511**	197,048
Deferred acquisition and origination costs	17	**94,257**	110,585
Reinsurance assets	18	**2,069,478**	1,678,140
Loans and deposits	19	**541,433**	772,332
Financial investments:			
Available for sale			
Debt securities	20	**30,390,723**	27,180,437
Equity securities	20	**7,844,011**	6,414,791
At fair value through profit or loss			
Debt securities	20	**1,862,640**	1,755,989
Equity securities	20	**6,347,519**	5,487,629
Derivative financial instruments	21	**118,294**	116,071
Total financial investments		**46,563,187**	40,954,917
Current tax recoverable	10	**4,434**	-
Other assets	22	**640,504**	651,551
Cash and cash equivalents	23	**334,360**	421,289
Total assets		**51,065,754**	45,319,160
LIABILITIES			
Insurance contracts	24	**36,420,842**	31,763,780
Investment contracts	25	**5,395,459**	4,849,701
Obligation under repurchase agreements	26	**88,032**	490,189
Derivative financial instruments	21	**183,408**	181,575
Provisions	27	**16,119**	17,954
Deferred tax liabilities	28	**1,386,767**	1,136,435
Current tax liabilities	10	**-**	49,637
Other liabilities	29	**4,315,843**	4,106,197
Total liabilities		**47,806,470**	42,595,468
EQUITY			
Share capital	32	**1,374,000**	1,374,000
Retained earnings		**1,039,427**	1,551,516
Reserves	34	**845,857**	(201,824)
Total equity	33	**3,259,284**	2,723,692
Total liabilities and equity		**51,065,754**	45,319,160

* *Less than $1,000*

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

	Share capital $'000	Retained earnings $'000	Reserves $'000	Total equity $'000
2019				
Beginning of financial year	1,374,000	1,551,516	(201,824)	2,723,692
Loss after tax	-	(161,089)	-	(161,089)
Revaluation gains on land and buildings (Note 34)	-	-	5,302	5,302
Fair value gains on available for sale financial assets	-	-	2,831,316	2,831,316
Fair value gains on available for sale financial assets transferred to profit or loss on disposal	-	-	(138,152)	(138,152)
Tax on transfer reclassified from Fair Value Reserve [Note 4(vi) and Note 34(b)(ii)]	-	-	3,649	3,649
Defined benefit	-	-	-	-
Shadow accounting	-	-	(1,654,809)	(1,654,809)
Total comprehensive income for the year	-	(161,089)	1,047,306	886,217
Shared-based compensation	-	-	375	375
Dividends (Note 35)	-	(351,000)	-	(351,000)
End of financial year	**1,374,000**	**1,039,427**	**845,857**	**3,259,284**
2018				
Beginning of financial year	1,374,000	1,050,174	394,537	2,818,711
Profit after tax	-	864,342	-	864,342
Revaluation gains on land and buildings (Note 34)	-	-	22,730	22,730
Fair value losses on available for sale financial assets	-	-	(1,655,206)	(1,655,206)
Fair value gains on available for sale financial assets transferred to profit or loss on disposal	-	-	(329,040)	(329,040)
Tax on Transfer from Fair Value Reserve [Note 4(vi) and Note 34(b)(ii)]	-	-	2,398	2,398
Defined benefit	-	-	68	68
Shadow accounting	-	-	1,362,618	1,362,618
Total comprehensive income for the year	-	864,342	(596,432)	267,910
Shared-based compensation	-	-	71	71
Dividends (Note 35)	-	(363,000)	-	(363,000)
End of financial year	**1,374,000**	**1,551,516**	**(201,824)**	**2,723,692**

The accompanying notes form an integral part of these financial statements.

AIA SINGAPORE PRIVATE LIMITED

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Profit after tax		**(161,089)**	864,342
Adjustments for:			
- Income tax expense/(credit)	10	**60,078**	(30,800)
- Amortisation and depreciation expense	11/14	**38,925**	21,879
- Allowance for doubtful debts	22	**28**	32
- Intangible asset, investment property and property and equipment written-off	11/14/16	**287**	1,531
- Investment income	7	**(1,476,128)**	(1,452,161)
- Finance costs	9	**9,678**	14,903
- Fair value loss on derivative financial instruments	7	**18,865**	45,623
- Impairment charge of intangible assets	11	**252**	-
- Net fair value (gain)/loss on financial assets at fair value through profit or loss	7	**(1,000,287)**	672,884
- Net realised gains on disposal of available for sale financial assets	7	**(140,635)**	(331,246)
- (Reversal of impairment)/impairment of available for sale debt securities	7	**(16,612)**	17,626
- Net unrealised foreign exchange loss/(gain)		**57,250**	(78,803)
- Net fair value loss/(gain) on investment property	16	**486**	(864)
- Insurance and investment contracts		**5,367,069**	186,874
Operating cash flows before changes in working capital		**2,758,167**	(68,180)
Changes in working capital			
- Other assets		**(369,487)**	(134,593)
- Other liabilities		**(252,228)**	(57,537)
- Provisions		**(1,837)**	(910)
Cash generated from/(used in) operations		**2,134,615**	(261,220)
Income tax paid	10	**(48,327)**	(106,120)
Net cash provided by/(used in) operating activities		**2,086,288**	(367,340)
Cash flows from investing activities			
Purchases of property and equipment, intangible assets and investment property		**(35,080)**	(34,911)
Proceeds from sale of property and equipment		**-**	2,349
Interest expense paid		**(8,786)**	(15,312)
Dividends received		**275,377**	271,177
Interest received		**1,186,720**	1,163,760
Other investment income		**7,054**	6,948
Loans to policyholders and related company		**156**	(984)
Proceeds/(placement) of fixed deposit		**230,743**	(15,004)
Net purchase of derivative financial instruments		**(17,791)**	(12,380)
Net purchase of other financial assets		**(3,447,208)**	(521,342)
Net cash (used in)/generated from investing activities		**(1,808,815)**	844,301
Cash flows from financing activities			
Principal repayment of lease liabilities	15	**(13,343)**	-
Dividends paid	35	**(351,000)**	(363,000)
Net cash used in financing activities		**(364,343)**	(363,000)
Net (decrease)/increase in cash and cash equivalents		**(86,870)**	113,960
Effect of exchange rate changes on cash and cash equivalents		**(59)**	159
Cash and cash equivalents at beginning of financial year		**421,289**	307,169
Cash and cash equivalents at end of financial year	23	**334,360**	421,289

The accompanying notes form an integral part of these financial statements.

Reconciliation of liabilities arising from financing activities

	1 January 2019 $'000	Proceeds from borrowings $'000	Principal payments $'000	Non-cash changes $'000				31 December 2019 $'000
				Adoption of FRS 116	Interest expense	Addition – new leases	Foreign exchange movement	
Promissory note	-	351,000	(351,000)	-	-	-	-	-
Lease liabilities	-	-	(13,343)	85,081	1,642	2,702	-	76,082

	1 January 2018 $'000	Proceeds from borrowings $'000	Principal payments $'000	Non-cash changes $'000	31 December 2018 $'000
				Foreign exchange movement	
Promissory note	-	363,000	(367,089)	4,089	-

The Company entered into promissory note arrangements with regards to its dividend payments to its shareholder.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The Company is incorporated and domiciled in Singapore. The address of its registered office is 1 Robinson Road, AIA Tower, Singapore 048542.

The principal activities of the Company are to underwrite life and general insurance and to perform investment functions incidental thereto.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 Adoption of FRS

The Accounting Standards Council Singapore ("ASC") has issued a number of new FRS and amendments to FRS that are effective in the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

(a) Temporary exemption on adoption of FRS 109 Financial Instruments

FRS 109 replaces FRS 39 Financial instruments: Recognition and Measurement and its relevant interpretations.

FRS 109 addresses the classification, measurement and recognition of financial assets and financial liabilities. FRS 109 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual

2. Significant accounting policies (continued)

2.2 Adoption of FRS (continued)

(a) Temporary exemption on adoption of FRS 109 Financial Instruments (continued)

cash flow characteristics of the instrument. In addition, a revised expected credit loss model will replace the incurred loss impairment model in FRS 39.

For financial liabilities, the standard retains most of the FRS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The ASC made further changes to two areas of FRS 109. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss.

The standard is mandatorily effective for financial periods beginning on or after 1 January 2018 (except for prepayment features with negative compensation and modifications or exchange of financial liabilities that do not result in derecognition which will become effective for financial periods beginning on or after 1 January 2019), but the Company qualifies for a temporary exemption as explained in Note 2.2(b).

Additional disclosures required by FRS 109 is made in Note 42.

(b) Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts (Amendments to FRS 104)

As stated in Note 2.2 (a), these amendments provide a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of FRS 109 until the earlier of the effective date of FRS 117 and financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before FRS 117 is applied. Based on the amendments to FRS 104, the Company is eligible for and will elect to apply the temporary option to defer the effective date of FRS 109 in order to implement the changes in parallel with FRS 117.

2. Significant accounting policies (continued)

2.2 Adoption of FRS (continued)

(c) Deferral for FRS 117 Insurance Contracts

ASC adopted IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments without modification into FRS 117 and FRS 109. FRS 117 Insurance Contracts will replace the current FRS 104 insurance contract standard. FRS 117 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, FRS 117 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. However, IASB proposed in June 2019 to defer IFRS 17 and extend the temporary IFRS 9 exemption available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral was published in the Exposure Draft amendments to IFRS 17 for public consultation which ended on 25 September 2019. This was consequently approved on 18 March 2020 where the effective date has now been deferred to periods beginning on or after 1 January 2023. ASC has not made any announcements related to IASB's proposed deferral for FRS 117.

(d) Adoption of FRS 116 Leases

When the Company is the lessee

Prior to the adoption of FRS 116, non-cancellable operating lease payments were not recognised as liabilities in the balance sheet. These payments were recognised as rental expenses over the lease term on a straight-line basis.

The Company's accounting policy on leases after the adoption of FRS 116 is as disclosed in Note 2.19.

2. Significant accounting policies (continued)

2.2 Adoption of FRS (continued)

(d) Adoption of FRS 116 Leases (continued)

When the Company is the lessee (continued)

On initial application of FRS 116, the Company has elected to apply the following practical expedients:

(i) For all contracts entered into before 1 January 2019 and that were previously identified as leases under FRS 17 *Lease* and INT FRS 104 *Determining whether an Arrangement contains a Leases*, the Company has not reassessed if such contracts contain leases under FRS 116; and

(ii) On a lease-by-lease basis, the Company has:
(a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
(b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;

(c) accounted for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
(d) excluded initial direct costs in the measurement of the right-of-use ("ROU") asset at the date of initial application; and
(e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There were no onerous contracts as at 1 January 2019.

For leases previously classified as operating leases on 1 January 2019, the Company has applied the following transition provisions:

(i) On a lease-by-lease basis, the Company chose to measure its ROU assets at an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application (i.e. 1 January 2019).

(ii) Recognised its lease liabilities by discounting the remaining lease payments as at 1 January 2019 using the incremental borrowing rate for each individual lease or, if applicable, the incremental borrowing rate for each portfolio of leases with reasonably similar characteristic.

2. Significant accounting policies (continued)

2.2 Adoption of FRS (continued)

(d) Adoption of FRS 116 Leases (continued)

When the Company is the lessee (continued)

The effects of adoption of FRS 116 on the Company's financial statements as at 1 January 2019 are as follows:

	Increase
	$'000
Property and equipment	85,081
Other liabilities	85,081

The differences between the operating lease commitments previously disclosed in the Company's financial statements as at 31 December 2018 and the lease liabilities recognised in the balance sheet as at 1 January 2019 mainly include extension options, short-term leases and low-value leases.

2. Significant accounting policies (continued)

2.3 Revenue recognition

(a) *Premium income*

For the accounting policy on premium income, see Note 2.22.

(b) *Investment return*

Investment return consists of investment income and investment experience.

Investment income consists of dividends, rent receivable, and interest income.

Investment experience comprises realised gains and losses, unrealised gains and losses on investments held at fair value through profit or loss and impairment on financial assets as disclosed in Note 2.8(e).

Interest income is recognised as it accrues, using the effective interest method.

Rental income from operating leases (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Dividend income is recognised when the right to receive payment is established.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains or losses represent the difference between carrying value at the year end and the carrying value at the previous year end or purchase price if purchased during the year, less the reversal of previously recognised unrealised gains or losses in respect of disposals made during the year.

(c) *Other fee income*

Other fee income consists primarily of fund management fees and income from any incidental non-insurance activities. Recognition of other fee income is described and disaggregated in Note 5.

2. Significant accounting policies (continued)

2.3 Revenue recognition (continued)

(d) Other operating revenue

Other operating revenue largely consist of administrative fees, or membership fees.

The performance obligation in these administrative service contracts and membership fees can be broadly divided into two distinct categories:

(i) Service transferred over time – services are provided evenly over the contract term. The fees billed to the client every period is aligned to the efforts spent by the Company to perform those services and therefore, revenue is recognised over the contract term on a systematic basis.

(ii) Service transferred at a point in time – this usually refers to additional administrative requests. The fees are recognised as revenue at the point in time when the related services take place.

2.4 Group accounting

The Company is a wholly-owned subsidiary of AIA Company, Limited ("AIA"), incorporated in Hong Kong. These financial statements are the separate financial statements of AIA Singapore Private Limited. The Company is exempted from the requirement to prepare consolidated financial statements as AIA is a wholly-owned subsidiary of AIA Group Limited ("AIAGL"), which produces consolidated financial statements available for public use. The registered office of AIA Group Limited is 35/F, AIA Central, Connaught Road, Central, Hong Kong.

(a) Subsidiaries

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investments in the subsidiaries are accounted for as described in Note 2.14.

2. Significant accounting policies (continued)

2.4 Group accounting (continued)

(b) Associated companies

Associated companies are entities over which the Company has significant influence, but not control, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%.

The Company's share of the results of associated companies is not accounted for in the statement of comprehensive income except for dividends received. Investments in associated companies are accounted for as described in Note 2.14.

2.5 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

The financial statements of the Company are presented in Singapore Dollars, which is the Company's functional currency.

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. Foreign exchange differences are recorded in Investment experience (except for equity securities held as available for sale as explained in Note 2.8(d)).

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

2. Significant accounting policies (continued)

2.6 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset and liability that affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities except for investment properties. Investment property measured at fair value is presumed to be recovered entirely through sale.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a transaction which is recognised directly in equity or in other comprehensive income.

In addition to paying tax on shareholder’s profits, certain of the Company’s life insurance businesses pay tax on policyholders’ investment returns (“policyholder tax”) at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total income tax expense.

2. Significant accounting policies (continued)

2.7 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash at bank and on hand, deposits with financial institutions and other short-term highly liquid investments with maturity at acquisition of three months or less, which are subject to an insignificant risk of change in value.

2.8 Financial assets

(a) Classification

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed, and their performance is evaluated on a fair value basis, in accordance with a documented Company investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are presented as “cash and cash equivalents”, “receivables from sales of investments”, “accrued investment income”, “insurance receivables”, “related party receivables”, “other receivables”, “amounts recoverable from reinsurers” and “loans and deposits” on the balance sheet.

(iii) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in other comprehensive income relating to that asset is reclassified to profit or loss.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

(d) Subsequent measurement

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

Interest and dividend income on available for sale financial assets, are recognised separately in profit or loss. Changes in the fair values of available for sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in other comprehensive income and accumulated in fair value reserve. Changes in fair values of available for sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in fair value reserve, together with the related currency translation differences.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(e) Impairment

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decreases can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Available for sale financial assets

In addition to the objective evidence of impairment described in Note 2.8(e)(i), a significant or prolonged decline in the fair value of the security below its cost is objective evidence that the available for sale financial asset is impaired.

If objective evidence of impairment exists, the cumulative loss that had been recognised in other comprehensive income (fair value reserve) is reclassified from equity to profit or loss. The amount of cumulative loss, that is reclassified, is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. The impairment losses recognised as an expense for an equity security are not reversed through profit or loss in subsequent periods.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(f) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.9 Derivative financial instruments

Derivative financial instruments principally include cross currency interest rate swaps, forward exchange contracts and interest rate swaps that derive their value mainly from underlying foreign exchange rates and interest rates. A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive or as liabilities when the fair values are negative.

Whilst the Company enters into derivative transactions to provide economic hedges under AIA's risk management framework, it does not currently apply hedge accounting to these transactions. This is either because the transactions would not meet the specific FRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. These transactions are therefore treated as held for trading and fair value movements are recognised immediately in profit or loss.

2.10 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method.

2.11 Property and equipment

(a) Measurement

(i) Land and buildings

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at revalued amounts less accumulated impairment losses. Buildings and leasehold land are subsequently carried at revalued amounts less accumulated depreciation and accumulated impairment losses.

2. Significant accounting policies (continued)

2.11 Property and equipment (continued)

(a) Measurement (continued)

(i) Land and buildings (continued)

Property valuations are executed by an independent professional valuer. A detailed valuation is carried out once every two years and a desktop valuation is performed in the intervening year. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

Increases in carrying amounts arising from revaluation are recognised in other comprehensive income and accumulated in the asset revaluation reserve, unless they reverse a revaluation decrease of the same asset previously recognised in profit or loss. In this case, the increases are recognised in profit or loss. Decreases in carrying amounts are recognised in other comprehensive income to the extent of any credit balance existing in the asset revaluation reserve in respect of that asset and reduces the amount accumulated in the asset revaluation reserve. All other decreases in carrying amounts are recognised as a loss in profit or loss.

(ii) Other property and equipment

All other items of property and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(iii) Components of costs

The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2. Significant accounting policies (continued)

2.11 Property and equipment (continued)

(b) Depreciation

Freehold land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Buildings (including building improvements)	2-54 years
Furniture, fittings, fixtures and equipment	5-10 years
Computer hardware and software	3 years
Motor vehicles	5 years

Assets under construction included in property and equipment are not depreciated as these assets are not yet available for use.

The residual values, estimated useful lives and depreciation method of property and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in profit or loss for the financial year in which the changes arise.

(c) Subsequent expenditure

Subsequent expenditure relating to property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits associated with the item, will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "Other net realised gains" in Note 7. Any amount in revaluation reserve relating to that item is transferred to retained earnings directly.

2. Significant accounting policies (continued)

2.12 Investment properties

Investment properties include those portions of office buildings that are held for long-term rental yields and/or for capital appreciation and land under operating leases that is held for long-term capital appreciation or for a currently indeterminate use.

Investment properties are initially recognised at cost and subsequently carried at fair value, determined annually by an independent professional valuer on the highest-and-best-use basis. Changes in fair values are recognised in profit or loss.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

Where a property is partly used as an investment property and partly for the use of the Company, these elements are recorded separately within property and equipment and investment property respectively, where the component used as investment property would be capable of separate sale or finance lease.

2.13 Provisions and contingencies

Provisions are recognised when the Company has a present, legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of past event, but either a payment is not probable or the amount cannot be reliably estimated.

2.14 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are measured at cost less accumulated impairment losses in the Company’s balance sheet. On disposal of an investment in a subsidiary or an associated company, the difference between the net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

2. Significant accounting policies (continued)

2.15 Impairment of non-financial assets

Intangible assets
Property and equipment (including property held for own use)
Investment in subsidiaries and associated companies

Intangible assets, property and equipment and investment in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating-units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease to the extent it offsets previously recognised revaluation increases in that asset. Please refer to paragraph "Property and equipment" for the treatment of a revaluation decrease.

An impairment loss for an asset is reversed only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also credited to profit or loss.

2. Significant accounting policies (continued)

2.16 Employee compensation

(a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The Company's contributions are recognised as employee compensation expense when they are due.

(b) *Annual leave and long service leave*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(c) *Post-retirement benefits obligation*

The Company operates unfunded defined benefit plans that provide life benefits for employees. Only employees who opted to stay in this plan on 1 January 2014 and retirees that have retired as of 1 January 2014 are eligible. For defined benefit plans, the costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to profit or loss so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The resulting scheme surplus or deficit appears as an asset or liability in the balance sheet.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in staff costs in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs. Details of the plans can be found in Note 27.

2. Significant accounting policies (continued)

2.16 Employee compensation (continued)

(d) Share-based compensation

The ultimate holding company, AIA Group Limited ("AIAGL"), launched a number of share-based compensation plans, under which the Company receives services from the agents, employees, directors and officers as consideration for the shares and/or share options of AIAGL. These share-based compensation plans comprise the Share Option Scheme ("SO Scheme"), the Restricted Share Unit Scheme ("RSU Scheme"), the Employee Share Purchase Plan ("ESPP"), and the Agency Share Purchase Plan ("ASPP").

The AIA Group's share compensation plans offered to the Company's employees 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 grant of AIAGL's shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or options awarded. Non-market vesting conditions are included in assumptions about the number of shares and/or options that are expected to be vested. At each period end, the Company revises its estimates of the number of shares and/or options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to equity. 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.

The Company estimates the fair value of share options using a binomial lattice model. This model requires inputs such as 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.

2. Significant accounting policies (continued)

2.17 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

2.18 Obligation under repurchase agreements ("repos")

Repos are treated as collateralised borrowings and the amount borrowed is shown as a liability in the balance sheet. The securities sold under repos are treated as pledged assets and continue to be recognised as an asset in the balance sheet. The difference between the amount received and paid under repos is amortised as interest expense.

2.19 Leases

(a) The accounting policy for leases <u>before 1 January 2019</u> is as follows:

(i) When the Company is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(ii) When the Company is the lessor

The Company leases building floor areas under operating leases to third parties for monthly lease payments.

- Lessor – Operating leases

  Leases where the Company retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

  Contingent rents are recognised as an income in profit or loss when earned.

2. Significant accounting policies (continued)

2.19 Leases (continued)

(b) The accounting policy for leases from 1 January 2019 is as follows:

(i) When the Company is the lessee

At the inception of the contract, the Company assesses if the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

- Right-of-use assets

  The Company recognised a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

  The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

  Right-of-use assets (except for those which meets the definition of an investment property) are presented within "Property and equipment".

- Lease liabilities

  Lease liability is measured at amortised cost using the effective interest method. Lease liability shall be remeasured when:

  - There is a change in future lease payments arising from changes in an index or rate;
  - There is a change in the Company's assessment of whether it will exercise an extension option; or
  - There are modifications in the scope or the consideration of the lease that was not part of the original term.

  Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The interest in respect of lease liabilities is recognised as finance costs.

2. Significant accounting policies (continued)

2.19 Leases (continued)

(b) The accounting policy for leases from 1 January 2019 is as follows: (continued)

(i) When the Company is the lessee (continued)

- Short-term and low-value assets

  The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

(ii) When the Company is the lessor

Lessor accounting under FRS 116 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, FRS 16 does not have an impact for leases where the Company is the lessor.

2.20 Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation period and amortisation method of intangible assets are reviewed at least once annually at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise. The amortisation charge for the year is included in profit or loss under “Operating expenses”.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs directly associated with the internal production of identifiable and unique software by the Company that will generate economic benefits exceeding those costs over a period greater than a year, are recognised as intangible assets. All other costs associated with developing or maintaining computer software programmes are recognised as an expense in profit or loss as incurred.

Costs of acquiring computer software licences and costs incurred in the internal production of computer software are amortised using the straight-line method over the estimated useful life of the software, which does not generally exceed a period of 3 years for purchased software and 15 years for internally developed software.

2. Significant accounting policies (continued)

2.20 Intangible assets (continued)

Other intangible assets

Other intangible assets include club membership which is stated at cost and less impairment losses. The club membership has indefinite useful life and assessment for impairment is performed annually or more frequently if the events and circumstances indicate the carrying value may be impaired.

2.21 Reinsurance

The Company cedes reinsurance in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies.

Premiums ceded and claims reimbursed are presented on a gross basis in profit or loss. The corresponding commission from reinsurance business is recognised upon receipt of acceptance confirmation from the ceding company.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance liabilities or benefits paid and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in profit or loss. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Company will receive from the reinsurer can be reliably measured.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts

(a) Classification

The Company issues contracts that transfer insurance risk, financial risk or both. For the purposes of these financial statements, contracts are classified as Insurance Contracts or Investment Contracts.

(i) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario in which it does not. Scenarios considered are those with commercial substance.

(ii) Investment contracts

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Once a contract has been classified as an insurance or investment contract, no reclassification is subsequently performed, unless the terms of the agreement are later amended.

Both insurance and investment contracts may contain a Discretionary Participation Feature (“DPF”). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:
    - the performance of a specified pool of contracts or a specified type of contract; or
    - realised and/or unrealised investment returns on a specified pool of assets held by the Company; or
    - profit or loss of the Company or an insurance fund held by the Company.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement

(i) Insurance and investment contracts

(1) Insurance contracts (general business)

General insurance contracts include personal lines and personal accident hybrid insurance. Premiums are recognised when they become payable by the contract holder and then earned as revenue over the policy period. Premiums are shown before deduction of commission.

Claims are charged to profit or loss as incurred. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported.

Outstanding claims

Full provision is made for the estimated cost of all claims notified but not settled at the date of the balance sheet, less reinsurance recoveries, using the best information available at that date.

Deferred acquisition costs

Deferred acquisition costs which represent commission and other related expenses for general insurance are deferred over the period in which the related premiums are earned.

(2) Traditional insurance contracts (life business)

Traditional insurance contracts include accident and health insurance, whole life and term life insurance, endowment insurance, and annuity policies with significant life contingency risk. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(i) Insurance and investment contracts (continued)

(2) Traditional insurance contracts (life business) (continued)

Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported.

A number of insurance contracts contain dividends or bonuses. Dividends are either regular (payable on the eligible policy anniversary) or terminal (payable on policy termination). Dividends and bonuses are included as benefit payments in the calculation of policy liabilities. These insurance contracts are participating policies and are classified as insurance contracts with discretionary participating features ("DPF"). The DPF is classified as a liability in the Company's balance sheet and as part of claims and benefits incurred in the profit or loss.

(3) Investment type insurance contracts (life business) – Universal life

Premiums are recognised as revenue when they are received. Premiums are shown before deduction of commission.

Interest credited to the account balances increases the policy liability while benefit claims are charged as benefit outgo in profit or loss.

(4) Investment type insurance contracts (life business) – Investment-linked

Premiums are recognised as revenue when they are received. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(i) Insurance and investment contracts (continued)

(5) Investment contracts with DPF (life business)

These are investment contracts with additional non-guaranteed benefits supplemental to guaranteed benefits, and they are participating. Premiums are recognised as revenue when they become payable by the contract holder. When withdrawals or claims are made, the liability is reduced accordingly.

(6) Investment contracts without DPF (life business)

These are investment contracts with fixed and guaranteed terms, and they are non-participating. Premiums received are recorded as a liability. When withdrawals or claims are made, the liability is reduced accordingly.

Fee income on investment contracts without DPF consists primarily of service fees that are charged up-front for administrative services provided over time and service fees from any other additional services provided. All fee income on investment contracts without DPF for services provided over time are recognised over the contract period. The deferred fee income is recorded under “investment contract liabilities”. Service fees from additional services provided are recognised at a point when the services are provided to the customers.

Deferred origination costs

Deferred origination costs which represent commission and other incremental expenses directly related to the issue of each new contract, are deferred and amortised over the period that services are provided.

(7) Investment contracts (life business) – Investment-linked

These are unit-linked contracts without significant insurance risk. Premiums received are recorded as a liability. When withdrawals or claims are made, the liability is reduced accordingly.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis

(1) Insurance contracts (general insurance)

The valuation basis for the general insurance contracts follows the local statutory valuation requirements of the Insurance (Valuation and Capital) Regulations 2004, including any subsequent amendments to the notices and regulations.

The valuation liability is determined by the sum of premium liabilities (higher of unearned premium reserve and the unexpired risk reserve, at fund level) and claims liabilities.

- Unearned premium reserves:
  - For personal accident hybrid products, the valuation liability is determined by unearned premium reserves, which is equal to the 1/24 rule on unearned cash premium, net of reinsurance basis; and
  - For personal lines products, the valuation liability is determined by the unearned premium reserves, which is the 1/52 rule on unearned cash premium paid for Workmen Compensation and 1/24 rule on other lines of business, net of reinsurance basis.
- Unexpired risk reserve: the total unearned premium reserve multiplied by estimation of the loss ratio over the unexpired period with allowances for maintenance expense of 20 per cent and claims handling expense of 5 per cent. A Provision for Adverse Deviation (“PAD”) margin is added to the best estimate in determining unexpired risk reserve in order to have 75 per cent level of sufficiency.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(1) Insurance contracts (general insurance) (continued)

- Claims liabilities: the best estimate liability is calculated using statistical methods which include the chain ladder method, where ratios of claim development are measured in the historical data and these ratios are then used to project further development in the data, as well as the Bornhuetter-Ferguson method. Information on paid and incurred claims is utilised in these methods. A Provision for Adverse Deviation ("PAD") margin is added to the best estimate in order to have 75 per cent level of sufficiency.

(2) Traditional insurance contract (life business)

The valuation basis for both the insurance and investment contracts follows the local statutory valuation requirements of the Insurance (Valuation and Capital) Regulations 2004 and also MAS Notice 319 (Notice on Valuation of Policy Liabilities of Life Business), including any subsequent amendments to the notice and regulations.

Generally, the valuation of a life business policy involves first a projection of future cash flows using realistic assumptions (including assumptions on expenses, mortality and morbidity rates, lapse rates, etc.) and then discounting these cash flow streams at appropriate interest rates.

The liability in respect of any policy will be not be less than zero unless there is money due to the insurer when the policy is terminated on the valuation date, in which event the value of the liability may be negative to the extent of the amount due to the insurer.

At each financial year end, liability adequacy tests are performed to assess the adequacy of policy liabilities by using the current best estimates of future cash flows and the investment income from the assets backing such liabilities.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(2) Traditional insurance contract (life business) (continued)

The valuation on the local statutory basis includes Provision for Adverse Deviation ("PAD") which is added to the best estimate valuation assumptions in the determination of the policy liabilities.

Non-participating policy

The liability in respect of a non-participating policy is the value of expected future payments arising from the policy, including any expense that the insurer expects to incur in administering the policy and settling any relevant claims and any provision made for any adverse deviation from expected experience, less expected future receipts arising from the policy.

Participating policy

The liability in respect of a participating policy is the sum of -

- the value of expected future payments arising from guaranteed benefits of the policy including any expense that the insurer expects to incur in administering the policies and settling the relevant claims, less expected future receipts arising from the policy;

- the value of expected payments arising from non-guaranteed benefits of the policy in respect of future allocation of bonus and future allocation to the surplus account, under section 17(6) of the Act; and any provision made for any adverse deviation from the expected experience.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(2) Traditional insurance contract (life business) (continued)

Life Insurance Par Fund

The Life Insurance Par Fund contains all the individual participating life insurance contracts. Participating life insurance contracts are contracts that contain a discretionary participating feature ("DPF"). This feature entitles policyholders to receive additional benefits in the form of annual and terminal bonuses. The amount or timing of the bonus declaration is not guaranteed, and is at the sole discretion of the Company.

The total liability in respect of policies of the Par Fund is calculated as -

(a) the sum of the liability in respect of each policy of the fund determined in the manner described above; or
(b) the Minimum Condition Liability of the fund; or
(c) the value of policy assets of the fund,

whichever is the highest.

In addition, when (a) is less than the maximum of (b), or (c), then (a) needs to be recalculated with adjustments to the non-guaranteed benefits, for all or part of the participating policies of the fund such that the recalculated (a) is equal to the maximum of (b) or (c).

(3) Investment type insurance contracts (life business) – Universal Life

The policy liability for universal life is determined as the highest of:

(a) the value obtained by projecting the liabilities under the policy at the guaranteed crediting rate and discounting at the risk-free rate; or
(b) the value obtained by projecting at the current crediting rate and discounting at the best estimate investment return.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(4) Investment type insurance contracts (life business) – Investment-linked

The liability in respect of an investment-linked policy is the sum of:

- the unit reserves, calculated as the value of the underlying assets backing the units and liabilities relating to the policy; and
- the non-unit reserves, calculated as the expected future payments arising from the policy (other than those relating to the unit reserves), including any expenses that the insurer expects to incur in administering the policies and settling the relevant claims and any provision made for any adverse deviation from the expected experience, less expected future receipts arising from the policy (other than those relating to the unit reserves).

(5) Investment contracts with DPF (life business)

The valuation basis is similar to that of a participating policy as described in Note 2.22(b)(ii)(2) Traditional insurance contract (life business).

(6) Investment contracts without DPF (life business)

The liabilities for these contracts are at fair value. The valuation basis is similar to that of a non-participating policy as described in Note 2.22(b)(ii)(2) Traditional insurance contract (life business).

(7) Investment contracts (life business) – Investment-linked

The liabilities for these contracts are at fair value. The valuation basis is similar to that of an investment-linked policy as described above. The fair values of the liabilities are determined using the current unit values that reflect the fair values of the financial assets contained within the Company's unitised investments fund linked to the liabilities, multiplied by the number of units attributed to the contract holder at the balance sheet date.

2. Significant accounting policies (continued)

2.23 Liability adequacy tests

At each financial year end, liability adequacy tests are performed to assess the adequacy of policy liabilities by using the current best estimates of future cash flows and the investment income from the assets backing such liabilities.

The valuation on the local statutory basis implicitly ensures that the policy liabilities meet the liability adequacy tests as Provisions for Adverse Deviation ("PAD") are added on to the best estimate valuation assumptions in the determination of the policy liabilities.

2.24 Shadow accounting

Investment experience (realised and unrealised investment gains and losses) has a direct effect on the measurement of insurance contract liabilities. Shadow accounting permits adjustments to insurance contract liabilities and the related assets to be reflected in other comprehensive income to match the extent to which unrealised investment gains and losses are recognised in other comprehensive income.

Changes in insurance contract liabilities within the Participating Fund which arise from unrealised gains or losses on available for sale assets and unrealised gains or losses arising from the fair valuation of land and buildings are recognised directly in the fair value reserve and asset revaluation reserves respectively. Hence the change in these liabilities will match the corresponding unrealised gains and losses from those assets.

The above affects the presentation of certain items within the statement of comprehensive income and statement of changes in equity, and reallocation thereafter from profit after tax to other comprehensive income. However, it has no effect on total comprehensive income or total equity.

2.25 Related party transactions

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

2.26 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.27 Dividends to Company’s shareholder

Dividends to the Company’s shareholder are recognised when the dividends are approved for payment.

3. Interpretations and amendments to published standards effective in 2019

On 1 January 2019, the Company adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Company and had no material effect on the amounts reported for the current or prior financial years, except for FRS 116 as set out in Note 2.2(d) and its required disclosures in Note 15.

Standards issued but not yet effective

The Company has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
Amendments to: *FRS 1 Presentation of financial statements and FRS 8 Accounting policies, changes in accounting estimates and errors (Definition of material)* *References to the conceptual framework in FRS Standards* *FRS 103 Business Combinations (Definition of a business)*	*1 January 2020*
FRS 117 Insurance Contracts	*1 January 2023*
FRS 110 Consolidated Financial Statements and FRS 128 Investment in associates and joint ventures (Sale or contribution of assets between an investor and its associate or joint venture)	*To be determined*

4. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Policy liabilities

The Company makes estimates, assumptions and judgements in determining the reported amount of policy liabilities. These estimates, assumptions and judgements are best estimates of future experience, based on historical experience, trends and other factors. They are regularly reviewed by the Actuary to ensure that they remain relevant and valid. As future experience is uncertain, it is appropriate to include margins to allow for possible adverse deviations in experience. Under the local statutory valuation requirement, this is achieved through an explicit margin in the policy liability – Provision for Adverse Deviation ("PAD").

(a) Contract provisions for life business

The determination of the contract liabilities is based on sound actuarial principles. The provisions include both guaranteed and non-guaranteed benefits to policyholders.

The life business policy liabilities are calculated in accordance with the Insurance (Valuation and Capital) Regulations 2004 and also MAS Notice 319 (Notice on Valuation of Policy Liabilities of Life Business), including any subsequent revisions to the notice and regulations.

Process used to determine valuation assumptions

The process used to determine the valuation assumptions for the life and general business involved comparing the current assumptions to the results of the recent experience studies and historical experience, and taking into account of the trends and expectations of future events that are believed to be reasonable under the circumstances. Adjustments are then made to the assumptions if necessary so that they remain relevant and valid. Smoothing of the rates in the assumptions may also be applicable across ages and/or durations.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(a) Contract provisions for life business (continued)

Process used to determine valuation assumptions (continued)

Mortality, annuitant mortality and morbidity

Estimates are made as to the expected number of incidences for each of the years in which the Company is exposed to risk. The Company bases the mortality estimates on its own experience, reinsurer information and published tables, adjusted where appropriate to reflect recent trends and characteristics of special niche markets. The main source of uncertainty is that epidemics (such as AIDS, SARS) and wide ranging lifestyle changes could result in future mortality being significantly different than that in the past for the age groups in which the Company has significant exposure to mortality risk.

In the review of the best estimate assumptions for mortality, reference was made to the historical experience and the latest Continuous Mortality Investigation Study.

The best estimate assumptions for annuitant mortality are based on external tables and include mortality improvement factors.

In the review of the best estimate assumptions for critical illness, reference was made to the historical experience and the latest experience study on critical illness. The critical illness incidence rates are differentiated by gender and smoker status.

In the review of the best estimate assumptions for accident and hospitalisation benefits, reference was made to the historical experience and the latest study.

Lapse and surrender rates

In the review of the best estimate assumptions for lapse and surrender rates, reference was made to the historical experience and the latest experience study.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(a) Contract provisions for life business (continued)

Process used to determine valuation assumptions (continued)

Discount rates

Risk-free discount rates, in accordance with MAS Notice 319, are used in determining the liability in respect of non-participating policies, the non-unit reserves of investment-linked policies, and the Minimum Condition Liability ("MCL") of participating policies (where MCL is the policy liability but without any provision for non-guaranteed benefits).

For Singapore dollar denominated liabilities, in accordance with MAS Notice 319, the discount rates used are:

a. For liabilities with duration of 15 years or less, the market yields of Singapore Government Securities ("SGS") of matching durations;

b. For liabilities with durations of 20 years or more, the Long Term Risk Free Discount Rate ("LTRFDR") is used. The LTRFDR is calculated as the sum of:

   (i) 90% of (the average 15-year SGS historical yield + the average historical yield differential between the 15-year and 20-year SGS yields); and
   (ii) 10% of the average 20-year SGS yield during the last 6 months.

   rounded up to the nearest 10 basis points.

c. For liabilities with durations between 15 years and 20 years, the discount rate for a given duration is determined by interpolating between the 15-year SGS yield and the LTRFDR.

   For foreign-currency denominated liabilities, in accordance with MAS Notice 319, the discount rates used are the market yields of the foreign government securities of similar duration at the valuation date, except for non-participating USD Universal Life.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(a) Contract provisions for life business (continued)

Process used to determine valuation assumptions (continued)

Discount rates (continued)

In accordance to "Exemption from requirement to use the risk-free discount rate described in MAS Notice 319 to value the liabilities of non-participating Universal Life ("UL") policies – revision in conditions", the risk-free discount rate for non-participating USD UL is to be derived based on the three-segment approach:

(i) Observable market yields of US government securities for similar duration at the valuation date, for periods up to the last liquid point ("LLP"). The LLP shall be 30 years;
(ii) Ultimate forward rate ("UFR") of 3.5% applicable 30 years after the LLP; and
(iii) Extrapolated yields in between.

Best estimates of future investment returns are used for the discount rates in determining the policy liability in respect of participating policies. These are based on assets backing the contracts, current market returns as well as expectations about future economic and financial developments.

Expenses and inflation

Management expenses are computed using the expense unit cost factors based on the most recent final Expense Analysis available.

An inflation rate of 2% p.a. is assumed.

The commission scales used are those applicable to the various plans. Additional loadings to provide for overrides and other agency benefits are included, based on the most recent agency add-on study report.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(b) Insurance contract provisions for general insurance

General insurance contract liabilities consist of premium liabilities (maximum of unearned premium reserves or unexpired risk reserves) and claim liabilities. The determination of these liabilities is based on sound actuarial principles.

The general insurance liabilities are calculated in accordance with the Insurance (Valuation and Capital) Regulations 2004, including any subsequent revisions to the regulations.

Process used to determine valuation assumptions for premium liabilities

The unearned premium reserve (“UPR”) is derived from the 1/52 rule on unearned cash premium for Workmen Compensation and the 1/24 rule on other lines of business, net of reinsurance basis.

The best estimate of the unexpired risk reserve (“URR”) is derived from the multiplication of the total UPR and estimation of the loss ratio over the unexpired period, which is usually based on either the selected loss ratio or Initial Expected Loss Ratio ("IELR") for the 2019 accident year. The IELRs for 2019 accident year for Personal Lines and Personal Accident are 17 per cent and 60 per cent respectively. This together with an allowance for maintenance expenses of 20 per cent of the UPR and claims handling expenses of 4 per cent of the expected claims forms the best estimate of the unexpired risk reserve ("URR").

A Provision for Adverse Deviation (“PAD”) margin is applied to the URR using a percentage which is 130 per cent of the PAD percentage applied to the claims reserves. The margins for the premium liability are greater than the margins used for the claim liability as there is greater uncertainty in estimating incidence and severity of claims which have not yet occurred at the valuation date. It must be noted that the estimates set out are subject to considerable uncertainty. A diversification credit of 29 per cent is assumed due to the offsetting effects between the lines of business.

This URR, together with a PAD margin, after a diversification credit, is then compared to the Company's held unearned premium reserve at a fund level to arrive at the final premium liability.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(b) Insurance contract provisions for general insurance (continued)

Process used to determine valuation assumptions for claims liability

Paid Claim Development (“PCD”) and Paid Bornhuetter-Ferguson (“PBF”) are used in establishing the claim estimates for these classes of business. PCD is a chain ladder method, where ratios of claim development are measured in the historical data and these ratios are then used to project further development in the data. Information on paid claims is utilised in these methods.

The MAS requires companies to hold an additional amount to cover the possibility of adverse development in the claims. The requirement is that companies should hold reserves at a level so that they have a 75 per cent chance that they will be sufficient. We calculate this provision for adverse deviation ("PAD") by applying a percentage to the total claim reserves at a class level.

The Mack method, Bootstrap method and Stochastic Bornhuetter-Ferguson (“BF”) method were considered in the determination of PAD. The results from the Mack method were selected as it produces a consistent and reasonable range of results.

Having estimated the level of PAD by class of business, the next step is to estimate the PAD applicable to the overall business. To the extent that there is no perfect correlation between classes, there would be expected to be a credit available for diversification. In other words, if there was perfect correlation between the Personal Accident and Fire classes, a deterioration of say 10 per cent in the Fire outstanding claim estimates should coincide with a deterioration of 10 per cent in Personal Accident. The diversification credit for 2019 is 29% (2018: 28%) for both claims and premium liabilities.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(c) Changes in assumptions and methodology

The Company regularly reviews its assumptions to reflect the current best estimate assumptions.

General insurance

The changes in assumptions in 2019 resulted in the following changes to policy liabilities:

- Increase of $0.01 million due to change in provision for adverse deviation ("PAD").
- Increase of $0.08 million due to change in initial expected loss ratio (“IELR”).
- Decrease of $0.15 million due to change in development factors in the run-off triangle calculation.

Life business

The changes in assumptions in 2019 resulted in the following changes to policy liabilities (after reinsurance):

- Non-Par Fund $797.46 million increase in policy liabilities for the non-participating policies
  - Increase of $797.94 million due to valuation interest rate assumptions change.
  - Decrease of $0.05 million due to lapse assumptions change.
  - Decrease of $0.67 million due to morbidity assumptions change.
  - Increase of $0.24 million due to UL Crediting Rate assumptions change.

- Investment-Linked Fund $0.04 million increase in policy liabilities for the investment-linked policies
  - Decrease of $0.06 million due to valuation interest rate assumptions change.
  - Increase of $0.10 million due to fund growth rate assumptions change.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(d) Sensitivity analysis

The following tables show the sensitivity of the value of policy liabilities as at 31 December 2019 to movements in the main variables used in the estimation of the policy liabilities.

General insurance contracts

For general insurance, sensitivity analysis is carried out for claims liabilities. No sensitivity analysis is carried out for premium liabilities because the liability is taken at the higher of UPR and URR. UPR is a mathematically calculated reserve not sensitive to changes in assumptions. At the moment, UPR is approximately 1.2 times (2018: 2 times) higher than URR, and the sensitivity analysis applied to URR will not lead to URR exceeding UPR.

Sensitivity analysis is performed on 3 significant valuation assumptions for claims liabilities as at 31 December 2019: loss ratio, expenses and development factor.

	Change in 2019 liability in $ millions		
Variable	Change in variable	Before reinsurance	After reinsurance
Better loss ratio	-10%	(0.18)	(0.18)
Worsening of loss ratio	+10%	0.18	0.18
Increase in expense	+10%	0.02	0.02
Lowering of expense	-10%	(0.01)	(0.01)
Slower paid development factor	-5%	0.79	0.79

Life business

For the life business, the analysis is performed on the two significant valuation assumptions: mortality and morbidity and the future investment return (or discount rate).

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(d) Sensitivity analysis (continued)

Life business (continued)

Insurance contracts (life business)

	Change in 2019 policy liability in $ millions		
Variable	Change in variable	Before reinsurance	After reinsurance
Better mortality and morbidity	-10%	(497.09)	(186.74)
Worsening of mortality and morbidity	+10%	666.14	285.56
Increase in discount rate	+50 bps	(530.00)	(438.18)
Lowering of discount rate	-50 bps	581.68	470.61

Investment contracts

	Change in 2019 policy liability in $ millions		
Variable	Change in variable	Before reinsurance	After reinsurance
Better mortality and morbidity	-10%	0.00	0.00
Worsening of mortality and morbidity	+10%	(0.00)	(0.00)
Increase in discount rate	+50 bps	(0.01)	(0.01)
Lowering of discount rate	-50 bps	0.01	0.01

For contracts with DPF, the Company has the discretion to adjust bonus scales under shock scenarios. For sensitivity analysis relating to assets, see Note 38(B)(e).

(ii) Product classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Company exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Company to pay significant additional benefits to its customers. In the event the Company has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in Note 2.22(a).

4. Critical accounting estimates, assumptions and judgements (continued)

(iii) Fair values of financial assets

The Company determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgement is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction and general market conditions.

Changes in fair value of financial assets held by the Company'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 net assets of the participating funds that would be allocated to policyholders if all relevant surpluses at the balance sheet date were to be declared as a policyholder dividend based on current local regulations. With the application of shadow accounting as described in Note 2.24, both of the foregoing changes are ultimately reflected in profit or loss.

Changes in fair value of financial assets held to back the Company's unit-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in profit or loss. Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in Note 38(B)(e).

(iv) Fair values of property held for own use and investment property

The Company uses independent professional valuers to determine the fair values of properties on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. In most cases, current use of the properties is considered to be the highest and best use for determining the fair value. Different valuation techniques may be adopted to reach the fair value of the properties.

4. Critical accounting estimates, assumptions and judgements (continued)

(iv) Fair values of property held for own use and investment property (continued)

The independent professional valuer determined the fair value of properties based on the properties' highest-and-best-use using the discounted cash flow approach and direct comparison approach (2018: discounted cash flow approach and direct comparison approach) at the balance sheet date. For investment properties, the discounted cash flow approach may be used by reference to net rental income allowing for reversionary income potential to estimate the fair value of the properties.

Further details of the fair value of property held for own use and investment property are provided in Note 38(B)(f).

(v) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgement. The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence that a financial asset, or group of assets, is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:

  – adverse changes in the payment status of issuers; or
  – national or local economic conditions that correlate with increased default risk.

For loans and receivables, impairment loss is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the Company of financial assets or individual accounts.

Further details of the impairment of financial assets during the year are provided in note 38(B)(c).

4. Critical accounting estimates, assumptions and judgements (continued)

(vi) Tax on the Transfer

In the financial year ended 2017, the Company established a trust structure to acquire and hold certain financial investments of the insurance funds ("The Transfer"). Following the Transfer, the Company continues to hold these financial investments of the insurance funds via units in the trust structure. As the Company retains the risks and rewards of the underlying financial investments, the disclosures in these financial statements relating to these assets are based on the underlying financial investment holdings. The risk management of the transferred financial investments are disclosed in Note 38.

There was a current tax liability arising from the Transfer. In relation to the current tax liability arising from the transfer of available for sale debt securities ("transferred debt securities portfolio"), it is assumed that debt securities invested by the Company are mostly held to maturity. As such, as at 31 December 2017 an amount of $80,503,000 in tax was recognised under Fair Value Reserve (Note 34(b)(ii)) pursuant to para 61A under SFRS 12 Income Taxes. The tax will be reclassified to profit and loss based on the expected maturity of the transferred debt securities portfolio which can be up to year 2049. During the current financial year, Tax on the transfer of $3,649,000 (2018: $2,398,000) (Note 10) has been reclassified to profit and loss for the transferred debt securities portfolio that matured in 2019. The remaining balance of the Tax on the transfer under Fair Value Reserve (Note 34(b)(ii)) is $74,456,000 (2018: $78,105,000).

This assumption is supported by historical data for the past 6 years for the transferred debt securities portfolio. Over this period, the Company sold on average annually less than 5% of the transferred debt securities portfolio i.e. before maturity of the debt instruments and excluding pre-mature redemptions by respective debt issuers.

(vii) Uncertain tax positions

In determining the income tax liabilities, management has estimated the amount of taxable income and the deductibility of certain expenses ("uncertain tax positions") in the relevant tax jurisdiction. This involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the tax authority.

The Company has open tax assessments with the tax authority at the balance sheet date and has recognised an additional tax liability on these uncertain tax positions.

4. Critical accounting estimates, assumptions and judgements (continued)

(viii) Critical judgement over the lease terms

As at 31 December 2019, the Company's lease liabilities, which are measured with reference to an estimate of the lease term, amounted to $76,082,000 of which $57,262,000 arose from extension options. Extension option is included in the lease term if the lease is reasonably certain to be extended. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise the extension option.

For leases of office space, the following factors are considered to be most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Company typically includes the extension option in lease liabilities;
- Otherwise, the Company considers other factors including its historical lease periods for similar assets, costs required to obtain replacement assets, and business disruptions.

The extension options for certain equipment have not been included in lease liabilities because the Company could replace the assets without significant cost or business disruption.

The assessment of reasonably certain to exercise extension options is only revised if a significant change in circumstance occurs that is within the control of the lessee. During the current financial year, there is no significant change in the assessment.

As at 31 December 2019, all potential future (undiscounted) cash outflows have been included in lease liabilities because it is reasonably certain that the leases will be extended.

5. Premium and fee income

The following table disaggregates the Company's revenue by major sources:

	2019 **\$'000**	2018 \$'000
Premium income from insurance contracts[(1)] and Fee income for services embedded in insurance contracts[(1)]	**5,602,012**	4,972,054
Fee income for investment contracts without DPF	**12,151**	11,259
	5,614,163	4,983,313

Note
[(1)] Includes income in respect of investment contracts with DPF.

Fee income for services embedded in insurance contracts represents periodic fee from policyholders for services rendered as part of an insurance contract. The Company does not bifurcate these services from the host insurance contract and therefore such services are accounted for under FRS 104.

Fee income for investment contracts without DPF refers to fees charged for the provision of asset management and administrative services for investment contracts without DPF. This is charged at a fixed percentage on the value of assets under management. Revenue is recognised as services are provided and the fees are deducted from the policyholders' account balances. The related administrative services are provided over the contract term. Therefore, up-front administrative service fees are deferred and recognised as revenue systematically over the contract term.

6. Premiums ceded to reinsurers

	2019 **\$'000**	2018 \$'000
Life insurance contracts	**(618,382)**	(537,534)
General insurance contracts		
- Premiums written	**(205)**	(277)
- Change in unearned premium	**4**	(9)
	(618,583)	(537,820)

7. Investment return

	2019 **$'000**	2018 $'000
Interest income	**1,190,857**	1,176,718
Dividend income	**278,217**	268,495
Rental income	**7,054**	6,948
Investment income	**1,476,128**	1,452,161
Available for sale		
Net realised gains/(losses) from debt securities	**25,349**	(4,721)
Net realised gains from equity securities	**115,286**	335,967
Net realised gains on available for sale financial assets reflected in profit or loss (Note 34(b)(ii))	**140,635**	331,246
Designated at fair value through profit or loss		
Net gains/(losses) from debt securities	**70,778**	(27,402)
Net gains/(losses) from equity securities	**929,509**	(645,482)
Held for trading		
Net fair value movement on derivatives	**(18,865)**	(45,623)
Net gains/(losses) on financial assets at fair value through profit or loss	**981,422**	(718,507)
Reversal of impairment/(impairment) of available for sale debt securities	**16,612**	(17,626)
Net foreign exchange (losses)/gains	**(83,770)**	69,113
Net fair value (losses)/gains on investment property (Note 16)	**(486)**	864
Other net realised gains	**9,134**	1,937
Investment experience	**1,063,547**	(332,973)
Investment return	**2,539,675**	1,119,188

8. Timing of revenue recognition

	2019 **$'000**	2018 $'000
Service transferred at a point in time	**811**	4,287
Service transferred over time	**21,544**	14,052
Revenue from contract with external customers	**22,355**	18,339

9. Expenses

	2019 $'000	2018 $'000
Insurance contract benefits	**(3,078,156)**	(2,932,992)
Change in insurance contract liabilities	**(3,760,164)**	(1,280,259)
Investment contract benefits	**(364,408)**	212,653
Insurance and investment contract benefits	**(7,202,728)**	(4,000,598)
Insurance and investment contract benefits ceded	**822,872**	465,179
Release and amortisation of reinsurance gains	**11,096**	5,618
Insurance and investment contract benefits ceded	**833,968**	470,797
Net insurance and investment contract benefits	**(6,368,760)**	(3,529,801)
Commissions and other acquisition expenses	**(739,781)**	(689,299)
Deferral and amortisation of acquisition costs (Note 17)	**78**	2
Amortisation of origination costs (Note 17)	**(1,761)**	(1,801)
Commission and other acquisition expenses	**(741,464)**	(691,098)
Employee benefit expenses	**(171,350)**	(154,146)
Depreciation (Note 14)	**(24,193)**	(11,221)
Amortisation (Note 11)	**(14,732)**	(10,658)
Allowance for doubtful debts for insurance receivables (Note 22)	**(28)**	(32)
Operating lease rentals	**(41)**	(12,422)
Other operating expenses	**(166,369)**	(173,641)
Operating expenses	**(376,713)**	(362,120)
Investment interest expense	**(8,036)**	(14,903)
Interest expense on lease liabilities (Note 15)	**(1,642)**	-
Finance costs	**(9,678)**	(14,903)
Investment management expenses and others	**(149,855)**	(140,298)
Total expenses	**(7,646,470)**	(4,738,220)

Employee benefit expenses consist of:

	2019 $'000	2018 $'000
Wages and salaries	**(139,830)**	(127,676)
Employer's contribution to defined contribution plans including Central Provident Fund	**(13,697)**	(12,014)
Other staff benefits	**(12,228)**	(9,151)
Share-based compensation	**(5,595)**	(5,305)
	(171,350)	(154,146)

Key management personnel compensation is as follows:

	2019 $'000	2018 $'000
Salaries and other short-term employee benefits	**(8,614)**	(8,171)
Share-based compensation	**(2,698)**	(2,617)
	(11,312)	(10,788)

10. Income tax

Income tax expense/(credit)

	2019 **$'000**	2018 $'000
Tax expense attributable to results is made up of:		
- Current income tax	**6,428**	32,887
- Tax on Transfer from Fair Value Reserve [Note 4(vi) and Note 34(b)(ii)]	**3,649**	2,398
- Withholding tax	**9,088**	6,634
- Deferred income tax (Note 28)	**62,075**	(74,208)
	81,240	(32,289)
(Over)/underprovision in prior financial years		
- Current income tax	**(21,162)**	1,489
	60,078	(30,800)
Tax expense is made up of:		
- Amounts attributable to policyholders' returns	**165,056**	(50,255)
- Amounts attributable to shareholders' profits	**(104,978)**	19,455
	60,078	(30,800)

The tax expense on results differs from the amount that would arise using the Singapore standard rate of income tax as explained below:

	2019 **$'000**	2018 $'000
(Loss)/profit before tax	**(101,011)**	833,542
Tax calculated at a tax rate of 17% (2018:17%)	**(17,172)**	141,702
Different basis of tax	**61,675**	119,690
Expenses not deductible for tax purposes	**4,904**	4,142
Effect of different tax rate on concessionary income	**(3,782)**	(3,696)
Income not subject to tax	**(169,764)**	(226,690)
Tax on Transfer from Fair Value Reserve [Note 4(vi) and Note 34(b)(ii)]	**3,649**	2,398
Deferred tax on participating fund non-guaranteed benefits (Note 28)	**192,642**	(76,469)
(Over)/underprovision in prior financial years		
- Current income tax	**(21,162)**	1,489
Withholding tax	**9,088**	6,634
Total income tax expense/(credit)	**60,078**	(30,800)

10. Income tax (continued)

Movements in current income tax (recoverables)/liabilities

	2019 $'000	2018 $'000
Beginning of financial year	**49,637**	114,948
Income tax paid	**(48,327)**	(106,120)
Tax payable on profit		
- current financial year	**6,428**	32,887
- withholding tax	**9,088**	6,634
- (over)/underprovision in prior financial years	**(21,162)**	1,489
Group relief scheme	**(98)**	(201)
At end of financial year	**(4,434)**	49,637

11. Intangible assets

Computer software

	2019 $'000	2018 $'000
Cost		
Beginning of financial year	**136,268**	111,278
Additions	**1,709**	-
Transfer from property and equipment - Assets under construction (Note 14)	**15,967**	24,990
End of financial year	**153,944**	136,268
Accumulated amortisation		
Beginning of financial year	**80,544**	69,886
Amortisation charge (Note 9)	**14,732**	10,658
End of financial year	**95,276**	80,544
Net book value		
End of financial year	**58,668**	55,724

Other intangible assets – Club memberships

	2019 $'000	2018 $'000
Cost		
Beginning of financial year	**1,209**	1,374
Write off	**(80)**	(165)
Less: accumulated impairment	**(252)**	-
Carrying value of the club memberships	**877**	1,209

12. Investment in subsidiaries

	2019	2018
	$'000	$'000
Equity investment at cost	**47,250**	47,250

Name of Company	Country of incorporation	Principal activities	Cost of investment less impairment in value		% of paid-up capital held by the Company	
			2019	2018	**2019**	2018
			$'000	$'000	**%**	%
LC Ventura (Tampines)	Singapore	Property Investment	**37,250**	37,250	**100**	100
AIA Financial Advisers Pte Ltd	Singapore	Provision of business and management consultancy services	**10,000**	10,000	**100**	100
AIA Vitality Singapore Pte Ltd **	Singapore	Provision of business support services	**-**	*	**-**	100

* *Less than $1,000*
** *AIA Vitality Singapore Pte Ltd has been struck off on 4 April 2019*

The nature of the balance is non-current.

13. Investment in associated companies

	2019	2018
	$'000	$'000
Equity investment at cost less impairment		
Cost	*****	*
Less: accumulated impairment	**-**	-
Net book value	*****	*

All associated companies are unlisted. The nature of the balance is non-current.

13. Investment in associated companies (continued)

Name of Company	Country of incorporation	Principal activities	Cost of investment less impairment in value 2019 $'000	Cost of investment less impairment in value 2018 $'000	% of paid-up capital held by the Company 2019 %	% of paid-up capital held by the Company 2018 %
Chelshire Investments Pte Ltd	Singapore	Property development and investment	*	*	**50**	50
Chelville Investments Pte Ltd	Singapore	Property development and investment	*	*	**50**	50
			*	*		

* *Less than $1,000*

The summarised financial information of the associated companies is as follows:

	2019 $'000	2018 $'000
- Assets	**190**	190
- Liabilities	**75**	75
- Net gain for the financial year	**-**	398

14. Property and equipment

	Land and buildings $'000	Furniture, fittings, fixtures and equipment $'000	Computer hardware and software $'000	Motor vehicles $'000	Assets under construction $'000	Total $'000
2019						
Cost/valuation						
Beginning of financial year	389,952	57,504	34,801	802	11,786	494,845
Adoption of FRS 116 (Note 2.2(d))	84,274	-	807	-	-	85,081
Additions	6,244	191	2,116	-	27,522	36,073
Transfer from/(to) assets under construction	(211)	1,556	-	-	(1,345)	-
Transfer to intangible assets (Note 11)	-	-	-	-	(15,967)	(15,967)
Transfer from investment property (Note 16)	6,051	-	-	-	-	6,051
Reclassification of asset	702	(702)	-	-	-	-
Write off for the year	-	(787)	(1,108)	-	-	(1,895)
Revaluation surplus (Note 34(b)(i))	4,842	-	-	-	-	4,842
Revaluation adjustment	(3,089)	-	-	-	-	(3,089)
End of financial year	488,765	57,762	36,616	802	21,996	605,941
Representing:						
Cost	86,976	57,762	36,616	802	21,996	204,152
Valuation	401,789	-	-	-	-	401,789
	488,765	57,762	36,616	802	21,996	605,941
Accumulated depreciation						
Beginning of financial year	-	34,358	30,871	501	-	65,730
Depreciation charge (Note 9)	15,394	6,261	2,377	161	-	24,193
Write off for the year	-	(583)	(1,105)	-	-	(1,688)
Reclassification of asset	13	(13)	-	-	-	-
Revaluation adjustment	(3,089)	-	-	-	-	(3,089)
End of financial year	12,318	40,023	32,143	662	-	85,146
Net book value						
End of financial year	**476,447**	**17,739**	**4,473**	**140**	**21,996**	**520,795**

14. Property and equipment (continued)

	Land and buildings $'000	Furniture, fittings, fixtures and equipment $'000	Computer hardware and software $'000	Motor vehicles $'000	Assets under construction $'000	Total $'000
2018						
Cost/valuation						
Beginning of financial year	366,616	52,225	35,177	802	17,505	472,325
Additions	1,314	338	2,894	-	30,365	34,911
Transfer from/(to) assets under construction	(647)	10,056	-	-	(9,409)	-
Transfer to intangible assets (Note 11)	-	-	-	-	(24,990)	(24,990)
Disposals	-	(1,829)	(21)	-	(904)	(2,754)
Write off for the year	(108)	(3,286)	(3,249)	-	(781)	(7,424)
Revaluation surplus (Note 34(b)(i))	25,599	-	-	-	-	25,599
Revaluation adjustment	(2,822)	-	-	-	-	(2,822)
End of financial year	389,952	57,504	34,801	802	11,786	494,845
Representing:						
Cost	-	57,504	34,801	802	11,786	104,893
Valuation	389,952	-	-	-	-	389,952
	389,952	57,504	34,801	802	11,786	494,845
Accumulated depreciation						
Beginning of financial year	-	31,457	31,997	340	-	63,794
Depreciation charge (Note 9)	2,900	6,083	2,077	161	-	11,221
Disposals	-	(405)	-	-	-	(405)
Write off for the year	(78)	(2,777)	(3,203)	-	-	(6,058)
Revaluation adjustment	(2,822)	-	-	-	-	(2,822)
End of financial year	-	34,358	30,871	501	-	65,730
Net book value						
End of financial year	**389,952**	**23,146**	**3,930**	**301**	**11,786**	**429,115**

The land and buildings were valued by an independent professional valuer based on the properties' highest-and-best-use using the discounted cash flow approach and direct comparison approach (2018: discounted cash flow approach and direct comparison approach) at the balance sheet date. A detailed valuation is carried out once every two years and a desktop valuation is performed in the intervening year. These are regarded as Level 3 fair values and the nature of the balance is non-current.

14. Property and equipment (continued)

Details of valuation techniques and process are disclosed in Note 38.

(a) If the land and buildings stated at valuation had been included in the financial statements at cost less depreciation, the net book value would have been as follows:

	2019 **$'000**	2018 $'000
Land and buildings	**72,855**	72,288

Right-of-use assets acquired under leasing arrangements are presented together with the owned assets of the same class. Details of such leased assets are disclosed in Note 15.

15. Leases

(A) Leases – The Company as a lessee

Land and buildings
The Company leases office space for the purpose of back office operations, as well as for providing customer service and sales and financial advisory services to customers.

Computer hardware and software
The Company leases computer hardware (e.g. printers) for back office operations.

There are no externally imposed covenant on these lease arrangements.

(a) Carrying amounts

ROU assets classified within property and equipment

	31 December 2019 **$'000**	1 January 2019 $'000
Land and buildings	**74,658**	84,274
Computer hardware and software	**665**	807
	75,323	85,081

15. Leases (continued)

(A) Leases – The Company as a lessee (continued)

(b) Depreciation charge during the financial year

	2019 $'000
Land and buildings	**12,318**
Computer hardware and software	**142**
Total	**12,460**

(c) Interest expense

	2019 $'000
Interest expense on lease liabilities (Note 9)	**1,642**

(d) Lease expense not capitalised in ROU assets

	2019 $'000
Short-term lease expense	**30**

(e) Total cash outflow for all leases in 2019 was $13,343,000.

(f) Additions of ROU assets during the financial year ended 31 December 2019 was $2,702,000.

(g) Future cash outflow which are capitalised in ROU assets

(i) Extension options

The leases for leasehold building and office equipment contain extension periods, for which the related lease payments had been included in lease liabilities as the Company is reasonably certain to exercise the extension options. Majority of the extension options are exercisable by the Company and not by the lessor.

15. Leases (continued)

(B) Leases – The Company as a lessor

The Company leases building floor areas to third parties for monthly lease payments. These leases are classified as operating leases because the risk and rewards incidental to ownership of the assets are not substantially transferred. Undiscounted lease payments from the operating leases to be received after the reporting date are as follows:

	31 December 2019 $'000	1 January 2019 $'000
Not later than one year	**5,392**	4,648
Between one and five years	**10,369**	9,035
Later than five years	**-**	1,290
	15,761	14,973

16. Investment property

	2019 $'000	2018 $'000
Beginning of financial year	**197,048**	196,184
Net transfer to property and equipment (Note 14)	**(6,051)**	-
Net fair value (losses)/gains recognised in profit or loss (Note 7)	**(486)**	864
End of financial year	**190,511**	197,048

Investment property is carried at fair value at the balance sheet date as determined by an independent professional valuer and the nature of the balance is non-current. Investment property is leased to related and non-related parties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease based on future negotiations.

The following amounts are recognised in profit or loss:

	2019 $'000	2018 $'000
Rental income	**6,594**	6,488
Direct operating expenses arising from an investment property that generated rental income	**(2,733)**	(2,800)

Details of valuation techniques and process are disclosed in Note 38.

17. Deferred acquisition and origination costs

(a) Deferred acquisition costs on insurance contracts

	2019 $'000	2018 $'000
Carrying amount		
Deferred acquisition costs on insurance contracts	**2,061**	1,983
Movement in the year		
Beginning of financial year	**1,983**	1,981
Deferral and amortisation of acquisition costs (Note 9)	**78**	2
End of financial year	**2,061**	1,983

(b) Deferred origination costs on investment contracts

	2019 $'000	2018 $'000
Carrying amount		
Deferred origination costs on investment contracts	**92,196**	108,602
Movement in the year		
Beginning of financial year	**108,602**	84,232
Deferral of origination costs	**-**	38,549
Amortisation of origination costs (Note 9)	**(1,761)**	(1,801)
Impact of assumption changes	**-**	362
Others	**(14,645)**	(12,740)
End of financial year	**92,196**	108,602
Total	**94,257**	110,585

Deferred acquisition and origination costs are expected to be recoverable over the term of the insurance contracts for general insurance business that expire in less than 12 months and investment contracts without DPF which are expected to be realised over the contract term.

18. Reinsurance assets

	2019 **$'000**	2018 $'000
Amounts recoverable from reinsurers	**6,233**	10,659
Ceded insurance contract liabilities	**2,032,646**	1,649,046
Ceded outstanding claims	**30,599**	18,435
	2,069,478	1,678,140

Amounts recoverable from reinsurers are due within 12 months, while ceded insurance contract liabilities and ceded outstanding claims are largely due more than 12 months after the financial year ended 31 December 2019.

19. Loans and deposits

(a)

	2019 **$'000**	2018 $'000
Policy loans	**347,939**	348,293
Mortgage loans on residential real estate	**-**	4
Unsecured loans	**381**	179
Loan to a subsidiary	**57,000**	57,000
Loans - net	**405,320**	405,476
Term deposits with banks	**136,113**	366,856
Total	**541,433**	772,332

Policy loans are secured by the cash value of the life policy and bear interest at 6% (2018: 6%) per annum. Policy loans have no fixed terms of repayment.

The weighted average effective interest rate of unsecured loans at the balance sheet date was 2.89% (2018: 3.29%) per annum.

The loan to a subsidiary is unsecured and repayable within 30 years from 10 October 2002 although there has been no date set at which repayment will commence. The weighted average effective interest rate at the balance sheet date is 3.32% (2018: 3.69%) per annum.

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Deposits are stated at amortised cost using the effective interest method.

19. Loans and deposits (continued)

(b) The fair values of loans receivable are set out below. They were computed based on cash flows discounted using market borrowing rates.

	2019 $'000	2018 $'000
Mortgage loans on residential real estate	**-**	4
Unsecured loans	**372**	174
Loan to a subsidiary	**57,989**	54,557
	58,361	54,735

20. Financial investments

Financial assets are summarised by measurement category in the table below:

	2019 $'000	2018 $'000
Available for sale	**38,234,734**	33,595,228
Fair value through profit or loss		
- Designated at fair value on initial recognition	**8,210,159**	7,243,618
Total	**46,444,893**	40,838,846

20. Financial investments (continued)

Financial assets, available for sale

	2019 $'000	2018 $'000
Debt securities		
Non-pledged	**30,185,400**	26,597,837
Pledged under derivatives (Note 21)	**112,898**	89,233
Pledged under repos (Note 26)	**92,425**	493,367
Total debt securities	**30,390,723**	27,180,437
Equity securities	**7,844,011**	6,414,791
Total available for sale financial assets	**38,234,734**	33,595,228

The weighted average effective interest rate of debt securities was 4.05% (2018: 4.11%) per annum.

Financial investments, at fair value through profit or loss

	2019 $'000	2018 $'000
Debt securities	**1,862,640**	1,755,989
Equity securities	**6,347,519**	5,487,629
Total fair value through profit or loss	**8,210,159**	7,243,618

The weighted average effective interest rate of debt securities was 3.32% (2018: 3.20%) per annum.

Equity securities are typically non-current in nature.

Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factors in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The Company has determined that the investment funds and structured securities, such as collateralised debt obligations that the Company has an interest in, are structured entities.

20. **Financial investments** (continued)

Interests in structured entities (continued)

The following table summarises the Company's interest in unconsolidated structured entities as at 31 December 2019.

$'000	Structured securities[1]	Investment funds[2]
2019		
Available for sale debt securities	131,313	871,594
Available for sale equity securities	-	3,117,057
Debt securities at fair value through profit or loss	-	267,220
Equity securities at fair value through profit or loss	-	4,807,121
Total	**131,313**	**9,062,992**
2018		
Available for sale debt securities	74,091	829,497
Available for sale equity securities	-	2,325,329
Debt securities at fair value through profit or loss	-	90,859
Equity securities at fair value through profit or loss	-	3,199,774
Total	74,091	6,445,459

Notes
(1) Structured securities include collateralised debt obligations.
(2) Balance represents the Company's interest in trusts.

The Company's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities.

21. Derivative financial instruments

Description	Notional amount	Fair values Assets	Fair values Liabilities
	$'000	$'000	$'000
2019			
Cross currency interest rate swaps	**4,238,286**	**88,391**	**183,138**
Forward exchange contracts	**238,926**	**2,989**	**270**
Interest rate swaps	**275,000**	**26,914**	**-**
Total		**118,294**	**183,408**
2018			
Cross currency interest rate swaps	3,946,243	96,114	181,100
Forward exchange contracts	315,911	2,870	475
Interest rate swaps	275,000	17,087	-
Total		116,071	181,575

(a) *Cross currency interest rate swaps*

Cross currency interest rate swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain and loss on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices, and the timing of payments.

(b) *Forward exchange contracts*

Forward exchange contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date.

(c) *Interest rate swaps*

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

Collateral under derivative transactions

At 31 December 2019, the Company has pledged debt securities with carrying value of $113 million (2018: $89 million) for liabilities and held cash collateral of $13 million (2018: $11 million) for assets in respect of derivative transactions. The Company did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

22. Other assets

	2019 $'000	2018 $'000
Prepayments	**73,412**	65,144
Accrued investment income	**334,155**	327,178
Insurance receivables		
- Due from agents brokers and intermediaries	**1,315**	2,196
- Due from insurance and investment contract holders	**166,471**	158,307
Related party receivables	**16**	104
Receivables from sales of investments	**3,683**	26,349
Other receivables	**62,757**	73,550
	641,809	652,828
Less: Allowance for impairment of insurance receivables - non-related parties	**(1,305)**	(1,277)
	640,504	651,551

The carrying amount of insurance receivables that are individually determined to be impaired as at 31 December 2019 was $1,305,000 (2018: $1,277,000).

Movement in allowance for impairment in respect of insurance receivables due from insurance contract holders was as follows:

	2019 $'000	2018 $'000
Beginning of financial year	**1,277**	1,245
Allowance for impairment charge (Note 9)	**28**	32
End of financial year	**1,305**	1,277

All amounts other than prepayments are expected to be recovered within 12 months after the end of the financial year.

Related party receivables are unsecured, interest free and have no fixed terms of repayment.

23. Cash and cash equivalents

	2019 **$'000**	2018 $'000
Cash at bank and on hand	**231,914**	269,896
Short-term bank deposits	**102,446**	151,393
	334,360	421,289

24. Insurance contracts

	2019 **$'000**	2018 $'000
Beginning of the financial year	**31,763,780**	32,033,532
Net asset value movements attributed to policyholders	**1,029,671**	(493,970)
Valuation premiums and deposits	**3,816,038**	2,889,345
Liabilities released for policy termination or other policy benefits paid and related expenses	**(1,551,377)**	(1,574,221)
Fees from account balances	**(470,270)**	(474,051)
Accretion of interest	**269,678**	247,574
Foreign exchange movement	**(124,544)**	177,258
Other movements	**1,687,866**	(1,041,687)
End of the financial year	**36,420,842**	31,763,780

Other movements mainly consist of Par fund investment revenue, changes in assumptions on policy liabilities as mentioned in Note 4(i)(c) and deferred gains arising from the difference between amounts paid for reinsurance contracts and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts that were released during the year as disclosed in Note 9.

25. Investment contracts

	2019 **$'000**	2018 $'000
Beginning of financial year	**4,849,701**	4,217,475
Valuation premiums and deposits	**447,095**	1,591,853
Liabilities released for policy termination or other policy benefits paid and related expenses	**(451,506)**	(438,728)
Fees from account balances	**(12,151)**	(11,259)
Foreign exchange movement	**(931)**	961
Other movements	**563,251**	(510,601)
End of the financial year[1]	**5,395,459**	4,849,701

Note:
[1] Of investment contract liabilities, $67m (2018: $79m) represents deferred fee income.

26. Obligation under repurchase agreements

The Company has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date. The securities related to these agreements are not derecognised from the Company's balance sheet but are retained within the appropriate financial asset classification. The Company pledges assets for repurchase agreements which are generally conducted under terms that are usual and customary to standard securitised borrowing contracts.

The following table specifies the fair value of financial assets that are pledged under repurchase agreements at each period end:

	2019 **$'000**	2018 $'000
Debt securities, available for sale (Note 20)	**92,425**	493,367

Collateral

At 31 December 2019, the Company has pledged debt securities with carrying value of $92,425,000 (2018: $493,367,000). In the absence of default, the Company does not sell or repledge the debt securities collateral received and they are not recognised in the balance sheet. The following table shows the obligations under repurchase agreements at each year end:

	2019 **$'000**	2018 $'000
Repurchase agreements	**88,032**	490,189

27. Provisions

	Employee benefits $'000	Provision for policyholders support $'000	Others $'000	**Total $'000**
At 1 January 2019	2,035	14,960	959	**17,954**
Charged to profit or loss	54	-	-	**54**
Released during the year	-	(1,890)	-	**(1,890)**
Exchange differences	-	-	1	**1**
At 31 December 2019	**2,089**	**13,070**	**960**	**16,119**

	Employee benefits $'000	Provision for policyholders support $'000	Others $'000	**Total $'000**
At 1 January 2018	2,085	15,820	961	**18,866**
Charged to profit or loss	51	-	-	**51**
Utilised during the year	(33)	-	-	**(33)**
Released during the year	-	(860)	-	**(860)**
Total remeasurement included in OCI	(68)	-	-	**(68)**
Exchange differences	-	-	(2)	**(2)**
At 31 December 2018	**2,035**	**14,960**	**959**	**17,954**

Employee benefits

AIA operates unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment.

Provision for policyholders support

The provision for policyholders support refers to the Critical Year Option ("CYO") provision. The critical year is the projection of the last policy year in which out-of-pocket premium payment is required.

Other provisions

Other provisions comprise provisions in respect of regulatory matters and litigation. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate, the Company is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

28. Deferred income taxes

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheet as follows:

	2019	2018
	$'000	$'000
Deferred tax liabilities to be settled after more than 12 months	**1,386,767**	1,136,435

Deferred tax liabilities

	Asset revaluation gains	Fair value gains	Non-guaranteed benefits	Others	**Total**
	$'000	$'000	$'000	$'000	**$'000**
2019					
Beginning of financial year	43,802	(56,530)	1,142,131	7,032	**1,136,435**
Charged/(credited) to profit or loss (Note 10)	-	-	192,642	(130,567)	**62,075**
Credited to asset revaluation reserve (Note 34(b)(i))	(460)	-	-	-	**(460)**
Charged to fair value reserve (Note 34(b)(ii))	-	188,717	-	-	**188,717**
End of financial year	43,342	132,187	1,334,773	(123,535)	**1,386,767**
2018					
Beginning of financial year	40,933	13,695	1,218,600	4,771	**1,277,999**
(Credited)/charged to profit or loss (Note 10)	-	-	(76,469)	2,261	**(74,208)**
Charged to asset revaluation reserve (Note 34(b)(i))	2,869	-	-	-	**2,869**
Credited to fair value reserve (Note 34(b)(ii))	-	(70,225)	-	-	**(70,225)**
End of financial year	43,802	(56,530)	1,142,131	7,032	**1,136,435**

29. Other liabilities

	2019 $'000	2018 $'000
Trade and other payables	**472,233**	459,613
Life insurance deposits	**824,596**	803,267
Policy dividend payable	**1,719,808**	1,615,788
Provision for experience refund	**4,217**	6,102
Collaterals held for derivatives and repo	**14,444**	17,671
Investment payables	**25,446**	109,014
Reinsurance payables	**1,069,186**	1,003,557
Outstanding claims	**74,327**	61,446
Payables to immediate holding company	**12,050**	7,014
Payables to a subsidiary	**7,151**	1,592
Payables to other related companies	**16,303**	21,133
Lease liabilities (Note 15)	**76,082**	-
	4,315,843	4,106,197

Other liabilities other than lease liabilities are all expected to be settled within 12 months after the end of the financial year.

Related party payables are unsecured, interest free and have no fixed terms of repayment.

30. Contract balance

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers other than insurance contracts:

	2019 $'000	2018 $'000
Contract liabilities, which are included in "Investment contract liabilities"	**66,770**	78,756

Contract liabilities are the Company's obligation to transfer services to a customer under a non-insurance contract for which the Company has received consideration in advance from the customer. Contract liabilities are released to revenue as the Company satisfies its obligations under the contract.

Revenue recognised in the current financial year that was included in the contract liability balance at the beginning of the period amount to $12 million (2018: $11 million).

31. Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are satisfied (or partially unsatisfied) at the reporting date:

$'000	Less than 1 year	Over 1 year and within 2 years	Over 2 years and within 5 years	Over 5 years	Total
Fee income for investment contracts without DPF as at:					
31 December 2019	**1,282**	**1,282**	**3,847**	**60,359**	**66,770**
31 December 2018	1,758	1,488	4,464	71,046	78,756

All consideration from contracts with customers other than insurance contracts is included in the amounts presented above.

32. Share capital

	No. of shares '000	Amount $'000
2019		
Beginning and end of financial year	**1,374,000**	**1,374,000**
2018		
Beginning and end of financial year	1,374,000	1,374,000

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

33. Regulatory capital

As at 31 December 2019, $993 million (2018: $899 million) of capital (excluding Par) has been set aside by the Company to meet risk-based capital requirements for regulatory reporting purposes. These amounts are not available for distribution to the shareholder, are measured according to the regulatory prescriptions and are subject to changes in line with the underlying risks underwritten by the respective businesses.

34. Reserves

	2019 $'000	2018 $'000
(a) Composition:		
Asset revaluation reserve	**454,735**	449,433
Fair value reserve	**3,364,948**	668,135
Other capital reserves	**(434,616)**	(434,616)
Other reserves	**(2,539,210)**	(884,776)
	845,857	(201,824)

(b) Movements

	2019 $'000	2018 $'000
(i) Asset revaluation reserve		
Beginning of financial year	**449,433**	426,703
Revaluation of		
- Land and buildings (Note 14)	**4,842**	25,599
- Deferred tax on asset revaluation changes (Note 28)	**460**	(2,869)
	5,302	22,730
End of financial year	**454,735**	449,433

	2019 $'000	2018 $'000
(ii) Fair value reserve		
Beginning of financial year	**668,135**	2,649,983
Financial assets, available for sale		
- Fair value gains/(losses)	**3,022,516**	(1,723,225)
- Tax on fair value changes	**(191,200)**	68,019
	2,831,316	(1,655,206)
Reclassification to profit or loss (Note 7)	**(140,635)**	(331,246)
Tax on reclassification	**2,483**	2,206
	(138,152)	(329,040)
Tax on Transfer (Note 10)	**3,649**	2,398
End of financial year	**3,364,948**	668,135

The ending balance of fair value reserve consists of an amount of $74,456,000 (2018: $78,105,000) relating to tax on the Transfer. The tax will be reclassified to profit or loss based on the expected maturity of the transferred debt securities portfolio. Details on the Transfer are set out in Note 4(vi).

34. Reserves (continued)

(b) Movements (continued)

(iii) Other capital reserves

Other capital reserves represent reserves arising from transfer of business in prior years.

	2019 $'000	2018 $'000
(iv) Other reserves		
Beginning of financial year	**(884,776)**	(2,247,533)
Movement for the year	**(1,654,434)**	1,362,757
End of financial year	**(2,539,210)**	(884,776)

Other reserves represent shadow accounting reserves, share-based compensation reserves and remeasurement gain for defined benefits.

35. Dividends

	2019 $'000	2018 $'000
Ordinary dividends paid		
Final dividend paid in respect of the previous financial year of 25.55 cents (2018: 26.42 cents) per share	**351,000**	363,000

36. Contingencies

The Company is exposed to legal actions, the outcomes of which are contingent on various events, including court decisions. The Company has assessed the known cases and is of the opinion that the likelihood of adverse outcomes is possible but not probable at this point in time. In the event that the results in the various proceedings are found against the Company, the adverse impact based on the Company’s assessment is not expected to be material to the Company’s financial results or position.

37. Commitments

(a) Operating lease commitments – where the Company is a lessee

As at 31 December 2018, the future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	2018 $'000
Not later than one year	12,630
Between one and five years	20,783
	33,413

As disclosed in Note 2.2(b), the Company has adopted FRS 116 on 1 January 2019. These lease payments have been recognised as ROU assets and lease liabilities on the balance sheet as at 31 December 2019, except for short-term and low value leases.

(b) Operating lease commitments – where the Company is a lessor

As at 31 December 2018, the future minimum lease receivables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as receivables, are as follows:

	2018 $'000
Not later than one year	4,648
Between one and five years	9,035
Later than five years	1,290
	14,973

On 1 January 2019, the Company has adopted FRS 116 and the undiscounted lease payments from the operating leases to be received after 31 December 2019 is disclosed in Note 15.

37. **Commitments** (continued)

(c) The Company entered into repos (Note 26) during the financial year and the securities under repos are treated as pledged assets. As of year-end, borrowings amounting to $92,425,000 (2018: $493,367,000) were backed by securities sold under repurchase agreements as disclosed in Note 20.

(d) Investment and capital commitments

	2019 **$'000**	2018 $'000
Not later than one year	**389,975**	427,446

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

38. **Risk management**

The Company issues contracts that involve insurance risk, financial risk or both. This section summarises these risks and the way the Company manages them.

The Company's risk management and investment policies are guided by the Singapore Insurance Act and Securities and Futures Act. Financial derivatives are transacted as long as they are those that are permitted under the Monetary Authority of Singapore ("MAS") Notices and guidelines.

Besides the local statutory regulations, the Company adopts the overall policies, standards and procedures set up by the Group Financial Risk Committee ("FRC") for the management of liquidity, market, credit and derivative risks.

The risks associated with traditional life and accident and health products are insurance risk and financial risk.

(A) **Insurance risk**

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

38. Risk management (continued)

(A) Insurance risk (continued)

Lapse

This is the risk that the rate of policies termination deviates from the Company's expectation.

Ensuring customers buy products that meet their needs is central to the Company's operating philosophy. Through effective implementation of the Business Quality Framework, comprehensive sales training programs and active monitoring of sales activities and persistency, the Company seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers' needs.

The Company carries out regular reviews of persistency experience and the results are assimilated into new and in-force product management. In addition, many of our products include surrender charges upon early termination by policyholders, thereby reducing our exposure to lapse risk.

Expense overrun

The risk that the cost of selling new business and of administering the in-force book exceeds the assumptions made in pricing and/or reserving.

To manage expense overrun risk the Company allows for an appropriate level of expenses in product pricing that reflects a realistic medium to long-term view of our cost structure and expense inflation. Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Company's very substantial experience within the markets in which we operate.

Morbidity and Mortality

The risk that the occurrence and/or amounts of medical/death claims are higher than the assumptions made in pricing or reserving.

The Company adheres to well-defined market-oriented underwriting and claims guidelines and practices that have been developed based on extensive historical experience and with the assistance of professional reinsurers.

The Actuarial department conduct regular experience studies of all the insurance risk factors in its in-force book. These internal studies together with external data are used to identify emerging trends which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

38. Risk management (continued)

(A) Insurance risk (continued)

Morbidity and Mortality (continued)

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Group seeks to anticipate and respond promptly to potential adverse experience impacts on its products. Environmental risk, including climate change, forms part of our overall insurance risk profile through its role in the frequency and intensity of certain diseases and the health and mortality impacts of natural disasters.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters. We assess the overall level of insurance risk by taking into consideration a range of diverse risk factors across the many categories in our product range. This diversity of risk, combined with our reinsurance programme helps us to distribute risk and provide protection against the impact of catastrophic events and short-term environmental impacts.

Recent initiatives to manage morbidity risk and improve claims management include the promotion of wellness programmes such as AIA Vitality and the establishment of a dedicated Healthcare team to improve customer healthcare experience.

Premium Risk

Premiums and risk charges for all general insurance policies, certain term insurance policies, investment-linked policies and accident and health riders are not guaranteed. They may be changed after appropriate notice is given to policyholders. Market or regulatory restraints over the extent of such changes may reduce the ability to manage the risk.

Concentration of insurance risk

Concentration of risk may arise where a particular event or series of events could significantly impact the Company's liabilities. The Company is also exposed to geographical concentration of risk as most of the business is resident in Singapore.

Frequency and severity of claims

For contracts where death or diagnosis of critical illness are the insured risk, the most significant factors that could increase overall frequency of claims are epidemics (such as AIDS or SARS) or wide spread changes in lifestyle resulting in earlier or more claims than expected.

38. Risk management (continued)

(A) Insurance risk (continued)

Frequency and severity of claims (continued)

Other factors affecting the frequency and severity of claims include:

- Insurance risk under disability contracts is dependent on economic conditions in industry. Recession and unemployment in an industry tend to increase the number of claims for disability benefits as well as reduce the rate of recovery from disability.
- Insurance risk under hospitalisation contracts is dependent on medical cost and medical technology.
- Insurance risk under accidental contracts is more random and dependent on occupation.

Claims development

The claims development period for general claims is relatively short. Given the small scale of the related claims reserves in the context of the Company as a whole, no claims development table is presented.

Risk management objectives and policies for mitigating insurance risk

For contracts with discretionary participating feature ("DPF"), a significant portion of the insurance risk is shared with the insured party. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no similar mitigating terms and conditions in the contracts that can reduce the insurance risk accepted. However, the Company mitigates and manages insurance risk by:

- Conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs.
- Operating within the underwriting and claims management policies, standards and procedures developed by Group Financial Risk Committee.
- Sharing risks with reinsurers. Mortality risk and morbidity risk in excess of their respective retention limits are ceded to reduce fluctuations in claims payments. Retention limits are set mainly based on underwriting expertise, operational results, the expected size of the business portfolio and other considerations. Yearly renewable term reinsurance is used for most products. For new products/risk types with greater uncertainty in claim experience, quota share arrangements or co-insurance are used.
- Using reinsurance solutions to help reduce concentration and volatility risk and as protection against catastrophe.

38. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products

General insurance contracts

The Company usually guarantees a fixed level of benefits that are payable upon a claim event (e.g. accidental death) or reimburses the actual expenses subject to certain limits, if any (e.g. hospital expense reimbursement, motor, fire, loss of baggage).

The main source of risk is the incidence rates that trigger the claim events. Premiums are not guaranteed. They may be changed after the appropriate notice is given to policyholders. The policies can be unilaterally cancelled by the Company after appropriate notice is given to policyholders.

Traditional insurance contracts with DPF (life business)

These insurance contracts include whole life insurance, endowment insurance, and some annuity contracts, with significant life contingency risk. For the whole life and endowment insurance contracts, significant benefits are payable upon insured events such as death or disability. For annuity contracts, the policyholders will receive a regular stream of payments as long as they are alive. Improvements in the annuitants' mortality and decreasing interest rates are the main source of risk.

These insurance contracts also contain a DPF which entitles the policyholder to receive additional benefits or bonuses, in addition to the guaranteed benefits. The future bonuses are non-guaranteed and are dependent on the future performance of the fund and other factors. The Company has the discretion to vary the amount or timing of the distribution of these bonuses. To manage policyholders' reasonable expectations, the Company continues to communicate to policyholders through its sales illustrations, annual statements and other materials the non-guaranteed nature of bonuses and dividends (both annual and terminal) and where applicable, of accumulation rates for dividends and coupons left on deposit.

38. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products (continued)

Traditional insurance contract without DPF (life business)

These contracts are non-participating and are mainly protection based, including some annuity contracts.

For protection based contracts, the Company usually guarantees a fixed level of benefits that are payable upon a claim event (e.g. death, disability, critical illness). The main source of risk is the incidence rates that trigger the claim events. Premiums for certain term insurance policies and accident and health riders are not guaranteed. They may be changed after the appropriate notice is given to policyholders.

Investment-type insurance contracts (life business) – Universal life

Premiums, after deduction of any premium charges, are added to the policy value of the policyholder to which the Company will credit interest (subject to a minimum crediting rate). Deductions are then made for charges including insurance risk charges, and withdrawals. Upon the insured event of death, the policyholder will receive either the sum of the insured amount and the policy value, or the higher of the insured amount or the policy value, depending on contract terms.

Investment-type insurance contracts (life business) – Investment-linked

These are investment-linked policies, where policyholders can use their premiums to purchase units of the investment-linked sub-funds set up by the Company. The value of these units is directly linked to the performance of these investment-linked sub-funds. Upon the insured event such as death, depending on the type of death coverage, the policyholder can receive the higher of the insured amount or the value of the units owned, or the insured amount in addition to the value of the units. Policy administration fees, risk charges for mortality and morbidity, and fund management fees, where applicable, are charged to the investment-linked account balances of the policyholders. The Company bears little or no investment risk as the policyholders bear the investment risk.

38. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products (continued)

Investment-type insurance contracts (life business) – Investment-linked (continued)

The tables below present the Company's liabilities for major categories of insurance and investment contracts.

General Insurance contracts:

Product type	2019				2018			
	Before reinsurance	Reinsurance	Deferred acquisition cost	After reinsurance	Before reinsurance	Reinsurance	Deferred acquisition cost	After reinsurance
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Personal accident hybrid	5,220	(25)	(866)	4,329	3,504	(19)	(391)	3,094
Personal lines	7,130	(75)	(1,196)	5,859	8,512	(77)	(1,592)	6,843
Total insurance contracts - general	12,350	(100)	(2,062)	10,188	12,016	(96)	(1,983)	9,937

Traditional insurance contracts (life business):

Product type	2019				2018			
	Before reinsurance		After reinsurance		Before reinsurance		After reinsurance	
	$'000	%	$'000	%	$'000	%	$'000	%
With DPF:								
Whole life	16,251,989	80%	16,187,900	80%	13,901,234	78%	13,894,253	78%
Endowment	3,915,613	19%	3,901,024	19%	3,779,588	21%	3,767,159	21%
Other	82,981	1%	81,541	1%	85,365	1%	84,015	1%
With DPF subtotal	20,250,583	100%	20,170,465	100%	17,766,187	100%	17,745,427	100%
Without DPF:								
Whole Life	1,274,626	28%	882,283	26%	1,225,326	30%	850,434	27%
Endowment	565,013	13%	564,938	17%	520,097	13%	519,994	16%
Term	1,057,514	24%	790,796	23%	853,444	21%	682,886	22%
Accident & health	374,438	8%	366,145	11%	367,174	9%	356,801	11%
Others	1,200,223	27%	785,351	23%	1,076,036	27%	748,739	24%
Without DPF subtotal	4,471,814	100%	3,389,513	100%	4,042,077	100%	3,158,854	100%

38. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products (continued)

Investment type insurance contracts (life business):

Product type	2019 Before reinsurance $'000	%	2019 After reinsurance $'000	%	2018 Before reinsurance $'000	%	2018 After reinsurance $'000	%
Universal life	7,058,176	56%	6,188,187	53%	6,034,731	57%	5,268,783	53%
Investment-linked	5,546,116	44%	5,545,978	47%	4,644,123	43%	4,644,344	47%
Total	12,604,292	100%	11,734,165	100%	10,678,854	100%	9,913,127	100%
Total insurance contracts-life	**37,326,689**		**35,294,143**		**32,487,118**		**30,817,408**	

Investment contracts (life business):

Product type	2019 Before reinsurance $'000	%	2019 After reinsurance $'000	%	2018 Before reinsurance $'000	%	2018 After reinsurance $'000	%
With DPF	2,672,495	50%	2,672,495	50%	2,055,474	43%	2,055,474	43%
Investment-linked	2,656,194	50%	2,656,194	50%	2,715,470	57%	2,715,470	57%
Total investment contracts - life	5,328,689	100%	5,328,689	100.00%	4,770,944	100%	4,770,944	100%

Note that the amount above includes the present value of expected tax payments on the distribution to policyholders from the Par fund arising from non-guaranteed benefits.

(B) Financial risk

Financial risk is the potential loss resulting from adverse movements in financial markets, changes in the financial condition of counterparties and in market liquidity to buy and sell investments. Financial risk is subdivided into credit risk, market risk (which includes interest rate, credit spread, equity price, property price and foreign exchange rate risk) and liquidity risk. The Company manages its exposure to financial risk within tolerances agreed by the Group Financial Risk Committee. Risk metrics such as those described above are used to identify exposure to each of the major financial risks.

The Company's investment in any securities, financial instruments and other investment titles follow the relevant policies, principles, processes and procedures for the respective asset class established by AIA Group Investment and AIA Group Risk. The Company only invests in securities and geographic markets where it has the expertise, resources, systems and infrastructure to ensure that it is able to evaluate the risk, price and monitor each investment. Where the Company does not have expertise or resources, it will outsource the management to a third party manager and monitor the performance regularly.

38. Risk management (continued)

(B) Financial risk (continued)

(a) Liquidity risk

The Company identifies liquidity risk as occurring in two ways:

- Funding Liquidity Risk

  This is the risk that the Company does not have sufficient cash or collateral to (i) make payments to counterparties as they fall due; or (ii) meet our policyholder obligations via products that permit surrender, withdrawal or other forms of early termination for a cash value; and we can only do so by liquidating assets at significant losses.

- Investment Liquidity Risk

  This is the risk that an asset cannot be sold in the market quickly, or, if its sale is executed very rapidly, that this can only be achieved at a heavily discounted price. It is primarily a function of the market for an asset, and not the circumstances of the Company. Market liquidity risk may result in the Company facing a funding liquidity crisis, or suffer losses and deplete its capital.

The Company takes a total active liquidity view by managing exposures and their funding across all payment obligations and currencies. We manage liquidity risk by matching our near-medium term expected cash flows from our liabilities and assets, and through insurance product design.

A portion of the Company's assets are kept in the form of marketable securities or liquid assets (e.g. Singapore Government bonds), to facilitate the conversion to cash quickly should the need arise.

The Company also conducts liquidity stress testing as part of the AIA Group Liquidity Management Risk Standard to ensure sufficient liquidity is maintained to meet our expected financial commitments as they fall due.

The Company mitigates liquidity risks by also seeking stable sources of liquidity that are less likely to be adversely affected in the event of stressed market conditions. One important area is the positive cash flows from insurance premiums and other businesses (e.g. rentals). Where feasible, the Company can explore diversification across a range of channels (e.g. credit lines, repos), and source from other investors or instruments.

The Company has put in place a multi-currency revolving credit facility agreement with a facility amount of US$154 million (2018: US$154 million) to augment the Company's primary source of liquid funds.

38. Risk management (continued)

(B) Financial risk (continued)

(a) Liquidity risk (continued)

(i) Maturity analysis of net financial assets (excluding insurance and investment contract liabilities)

	Due in 1 year or less $'000	Due after 1 year through 5 years $'000	Due after 5 years through 10 years $'000	Due after 10 years $'000	No maturity $'000	**Total $'000**
2019						
Financial assets						
Debt securities:						
- Available for sale	1,521,780	5,389,908	9,275,303	14,203,732	-	**30,390,723**
- At fair value through profit or loss	86,679	366,460	832,272	577,229	-	**1,862,640**
Equity securities:						
- Available for sale	-	-	-	-	7,844,011	**7,844,011**
- At fair value through profit or loss	-	-	-	-	6,347,519	**6,347,519**
Loans and deposits	381	-	-	193,113	347,939	**541,433**
Other assets (exclude prepayments)	567,092	-	-	-	-	**567,092**
Reinsurance receivables	6,233	-	-	-	-	**6,233**
Derivative financial instruments	7,899	11,393	71,111	27,891	-	**118,294**
Cash and cash equivalents	334,360	-	-	-	-	**334,360**
	2,524,424	**5,767,761**	**10,178,686**	**15,001,965**	**14,539,469**	**48,012,305**
Financial liabilities						
Obligation under repurchase agreement	88,032	-	-	-	-	**88,032**
Other liabilities (exclude lease liabilities)	4,239,761	-	-	-	-	**4,239,761**
Lease liabilities	12,142	46,012	17,928	-	-	**76,082**
Derivative financial instruments	3,831	139,816	34,587	5,174	-	**183,408**
	4,343,766	**185,828**	**52,515**	**5,174**	**-**	**4,587,283**
2018						
Financial assets						
Debt securities:						
- Available for sale	938,686	4,662,032	8,666,955	12,912,764	-	**27,180,437**
- At fair value through profit or loss	28,856	498,317	764,287	464,529	-	**1,755,989**
Equity securities:						
- Available for sale	-	-	-	-	6,414,791	**6,414,791**
- At fair value through profit or loss	-	-	-	-	5,487,629	**5,487,629**
Loans and deposits	183	-	-	423,855	348,294	**772,332**
Other assets (exclude prepayments)	586,407	-	-	-	-	**586,407**
Reinsurance receivables	10,659	-	-	-	-	**10,659**
Derivative financial instruments	1,650	13,920	78,031	20,311	2,159	**116,071**
Cash and cash equivalents	421,289	-	-	-	-	**421,289**
	1,987,730	**5,174,269**	**9,509,273**	**13,821,459**	**12,252,873**	**42,745,604**
Financial liabilities						
Obligation under repurchase agreement	490,189	-	-	-	-	**490,189**
Other liabilities	4,106,197	-	-	-	-	**4,106,197**
Derivative financial instruments	15,474	110,562	50,605	4,460	474	**181,575**
	4,611,860	**110,562**	**50,605**	**4,460**	**474**	**4,777,961**

38. Risk management (continued)

(B) Financial risk (continued)

(a) Liquidity risk (continued)

(ii) Undiscounted cash flow by investment and insurance contracts

Insurance contract and investment contract liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a certain nature. Insurance contract and investment contract liabilities also include insurance benefits and claims and investment contract benefits of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts, (i) the Company is currently not making payments until the occurrence of an insurable event, such as death or disability; (ii) payments are conditional on survivorship; or (iii) payments may occur due to surrender or other non-scheduled events which are out of the Company's control.

The Company has made significant assumptions to determine the estimated undiscounted cash flows of these insurance benefits and claims and investment contract benefits, of which assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest credit ratings, offset by expected future deposits and premiums on in-force policies.

Due to the significance of the assumptions used, the maturity profiles presented below could be materially different from actual payments. The amounts presented in the maturity profiles are undiscounted and therefore exceed the insurance contract liabilities included in the balance sheet. The amount of liabilities presented below does not include the portion backed by assets which can be easily liquidated through fund liquidation of units by unit-holders of investment-linked funds.

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Total
	$'000	$'000	$'000	$'000	$'000
2019					
Liabilities					
Insurance contracts	16,500	(603,499)	(2,960,463)	(68,713,100)	(72,260,562)
Investment contracts	105,274	(68,662)	(701,005)	(7,120,244)	(7,784,637)
2018					
Liabilities					
Insurance contracts	37,319	(955,446)	(2,865,449)	(64,539,681)	(68,323,257)
Investment contracts	130,234	113,922	(581,135)	(6,245,949)	(6,582,928)

38. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk

Market risk is the risk of financial loss from adverse movements in the value of assets owing to market factors, including changes in interest and foreign exchange rates, as well as movements in the spread of credit instruments to corresponding government bonds. The Group FRC approves all policies and metrics associated with the evaluation of market risk exposures, and the Company's Board approves the ALM and Corporate Investment Policy and Fund Mandates for Singapore, which collectively facilitates the Company's Investment Committee and Investment Department's management of the relevant market or investment risks.

Market risks are controlled to some extent via the Strategic Asset Allocation ("SAA") targets and Tactical Asset Allocation ("TAA") proposed by the Company Investment Committee and approved by the Company Board. The SAA targets and TAA ranges define the long-term investment objectives of the Company. Short to medium term trading opportunities may also be taken into consideration in the implementation of the ALM and Corporate Investment Policy as and when pronounced market trends and significant deviations from fair value arise. Deviations from SAA targets shall be within the TAA ranges. The SAA is reviewed on an annual basis. The SAA seeks to optimise risk-adjusted returns, taking into consideration the liability risk characteristics, customers' reasonable expectations while meeting our risk tolerance on regulatory capital.

There are a number of key activities to control exposure to derivatives and restricted investments. For derivatives these policies include operational requirements and exposure limits which are linked to the policies and standards issued by Group Financial Risk Committee. For restricted investments the investments should be within specified limits and should not breach SAA. In terms of governance, Group Risk should be notified and the Investment Committee should approve the investment.

Equity price risk

Equity price risk arises from changes in the market value of equity securities and equity funds. Investments in equity assets on a long-term basis are expected to align policyholders' expectations to provide diversification benefits and enhance returns.

The extent of exposure to equities at any time is at the discretion of the Investment Department operating within the terms of the AIA Group's and the Company's strategic asset allocations.

38. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Equity price risk (continued)

From a risk perspective, particular emphasis is placed on managing concentrations and volatility in the Company's equity exposures. The AIA Group's "Margin of Safety" Investment approach is designed to target value in equity selection. Equity exposures are also included in the aggregate credit exposure reports on individual counterparties to ensure concentrations are avoided.

The Company is exposed to equity security price risk arising from the investments held by the Company which are classified on the balance sheet as available for sale. The portfolio of available for sale equities in the insurance funds are mainly listed. For investment-linked contracts, the equity security price risk is borne by contract holders.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures.

If prices for equity securities change by 10% with all other variables including tax rate being held constant, the effects on total shareholder's equity will be:

	2019 Increase/ (decrease) shareholders' equity $'000	2018 Increase/ (decrease) shareholders' equity $'000
10% rise in equity price	**784,401**	641,479
10% fall in equity price	**(784,401)**	(641,479)

Interest rate risk

The Company's exposure to interest rate risk predominantly arises from any difference between the duration of the assets and liabilities, or any difference between the return on investments and insurance liabilities. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Company's insurance liabilities. Exposure to interest rate risks may be split between variable, fixed and non-interest bearing instruments. This exposure can be heightened in products with inherent options or guarantees.

38. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Company manages interest rate risk by ensuring appropriate insurance product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of our investment assets with the duration of insurance liabilities. For in-force policies, the Company regularly reviews the bonus payout to participating policyholders and the crediting rates applicable to policyholder account balances, considering amongst other things the earned yields and policyholders' reasonable expectations.

The table below summarises the nature of the interest rate risk associated with financial assets:

	Variable rates $'000	Fixed rates $'000	Non-interest bearing $'000	**Total $'000**
At 31 December 2019				
Financial Assets				
Cash and cash equivalents	333,073	-	1,287	**334,360**
Other assets (exclude prepayments)	-	-	567,092	**567,092**
Reinsurance receivables	-	-	6,233	**6,233**
Debt securities	1,519,331	29,923,419	810,613	**32,253,363**
Equity securities	-	-	14,191,530	**14,191,530**
Loans and deposits	381	541,052	-	**541,433**
Derivative financial instruments	-	-	118,294	**118,294**
Total financial assets	1,852,785	30,464,471	15,695,049	**48,012,305**
At 31 December 2018				
Financial Assets				
Cash and cash equivalents	419,909	-	1,380	**421,289**
Other assets (exclude prepayments)	-	-	586,407	**586,407**
Reinsurance receivables	-	-	10,659	**10,659**
Debt securities	1,570,418	27,119,478	246,530	**28,936,426**
Equity securities	-	-	11,902,420	**11,902,420**
Loans and deposits	183	772,149	-	**772,332**
Derivative financial instruments	-	-	116,071	**116,071**
Total financial assets	1,990,510	27,891,627	12,863,467	**42,745,604**

38. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Credit Spread Risk

Credit spread risk arises from changes in the market value of non-government securities as a result of a change in perception as to their likelihood of repayment. These price changes are distinct from those resulting from changes in interest rates. The Company invests in non-government securities in a number of its portfolios. Because these securities are mostly held to maturity, credit spread risk is only considered to the extent that the Company may be forced to sell those securities before they mature.

The Company nonetheless manages its credit spread risk carefully, focusing on overall portfolio quality and diversification and seeking to avoid excessive volatility in the mark-to-market value of its investment portfolios.

Foreign exchange rate risk

The Company is exposed to foreign exchange rate risk to the extent that it holds un-hedged positions where the assets backing the liabilities are in different currencies to the liabilities. However, currency mismatch is acceptable for diversification and yield enhancement purposes. The Company manages foreign exchange rate risk by hedging our exposures accordingly, and in compliance with regulatory requirements.

Property price risk

Property price risk arises from interests in real estate assets, which form part of the Company's investment portfolios and are subject to market value changes due to general or specific factors. A considerable number of such real estate assets are self-occupied and used for operating purposes. Real estate assets are expected to provide useful diversification benefits and a long-term return with some inflation protection.

The price risk in property can be driven by broader economic and social factors, notably tenant supply and demand, liquidity of individual buildings, evolving infrastructure or government actions that may directly or indirectly influence the market. It can also be driven by the characteristics of specific holdings: their location within an area, the competitiveness of their facilities and their physical condition.

Any material property investment is individually reviewed to ensure it does not give rise to an unacceptable concentration of exposure and that it does not compromise the financial flexibility of the Company.

38. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Foreign exchange rate risk (continued)

The Company's foreign exchange net assets/(liabilities) position by major currencies are shown in the following table:

	SGD $'000	USD $'000	HKD $'000	Others $'000	Total $'000
At 31 December 2019					
Assets					
Intangible assets	59,545	-	-	-	**59,545**
Investment in subsidiaries	47,250	-	-	-	**47,250**
Investment in associated companies	*	-	-	-	*****
Property and equipment	520,729	-	66	-	**520,795**
Investment property	190,511	-	-	-	**190,511**
Deferred acquisition costs	94,257	-	-	-	**94,257**
Reinsurance assets	1,074,435	995,043	-	-	**2,069,478**
Loans and deposits	488,203	53,219	-	11	**541,433**
Debts and equities	24,535,972	19,201,576	822,035	1,885,310	**46,444,893**
Derivative financial instruments	29,104	69,255	-	19,935	**118,294**
Current tax recoverable	4,434	-	-	-	**4,434**
Other assets	428,722	202,635	-	9,147	**640,504**
Cash and cash equivalents	229,594	94,287	271	10,208	**334,360**
Total Assets	27,702,756	20,616,015	822,372	1,924,611	**51,065,754**
Liabilities					
Insurance contracts	24,893,236	11,521,102	-	6,504	**36,420,842**
Investment contacts	5,320,047	75,412	-	-	**5,395,459**
Obligation under repurchase agreements	-	88,032	-	-	**88,032**
Derivative financial instruments	14	178,602	-	4,792	**183,408**
Provisions	16,119	-	-	-	**16,119**
Deferred tax liabilities	1,386,767	-	-	-	**1,386,767**
Other liabilities (exclude lease liabilities)	2,832,471	1,406,106	259	925	**4,239,761**
Lease liabilities	76,082	-	-	-	**76,082**
Total Liabilities	34,524,736	13,269,254	259	12,221	**47,806,470**
Less: Net fair value amounts of currency derivative positions		4,356,386	-	476,605	
Net exposure		2,990,376	822,113	1,435,785	

***** *Less than $1,000*

38. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Foreign exchange rate risk (continued)

	SGD $'000	USD $'000	HKD $'000	Others $'000	Total $'000
At 31 December 2018					
Assets					
Intangible assets	56,933	-	-	-	**56,933**
Investment in subsidiaries	47,250	-	-	-	**47,250**
Investment in associated companies	*	-	-	-	*
Property and equipment	429,049	-	66	-	**429,115**
Investment property	197,048	-	-	-	**197,048**
Deferred acquisition costs	110,585	-	-	-	**110,585**
Reinsurance assets	1,672,502	5,638	-	-	**1,678,140**
Loans and deposits	720,341	51,971	-	20	**772,332**
Debts and equities	22,120,903	16,426,462	625,832	1,665,649	**40,838,846**
Derivative financial instruments	17,798	82,623	-	15,650	**116,071**
Other assets	453,387	191,206	-	6,958	**651,551**
Cash and cash equivalents	254,568	137,826	2,455	26,440	**421,289**
Total Assets	26,080,364	16,895,726	628,353	1,714,717	**45,319,160**
Liabilities					
Insurance contracts	23,042,337	8,713,696	-	7,747	**31,763,780**
Investment contacts	4,792,690	57,011	-	-	**4,849,701**
Obligation under repurchase agreements	277,877	212,312	-	-	**490,189**
Derivative financial instruments	1	174,257	-	7,317	**181,575**
Provisions	17,954	-	-	-	**17,954**
Deferred tax liabilities	1,136,435	-	-	-	**1,136,435**
Current tax liabilities	49,637	-	-	-	**49,637**
Other liabilities	2,696,810	1,356,488	24,653	28,246	**4,106,197**
Total Liabilities	32,013,741	10,513,764	24,653	43,310	**42,595,468**
Less: Net fair value amounts of currency derivative positions		4,218,069	-	405,826	
Net exposure		2,163,893	603,700	1,265,581	

** Less than $1,000*

38. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Foreign exchange rate risk (continued)

Sensitivity analysis for foreign currency risk and its effects on total equity

	Increase/(decrease)		
	Profit before tax $'000	Other comprehensive income $'000	Total equity $'000
2019			
USD/SGD - strengthened 10%	269,036	30,002	299,038
USD/SGD - weakened 10%	(269,036)	(30,002)	(299,038)
2018			
USD/SGD - strengthened 10%	194,185	22,205	216,390
USD/SGD - weakened 10%	(194,185)	(22,205)	(216,390)

(c) Credit risk

The risk arising from the uncertainty of third parties meeting their obligations to the Company when they fall due. Although the primary source of credit risk is the Company's investment portfolio, such risk can also arise through reinsurance, procurement, and treasury activities.

The management of credit risk occurs on two levels in the Company. At the first level, a detailed analysis of individual counterparties and rating recommendation within the internal ratings framework is performed by local and/or Group Investment. At the second level, the Group Risk function manages this internal ratings framework and assesses the recommendations. Internal ratings are then used to determine our risk appetite for exposures to counterparties. A matrix of risk tolerances approved by the Group Financial Risk Committee ensures that credit risk in the investment portfolio is contained within AIA's overall risk appetite. These tolerances cover individual counterparty, segmental concentration and cross-border exposures. The local Investment function can shape the portfolio within those risk tolerances. If there is need to change the limits or invest outside those tolerances/limits, approval from the authorised Group personnel is required via the "Activity Approval and Monitoring Process" ("AAMP") for credit risk.

38. Risk management (continued)

(B) Financial risk (continued)

(c) Credit risk (continued)

With respect to investing activities, investment objectives including asset allocation limits and permitted variances from such limits for the Company and AIA Group are approved by the Group Financial Risk Committee. The guidelines are structured to apply to AIA Group as a whole, and then to the Company.

The Company adopts the overall policies, standards and procedures set up by the Group Financial Risk Committee which covers the approval of credit risk arising from activities (including activities that have been outsourced to third parties) regarding investing and reinsurance, including but not limited to operating cash in bank accounts, deposit placements of investment cash and treasury cash, fixed income securities, repurchase agreements, securities settlement, over-the-counter derivatives and reinsurance receivables. These policies and standards are consistent with the Company's Investment Philosophy and Risk Appetite, as endorsed by the AIA Group Board.

In addition to Risk Tolerances, credit risk is managed through the use of an Investment Risk Watch List, which is maintained by Group Risk. The Investment Risk Watch List may include single-name obligors, countries, industry sectors, asset classes or concentrations, to which AIA Group needs to restrict exposures as they may create potential reputational or financial risk inconsistent with the Risk Tolerances.

	2019	2018
	$'000	$'000
Cash and cash equivalents	**334,360**	421,289
Other assets (exclude prepayments)	**567,092**	586,407
Reinsurance receivables	**6,233**	10,659
Debt securities:		
- Available for sale	**30,390,723**	27,180,437
- At fair value through profit or loss	**1,862,640**	1,755,989
Loans and deposits	**541,433**	772,332
Derivative financial instruments	**118,294**	116,071
Total assets bearing credit risk	**33,820,775**	30,843,184

38. Risk management (continued)

(B) Financial risk (continued)

(c) Credit risk (continued)

The debt securities are analysed in the table below using Standard & Poors rating (or equivalent as determined by the Company when no information is available from Standard & Poors):

	Designated at fair value through profit or loss	Available for sale	Total
31 December 2019	$'000	$'000	$'000
Debt securities:			
AAA	818,294	9,676,257	10,494,551
AA	-	2,259,144	2,259,144
A	326,596	9,796,093	10,122,689
BBB	533,758	7,592,027	8,125,785
Below BBB or not rated	183,992	1,067,202	1,251,194
Total debt securities	1,862,640	30,390,723	32,253,363
31 December 2018			
Debt securities:			
AAA	860,800	8,763,622	9,624,422
AA	-	2,290,046	2,290,046
A	268,533	8,572,919	8,841,452
BBB	540,070	5,877,399	6,417,469
Below BBB or not rated	86,586	1,676,451	1,763,037
Total debt securities	1,755,989	27,180,437	28,936,426

Financial assets that are neither past due nor impaired

Cash, interest income due or accrued and derivative financial instruments are with parties of high credit-ratings assigned by international credit-rating agencies. These receivables are neither past due nor impaired and are substantially companies with good collection track record with the Company.

Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies. Such collateralisation minimises any credit risk.

Financial assets that are past due and/or impaired

There is no other class of financial assets past due and/or not impaired except for insurance receivables.

38. Risk management (continued)

(B) Financial risk (continued)

(c) Credit risk (continued)

The age analysis of insurance receivables past due but not impaired is as follows:

	2019 **$'000**	2018 $'000
Past due < 12 months	**60,274**	49,294
Past due over 12 months	**1,777**	1,465
	62,051	50,759

The carrying amount of insurance receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	2019 **$'000**	2018 $'000
Past due over 12 months	**1,305**	1,277
Less: Allowance for impairment	**(1,305)**	(1,277)
	-	-
Beginning of financial year	**1,277**	1,245
Allowance for impairment charge	**28**	32
End of financial year	**1,305**	1,277

(d) Derivative financial instruments

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, the Company may enter into derivative transactions as an end user. The more significant types of derivative arrangements in which the Company transacts are swaps and forward contracts.

The Company also uses derivatives to help match assets and liabilities in its businesses, including its insurance operations, for example, in the use of currency and interest rate swaps to convert foreign-currency investment contract assets into Singapore dollar-based assets. Thus, these assets are not subjected to currency risk. Group Financial Risk Committee provides oversight in the use of derivatives. The committee examines and approves, among other things, the nature and purpose of the derivative transaction.

38. Risk management (continued)

(B) Financial risk (continued)

(e) Sensitivity analysis

The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's profit before tax and other comprehensive income. This includes all investment in debt and equity securities excluding investment-linked contracts as the risk is borne by contract holders and is excluded from the sensitivity analysis.

If prices for available for sale equity securities had changed by 10% (2018: 10%) and interest rate for debt securities had changed by 50 (2018: 50 basis points) with all other variables including tax rate being held constant, the effects on profit before tax and other comprehensive income would have been:

	Increase/(decrease)		
	Profit before tax	Other comprehensive income	Total equity
	$'000	$'000	$'000
2019			
10% rise in equity price	-	784,401	784,401
10% fall in equity price	-	(784,401)	(784,401)
50 basis point rise in interest rates	-	(1,435,938)	(1,435,938)
50 basis point fall in interest rates	-	1,435,938	1,435,938
2018			
10% rise in equity price	-	641,479	641,479
10% fall in equity price	-	(641,479)	(641,479)
50 basis point rise in interest rates	-	(1,247,633)	(1,247,633)
50 basis point fall in interest rates	-	1,247,633	1,247,633

For sensitivity analysis relating to insurance and investment contracts, see Note 4(i)(d).

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements

(i) Financial instruments by category

The following tables present the fair values of the Company's financial assets and financial liabilities:

$'000	Note	Fair value: Designated at fair value through profit or loss	Fair value: Available for sale	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
31 December 2019							
Loans (exclude Policy loans)	19	-	-	-	57,381	57,381	58,361
Policy loans	19	-	-	-	347,939	347,939	
Term deposits	19	-	-	-	136,113	136,113	
Financial investments:							
Debt securities	20	1,862,640	30,390,723	-	-	32,253,363	32,253,363
Equity securities	20	6,347,519	7,844,011	-	-	14,191,530	14,191,530
Derivative financial instruments	21	-	-	118,294	-	118,294	118,294
Reinsurance receivables	18	-	-	-	6,233	6,233	
Other receivables	22	-	-	-	232,937	232,937	
Accrued investment income	22	-	-	-	334,155	334,155	
Cash and cash equivalents	23	-	-	-	334,360	334,360	
Financial assets		**8,210,159**	**38,234,734**	**118,294**	**1,449,118**	**48,012,305**	

$'000	Note	Fair value: Fair value through profit or loss	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
Financial liabilities:						
Investment contract liabilities	25	5,395,459	-	-	5,395,459	5,395,459
Obligations under repurchase agreements	26	-	-	88,032	88,032	
Derivative financial instruments	21	-	183,408	-	183,408	183,408
Other liabilities (exclude lease liabilities)	29	-	-	4,239,761	4,239,761	
Lease liabilities	29c			76,082	76,082	
Financial liabilities		**5,395,459**	**183,408**	**4,403,875**	**9,982,742**	

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(i) Financial instruments by category (continued)

$'000	Note	Fair value: Designated at fair value through profit or loss	Fair value: Available for sale	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
31 December 2018							
Loans (exclude Policy loans)	19	-	-	-	57,183	57,183	54,735
Policy loans	19	-	-	-	348,293	348,293	
Term deposits	19	-	-	-	366,856	366,856	
Financial investments:							
Debt securities	20	1,755,989	27,180,437	-	-	28,936,426	28,936,426
Equity securities	20	5,487,629	6,414,791	-	-	11,902,420	11,902,420
Derivative financial instruments	21	-	-	116,071	-	116,071	116,071
Reinsurance receivables	18	-	-	-	10,659	10,659	
Other receivables	22	-	-	-	259,229	259,229	
Accrued investment income	22	-	-	-	327,178	327,178	
Cash and cash equivalents	23	-	-	-	421,289	421,289	
Financial assets		**7,243,618**	**33,595,228**	**116,071**	**1,790,687**	**42,745,604**	

$'000		Fair value: Fair value through profit or loss	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
Financial liabilities:						
Investment contract liabilities	25	4,849,701	-	-	4,849,701	4,849,701
Obligations under repurchase agreements	26	-	-	490,189	490,189	
Derivative financial instruments	21	-	181,575	-	181,575	181,575
Other liabilities	29	-	-	4,106,197	4,106,197	
Financial liabilities		**4,849,701**	**181,575**	**4,596,386**	**9,627,662**	

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in Note 38B)(b) for the key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(i) Financial instruments by category (continued)

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

(ii) Fair value measurements on a recurring basis

The Company measures at fair value financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds, certain property and equipment, investment property, and certain investment contract liabilities on a recurring basis. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The Company does not have assets or liabilities measured at fair value on a non-recurring basis during the financial year ended 31 December 2019.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

The following methods and assumptions were used by the Company to estimate the fair value of financial instruments.

Loans and receivables

For loans that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The carrying value of policy loans approximate to their fair value.

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers, private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor's credit spreads, foreign exchange rates, and credit default rates. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

Derivative financial instruments

The Company values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

When the Company holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Company takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that requires the exchange of collateral on the basis of each party's net credit risk exposure). The Company measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance assets

The carrying amount of amount receivable from reinsurers is not considered materially different to its fair value.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

Obligations under repurchase agreements

The contract values of payables under repurchase agreements approximate their fair value as these obligations are short-term in nature.

Other assets

The carrying amount of other assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

Properties

In valuing the investment properties and properties in use, the current use of the properties are considered to be its highest and best use. Fair values of the Company's properties have been generally derived using the sales comparison approach and discounted cashflow approach. Under sale comparison approach, sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is selling price per square feet. Under the discounted cashflow approach, reference is made to the net rental income allowing for reversionary income potential to estimate the fair value of the properties.

Investment contract liabilities

For investment contract liabilities, the fair values have been estimated using discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder, the fair value generally approximates to the fair value of the underlying assets.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

Investment contract liabilities (continued)

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured according to the Company's practice for insurance contract liabilities. These are not measured at fair value as there is currently no agreed definition of fair value for investment and insurance contracts with DPF under FRS. In the absence of any agreed methodology it is not possible to provide a range of estimates within which fair value is likely to fall. The Accounting Standards Council ("ASC") is expecting to address this issue in Phase II of its insurance contracts project.

Other liabilities

The fair values of other unquoted liabilities are estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those with no stated maturity, where the carrying value approximates to fair value.

(iii) Fair value hierarchy for fair value measurement on recurring basis

Assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the market place used to measure their fair values as discussed below:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities or equity fund holding such assets. The Company considers that government debt securities issued by G7 countries (United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain derivative contracts, certain classes of structured securities, real estate fund investments, direct private equity investments, certain property and equipment and investment property.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Company considers factors specific to the asset or liability.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

The following table presents the Company's assets and liabilities measured at fair value at 31 December 2019.

31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
- Equity securities	6,086,170	261,349	-	**6,347,519**
- Debt securities	-	1,862,640	-	**1,862,640**
Available for sale financial assets				
- Equity securities	6,405,735	835,143	603,133	**7,844,011**
- Debt securities	-	30,350,439	40,284	**30,390,723**
Derivative financial instruments	-	118,294	-	**118,294**
Property and equipment – Land and buildings	-	-	401,789	**401,789**
Investment property	-	-	190,511	**190,511**
Total assets on a recurring fair value measurement basis	12,491,905	33,427,865	1,235,717	**47,155,487**
Liabilities				
Investment contracts	-	-	5,395,459	**5,395,459**
Derivative financial instruments	-	183,408	-	**183,408**
Total liabilities on a recurring fair value measurement basis	-	183,408	5,395,459	**5,578,867**

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
- Equity securities	5,273,001	214,628	-	**5,487,629**
- Debt securities	-	1,755,989	-	**1,755,989**
Available for sale financial assets				
- Equity securities	5,016,883	929,420	468,488	**6,414,791**
- Debt securities	-	27,139,963	40,474	**27,180,437**
Derivative financial instruments	-	116,071	-	**116,071**
Property and equipment – Land and buildings	-	-	389,952	**389,952**
Investment property	-	-	197,048	**197,048**
Total assets on a recurring fair value measurement basis	10,289,884	30,156,071	1,095,962	**41,541,917**
Liabilities				
Investment contracts	-	-	4,849,701	**4,849,701**
Derivative financial instruments	-	181,575	-	**181,575**
Total liabilities on a recurring fair value measurement basis	-	181,575	4,849,701	**5,031,276**

The Company's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 31 December 2019, the Company transferred $18 million (2018: $229 million) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Company has no transfer (2018: $1.8 million) of assets from Level 2 to Level 1 during the year ended 31 December 2019.

The Company's Level 2 financial instruments include debt securities, equity securities, and derivative instruments. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers, corroborated with internal reviews as necessary. When the quotes from third party pricing services and brokers are not available, internal valuation techniques and inputs as described above in this note will be used to derive the fair value for the financial instruments.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

The tables below set out a summary of changes in the Company's Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended 31 December 2019 and 2018. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 31 December 2019 and 2018.

Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain classes of structured securities, real estate fund investments, and direct private equity investments, certain property and equipment and investment property.

	Available for sale debts $'000	Available for sale equity $'000	Property and equipment $'000	Investment property $'000	Investment contracts $'000
31 December 2019					
Beginning of financial year	40,474	468,488	389,952	197,048	(4,849,701)
Net movement on investment contract liabilities					
Total gains/(losses) relating to assets and liabilities still held at the reporting date	-	-	-	(486)	(545,758)
- Reported under investment return in profit or loss	(516)	-	-	-	-
- Reported under fair value reserve in the statement of comprehensive income	326	(40,765)	1,753	-	-
Purchases	-	204,628	3,542	-	-
Sales	-	(29,218)	-	-	-
Transfer out of Level 3	-	-	-	-	-
Net transfer to property and equipment	-	-	6,542	(6,051)	-
End of financial year	40,284	603,133	401,789	190,511	(5,395,459)
Change in unrealised gains included in profit or loss for assets and liabilities held at the end of the reporting period, under investment return	-	-	-	(486)	-

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2018.

	Available for sale debts $'000	Available for sale equity $'000	Property and equipment $'000	Investment property $'000	Investment contracts $'000
31 December 2018					
Beginning of financial year	-	427,874	359,000	203,800	(4,155,329)
Net movement on investment contract liabilities					
Total gains/(losses) relating to assets and liabilities still held at the reporting date	-	-	-	864	(694,372)
- Reported under investment return in profit or loss	(413)	410	-	-	-
- Reported under fair value reserve in the statement of comprehensive income	-	(61,270)	22,777	-	-
Purchases	40,887	143,331	1,314	-	-
Sales	-	(40,804)	(108)	-	-
Transfer out of Level 3	-	(1,053)		-	-
Net transfer from property and equipment	-	-	6,969	(7,616)	-
End of financial year	40,474	468,488	389,952	197,048	(4,849,701)
Change in unrealised gains included in profit or loss for assets and liabilities held at the end of the reporting period, under investment return	-	-	-	864	-

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in Note 25.

Assets transferred out of Level 3 mainly relate to corporate debt instruments of which market observable inputs became available during the period and were used in determining the fair value.

There are no differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iv) Significant unobservable inputs for Level 3 fair value measurements

As at 31 December 2019, the valuation techniques and applicable unobservable inputs used to measure the Company's Level 3 financial instruments are summarised as follows:

($'000) Description	Fair value at 31 December 2019	Valuation techniques	Unobservable inputs	Range (weighted average)	Effect on fair value due to increase/ (decrease) in unobservable inputs
Property and equipment - land and buildings	401,789	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.50%-3.75% (3.68%)	Higher/(lower)
			Price per square feet	$1,561- $2,527 ($1,830)	Higher/(lower)
Investment property - land and building	190,511	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.25%-3.50% (3.40%)	Higher/(lower)
			Price per square feet	$2,076- $2,527 ($2,333)	Higher/(lower)
Investment contracts	5,395,459	Discounted cash flows	Discount rate for liquidity	1.522% - 3%	Lower/(higher)

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iv) Significant unobservable inputs for Level 3 fair value measurements (continued)

($'000) Description	Fair value at 31 December 2018	Valuation techniques	Unobservable inputs	Range (weighted average)	Effect on fair value due to increase/ (decrease) in unobservable inputs
Property and equipment - land and buildings	389,952	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.25%-3.75% (3.63%)	Higher/(lower)
			Price per square feet	$1,657-$2,793 ($1,968)	Higher/(lower)
Investment property - land and building	197,048	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.25%-3.50% (3.53%)	Higher/(lower)
			Price per square feet	$2,428-$2,793 ($2,651)	Higher/(lower)
Investment contracts	4,849,701	Discounted cash flows	Discount rate for liquidity	1.88% - 3.1%	Lower/(higher)

* The yield adjustments are made for any difference in the nature, location or condition of the specific property.

38. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iv) Significant unobservable inputs for Level 3 fair value measurements (continued)

Valuation processes

The Company has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Company in general uses third-party pricing providers and, only in rare cases when no third-party prices exist, prices derived from internal models will be used. Chief Investment Officer reviews the reasonableness of the prices used and report price exceptions, if any. Group Derivatives & Analytics team analyses reported price exceptions and reviews price challenge responses from third party pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Valuations Advisory Committee which is part of the Company's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The Company engaged external, independent and qualified valuers to determine the fair value of the Company's properties at the end of every financial year. The valuation on open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of other properties were derived using the sales comparison approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity.

In valuing the properties in use, the current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. For land and buildings, the unobservable inputs include the yield adjustments based on management assumptions and price per square feet.

The Company has subscriptions to private pricing services for gathering such information in determining the fair value of financial assets. If the information from private pricing services is not available, the Company uses the proxy pricing method based on internally developed valuation inputs.

38. **Risk management** (continued)

(B) **Financial risk** (continued)

(f) **Fair value measurements** (continued)

(v) Fair value for assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed is given below.

	Fair value hierarchy				
31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Carrying amount $'000
Assets for which the fair value is disclosed					
Financial assets					
Loans (excluding policy loans)	-	-	58,361	58,361	**57,381**
Total assets for which the fair value is disclosed	**-**	**-**	**58,361**	**58,361**	**57,381**

	Fair value hierarchy				
31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Carrying amount $'000
Assets for which the fair value is disclosed					
Financial assets					
Loans (excluding policy loans)	-	-	54,736	54,736	**57,183**
Total assets for which the fair value is disclosed	**-**	**-**	**54,736**	**54,736**	**57,183**

(g) **Financial instruments subject to enforceable master netting arrangement**

The following table shows the assets that are subject to offsetting, enforceable master netting agreements and similar arrangements at each period end:

				Related amounts not set off in the balance sheet		
$'000	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
31 December 2019						
Financial assets:						
Derivative assets	**118,294**	**-**	**118,294**	**-**	**(12,924)**	**105,370**
31 December 2018						
Financial assets:						
Derivative assets	116,071	-	116,071	-	(10,888)	105,183

38. Risk management (continued)

(B) Financial risk (continued)

(g) Financial instruments subject to enforceable master netting arrangement (continued)

The following table shows the liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each period end:

$'000	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Related amounts not set off in the balance sheet: Cash collateral received	Net amount
31 December 2019						
Financial liabilities:						
Derivative liabilities	**183,408**	**-**	**183,408**	**(112,898)**	**-**	**70,510**
Repurchase agreement arrangements	**88,032**	**-**	**88,032**	**(90,904)**	**1,520**	**(1,352)**
31 December 2018						
Financial liabilities:						
Derivative liabilities	181,575	-	181,575	(83,075)	-	98,500
Repurchase agreement arrangements	490,189	-	490,189	(493,367)	6,783	3,605

The Company entered into enforceable master netting agreements for derivative transactions as well as the repurchase agreements for debt instruments with various counterparties. The transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the FRS netting criteria. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties.

39. Employee compensation

During the financial year ended 31 December 2019, the AIA Group made further awards of share options and restricted share units ("RSUs") to certain employees, directors and officers of the Company under the Share Option Scheme ("SO Scheme"), the Restricted Share Unit Scheme ("RSU Scheme"), and the Employee Share Purchase Plan ("ESPP"). In addition, the AIA Group made further awards of restricted stock subscription units ("RSSUs") to eligible agents under the Agency Share Purchase Plan ("ASPP").

39. Employee compensation (continued)

(i) RSU Scheme

Under the RSU Scheme, the vesting of the awarded RSUs is conditional upon the eligible participants remaining in employment with the AIA 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. For RSU awards that are vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares.

The maximum number of shares that can be awarded under this scheme is 301,100,000 (2018: 301,100,000) representing approximately 2.5 per cent (2018: 2.5 per cent) of the number of shares in issue of AIAGL at 31 December 2019.

	2019 Number of shares	2018 Number of shares
Restricted Share Units		
Outstanding at beginning of financial year	**2,084,649**	2,416,871
Granted	**594,504**	692,470
Vested	**(735,560)**	(615,442)
Transfer out	**(44,515)**	(168,958)
Forfeited	**(152,833)**	(240,292)
Outstanding at end of financial year	**1,746,245**	2,084,649

(i) SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO awards are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the AIA Group. For SO awards vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. The awarded share options expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share. The total number of shares under options that can be awarded under the scheme is 301,100,000 (2018: 301,100,000), representing 2.5 per cent (2018: 2.5 per cent) of the number of shares in issue of AIAGL at 31 December 2019.

39. Employee compensation (continued)

(ii) SO Scheme (continued)

Information about share options outstanding and share options exercisable by the Company's employees and directors as at the end of the financial year is as follows:

	Year ended 31 December 2019		Year ended 31 December 2018	
	Number of share options	**Weighted average exercise price (HK$)**	Number of share options	Weighted average exercise price (HK$)
Share Options				
Outstanding at beginning of financial year	**228,441**	**51.24**	170,038	45.78
Granted	**54,961**	**76.38**	58,403	67.15
Exercised	**(91,560)**	**41.90**		
Transfer out	**-**	**-**	-	-
Outstanding at end of financial year	**191,842**	**62.90**	228,441	51.24
Share options exercisable at end of financial year	**191,842**	**62.90**	228,441	51.24
Weighted average remaining contractual life (years)	**8.08**		8.05	

The range of exercise prices for the share options outstanding as of 31 December 2019 and 2018 is summarised in the table below.

	Year ended 31 December 2019		Year ended 31 December 2018	
	Number of share options outstanding	**Weighted average remaining contractual life (years)**	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK$36 - HK$45	**-**	**-**	91,560	7.19
HK$46 - HK$55	**78,478**	**7.19**	78,478	8.19
HK$66 – HK$75	**58,403**	**8.20**	58,403	9.20
HK$76 – HK$85	**54,961**	**9.24**	-	-
Outstanding at end of financial year	**191,842**		228,441	

39. Employee compensation (continued)

(iii) ESPP

Under the plan, eligible employees of the Company can purchase ordinary shares of AIAGL with qualified employee contributions and the AIA Group will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 8% (2018: 8%) of the annual basic salary subject to a maximum of HK$117,000 per annum. The awarded matching restricted stock purchase units are expected to be settled in equity of AIAGL. For the financial year ended 31 December 2019, eligible employees of the Company paid $2,504,368 (2018: $2,357,521) to purchase 187,021 (2018: 204,246) ordinary shares of AIAGL.

(iv) ASPP

The structure of ASPP generally follows that of ESPP, the key difference being that the eligible agents are required to pay a subscription price of US$1 to subscribe for each new share in AIAGL at the end of the vesting period. Under the plan, eligible agents of the Company can purchase ordinary shares of AIAGL with qualified agent contributions and AIAGL will award one matching restricted stock subscription unit to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share of AIAGL. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased during the plan cycle and maintain their agent contracts with the AIA Group. The granted matching restricted stock subscription units are expected to be settled in equity of AIAGL. The level of qualified agent contribution is subject to a maximum of US$15,000 per annum. For the financial year ended 31 December 2019, eligible agents paid $4,659,385 (2018: $4,669,620) to purchase 346,117 (2018: 405,222) ordinary shares of AIAGL.

39. Employee compensation (continued)

(v) Valuation methodology

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

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

	Year ended 31 December 2019			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	**1.44%**	**1.36%***	**1.44%-1.76%**	**1.59%**
Volatility	**20%**	**20%**	**20%-24%**	**20%**
Dividend yield	**1.5%**	**1.5%**	**1.5%-1.6%**	**1.5%**
Exercise price (HK$)	**62.50**	**N/A**	**N/A**	**N/A**
Option life (in years)	**10.00**	**N/A**	**N/A**	**N/A**
Expected life (in years)	**7.97**	**N/A**	**N/A**	**N/A**
Weighted average fair value per option/unit at measurement date (HK$)	**15.55**	**54.21**	**73.28**	**63.75**

39. Employee compensation (continued)

(v) Valuation methodology (continued)

	Year ended 31 December 2018			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.87%	1.48%*	1.38%-2.27%	1.44%
Volatility	20%	20%	20%	20%
Dividend yield	1.8%	1.8%	1.5%-1.8%	1.8%
Exercise price (HK$)	50.92	N/A	N/A	N/A
Option life (in years)	10.00	N/A	N/A	N/A
Expected life (in years)	7.95	N/A	N/A	N/A
Weighted average fair value per option/unit at measurement date (HK$)	13.68	43.12	60.31	53.46

* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for grants made during the financial year ended 31 December 2019 is HK$76.38 (2018: HK$67.15).

(vi) Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP for the financial year ended 31 December 2019 is $7.2 million (2018: $6.9 million).

40. Related party transactions

At the balance sheet date, the Company is a wholly-owned entity of AIA Company Limited, whose ultimate holding company is AIA Group Limited, a Company listed on The Stock Exchange of Hong Kong Limited. Both immediate holding and ultimate holding companies are incorporated in Hong Kong.

The following related party transactions took place between the Company and related parties during the financial year on terms agreed between the parties concerned:

	2019 $'000	2018 $'000
Reinsurance premiums paid to related company	**402,857**	381,704
Reinsurance claims recovered from related company	**305,513**	274,638
Reinsurance commission received from related company	**34,075**	36,483
Annual fee and others charged for coinsurance arrangement	**17,610**	15,407
Computer charges paid to related companies	**10,239**	12,319
Service fee received from a related company	**3,024**	1,292
Rental and service fee received from immediate holding company	**210**	171
Service fee paid to immediate holding company	**32,573**	24,237
Service fee paid to related companies	**116,945**	107,202
Rental and service fee paid to a subsidiary	**8,926**	8,920
Interest income from subsidiaries	**1,932**	2,016
Rental and service fee received from a subsidiary	**701**	3,001
Commission paid to a subsidiary	**69,328**	59,683
Upfront fee paid to a subsidiary	**13,090**	-
Other service fee paid to ultimate holding company	**7,359**	6,939
Payment made on behalf by ultimate holding company	**7,433**	6,930
Payment made on behalf and reimbursed by immediate holding company	**14,149**	10,876
Net payment made on behalf and reimbursed by related companies	**418**	2,028

Other related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel.

Outstanding balances at 31 December 2019, arising from the services, are unsecured and receivable/payable within 12 months from balance sheet date and are disclosed in Note 22 and Note 29 respectively. Details of loans to related parties are disclosed in Note 19.

Remuneration of key management personnel is disclosed in Note 9.

41. Capital management

Objectives, policies and processes for managing capital
The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to satisfy regulatory capital requirements at all times.

The Company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a conservative balance.

The Company has two key capital management objectives:

- Financial Strength – Ensuring the Company maintains the quantity and quality of capital appropriate to support its planned operations, absorb losses so as to withstand adverse economic conditions, allow for growth opportunities and meet other risk management and business objectives.
- Financial Flexibility – Ensuring that the Company maintains sufficient cash or liquid assets available to fulfil its obligations and operational needs as they become due.

The Company has in place a Capital Management Policy and Liquidity Management Policy to address its capital management objectives on Financial Strength and Financial Flexibility respectively.

Externally imposed capital requirements
Regulatory capital requirements arise from the Company's insurance operations. The Company is in compliance with the solvency and capital adequacy requirements of its regulators. The primary insurance regulator of the Company is the Monetary Authority of Singapore who prescribes the solvency requirements under the Risk-based Capital Framework. The Company has also established internal solvency benchmarks that exceed the applicable minimum regulatory requirements.

The solvency status of the Company is reported to executive management on a frequent basis to facilitate pre-emptive actions when necessary. For instance, as a result of declining market conditions due to global coronavirus pandemic in 2020, the Company has started enhanced monitoring of the Company's asset and liability position and the Company's capital adequacy ratios.

The Company is required to comply with the regulatory capital requirement prescribed in the Insurance (Valuation and Capital) Regulations 2004 under the Insurance Act. Under the Risk-based Capital Framework regulation set by the Monetary Authority of Singapore, Insurance companies are required to satisfy a minimum capital adequacy ratio of 120%. The Company has a capital adequacy ratio in excess of the minimum requirement. Regulated capital of the Company as at 31 December 2019 comprised Available Capital of $10.54 billion (2018: $9.01 billion), Risk Capital of $4.09 billion (2018: $3.38 billion) and Capital Adequacy Ratio of 258% (2018: 267%).

42. Disclosure on temporary exemption from FRS 109

According to FRS 104 Amendments, the Company made the assessment based on the financial position of 31 December 2015, concluding that the carrying amount of the Company's liabilities arising from contracts within the scope of FRS 104 was significant compared to the total carrying amount of all its liabilities. And the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 90 percent. There had been no significant change in the activities of the Company since then that requires reassessment. Therefore, the Company's activities are predominantly connected with insurance, meeting the criteria to apply temporary exemption from FRS 109.

(a) The table below presents the fair value of the following groups of financial assets under FRS 109 as at 31 December 2019 and fair value changes for the year ended 31 December 2019:

	Fair value as at 31 December 2019 $'000	Fair value changes for the year ended 31 December 2019 $'000
Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	31,363,173	(2,125,261)
Other financial assets	16,617,040	(1,658,100)
	47,980,213	(3,783,361)

	Fair value as at 31 December 2018 $'000	Fair value changes for the year ended 31 December 2018 $'000
Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	27,748,448	677,741
Other financial assets	14,959,814	1,397,679
	42,708,262	2,075,420

42. Disclosure on temporary exemption from FRS 109 (continued)

(b) The table below presents the credit risk exposure for aforementioned financial assets with contractual terms that give rise to SPPI:

	Carrying amount as 31 December 2019 $'000	Carrying amount as 31 December 2018 $'000
AAA	9,824,607	8,937,039
AA	2,471,602	2,734,076
A	9,751,882	8,862,004
BBB	7,596,100	5,013,332
Below BBB or not rated	1,718,983	2,201,997
	31,363,174	27,748,448

As at reporting date, fair value of financial assets that do not have low credit risk is (i.e. of investment grade as defined by Moody's) $1,719 million (2018: $2,202 million).

43. Events after the reporting period

During the financial year, the Company has entered into a Scheme of Transfer Agreement with AIA Company Ltd ("ultimate holding company") dated 21 October 2019 to transfer the insurance business of its Brunei branch to the Company with effect from 1 January 2020. The vesting order of the Scheme of Arrangement for the Transfer of Insurance Business is sealed on 3 November 2019.

44. Authorisation of financial statements

These financial statements were authorised for issue by the Board of Directors of the Company on 27 MAR 2020

AIA SINGAPORE PRIVATE LIMITED

(Incorporated in Singapore. Registration Number: 201106386R)

ANNUAL REPORT

For the financial year ended 31 December 2020

AIA SINGAPORE PRIVATE LIMITED
(Incorporated in Singapore. Registration Number: 201106386R)

ANNUAL REPORT
For the financial year ended 31 December 2020

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DIRECTORS' STATEMENT

For the financial year ended 31 December 2020

The directors present their statement to the member together with the audited financial statements of the Company for the financial year ended 31 December 2020.

In the opinion of the directors,

(a) the financial statements as set out on pages 6 to 142 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2020 and the financial performance, changes in equity and cash flows of the Company for the financial year ended 31 December 2020; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors in office at the date of this statement are as follows:

Tan Hak Leh	
Wong Sze Keed	(appointed on 1 July 2020)
Mitchell David New	
Ho Hon Cheong	
Ong Sim Ho	
Sim Beng Mei, Mildred	(appointed on 2 January 2020)
Jayne Lynn Plunkett	(appointed on 28 January 2020)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

The directors who held office at the end of the financial year have been granted exemption from compliance with Section 201(16) and paragraph 9 of the Twelfth Schedule of the Companies Act, Chapter 50 (the "Act"). Full detailed information regarding directors' interests in shares or debentures of the Company or of related corporations, either at the beginning of the financial year, or at the end of the financial year, can be obtained at the registered office of the Company, in accordance with Section 164(8) and (9) of the Act.

Share options

There were no options granted during the financial year to subscribe for unissued shares of the Company.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

Tan Hak Leh
Director

29 March 2021

Wong Sze Keed
Director

29 March 2021

INDEPENDENT AUDITOR'S REPORT
To the Member of AIA Singapore Private Limited
For the financial year ended 31 December 2020

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying financial statements of AIA Singapore Private Limited (the "Company") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the financial position of the Company as at 31 December 2020 and of the financial performance, changes in equity and cash flows of the Company for the financial year ended on that date.

What we have audited

The financial statements of the Company comprise:

- the statement of comprehensive income for the financial year ended 31 December 2020;
- the balance sheet as at 31 December 2020;
- the statement of changes in equity for the financial year then ended;
- the statement of cash flows for the financial year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). 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 Company in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

INDEPENDENT AUDITOR'S REPORT
To the Member of AIA Singapore Private Limited
For the financial year ended 31 December 2020 (continued)

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement 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 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, 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 Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

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 SSAs 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.

INDEPENDENT AUDITOR'S REPORT
To the Member of AIA Singapore Private Limited
For the financial year ended 31 December 2020 (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP

Public Accountants and Chartered Accountants
Singapore, 29 March 2021

AIA SINGAPORE PRIVATE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2020

	Note	**2020**	2019 (restated)
		$'000	$'000
Revenue			
Premium and fee income	5	**6,079,274**	5,614,163
Premiums ceded to reinsurers	6	**670,384**	(618,583)
Net premiums and fee income		**6,749,658**	4,995,580
Investment return	7	**3,273,311**	2,539,675
Other operating revenue		**9,380**	10,204
Total revenue		**10,032,349**	7,545,459
Expenses			
Insurance and investment contract benefits		**(8,134,831)**	(6,449,075)
Insurance and investment contract benefits ceded		**(453,650)**	833,968
Net insurance and investment contract benefits		**(8,588,481)**	(5,615,107)
Commission and other acquisition expenses		**(767,786)**	(741,464)
Operating expenses		**(379,578)**	(376,713)
Investment management expenses and others		**(160,937)**	(149,855)
Finance costs		**(5,890)**	(9,678)
Total expenses	9	**(9,902,672)**	(6,892,817)
Profit before tax		**129,677**	652,642
Income tax expense	10	**(163,719)**	(188,199)
(Loss)/Profit after tax		**(34,042)**	464,443
Other comprehensive income ("OCI"):			
Items that may be reclassified subsequently to profit or loss:			
Fair value gains on available for sale financial assets	35	**2,680,189**	2,831,316
Fair value gains on available for sale financial assets transferred to profit or loss on disposal	35	**(437,996)**	(138,152)
		2,242,193	2,693,164
Tax on transfer from Fair Value Reserve	35	**2,258**	3,649
Other reserves loss (Note 35(b)(iv))	35	**(1,883,485)**	(2,280,341)
Items that will not be reclassified subsequently to profit or loss:			
Revaluation gains on land and buildings	35	**13,274**	5,302
Remeasurement of defined benefit (Note 35(b)(iv))	35	**(175)**	-
Other comprehensive income, net of tax		**374,065**	421,774
Total comprehensive income		**340,023**	886,217

The accompanying notes form an integral part of these financial statements.

AIA SINGAPORE PRIVATE LIMITED

BALANCE SHEET
As at 31 December 2020

	Note	**2020**	2019 (restated)	2018 (restated)
		$'000	$'000	$'000
ASSETS				
Intangible assets	11	**65,012**	59,545	56,933
Investment in subsidiaries	12	**47,250**	47,250	47,250
Investment in associated companies	13	**-**	*	*
Property and equipment	14	**518,258**	520,795	429,115
Investment property	16	**189,416**	190,511	197,048
Deferred acquisition and origination costs	17	**75,105**	94,257	110,585
Reinsurance assets	18	**1,501,485**	2,069,478	1,678,140
Loans and deposits	19	**522,238**	541,433	772,332
Financial investments:				
Available for sale				
Debt securities	20	**33,459,070**	30,390,723	27,180,437
Equity securities	20	**9,959,212**	7,844,011	6,414,791
At fair value through profit or loss				
Debt securities	20	**2,190,950**	1,862,640	1,755,989
Equity securities	20	**7,661,304**	6,347,519	5,487,629
Derivative financial instruments	21	**267,578**	118,294	116,071
Total financial investments		**53,538,114**	46,563,187	40,954,917
Current tax recoverable	10	**-**	4,434	-
Other assets	22	**738,688**	640,504	651,551
Cash and cash equivalents	23	**484,233**	334,360	421,289
Total assets		**57,679,799**	51,065,754	45,319,160
LIABILITIES				
Insurance contracts	24	**41,652,798**	36,420,842	31,763,780
Investment contracts	25	**6,671,425**	5,395,459	4,849,701
Obligation under repurchase agreements	26	**444,194**	88,032	490,189
Derivative financial instruments	21	**206,148**	183,408	181,575
Provisions	27	**15,468**	16,119	17,954
Deferred tax liabilities	28	**1,441,090**	1,386,767	1,136,435
Current tax liabilities	10	**133,301**	-	49,637
Borrowing	29	**50,000**	-	-
Other liabilities	30	**3,687,855**	4,315,843	4,106,197
Total liabilities		**54,302,279**	47,806,470	42,595,468
EQUITY				
Share capital	33	**1,558,021**	1,374,000	1,374,000
Retained earnings		**1,195,514**	1,635,556	1,522,113
Reserves	35	**623,985**	249,728	(172,421)
Total equity		**3,377,520**	3,259,284	2,723,692
Total liabilities and equity		**57,679,799**	51,065,754	45,319,160

***** *Less than $1,000*

The accompanying notes form an integral part of these financial statements.

AIA SINGAPORE PRIVATE LIMITED

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2020

	Share capital $'000	Retained earnings $'000	Reserves $'000	Total equity $'000
2020				
Beginning of financial year (restated)	1,374,000	1,635,556	249,728	3,259,284
Loss after tax	-	(34,042)	-	(34,042)
Revaluation gains on land and buildings (Note 35)	-	-	13,274	13,274
Fair value gains on available for sale financial assets	-	-	2,680,189	2,680,189
Fair value gains on available for sale financial assets transferred to profit or loss on disposal	-	-	(437,996)	(437,996)
Tax on transfer reclassified from Fair Value Reserve [Note 4(vi) and Note 35(b)(ii)]	-	-	2,258	2,258
Defined benefit	-	-	(175)	(175)
Shadow accounting	-	-	(1,883,485)	(1,883,485)
Total comprehensive income for the year	-	(34,042)	374,065	340,023
Issuance of new shares (Note 33)	184,021	-	-	184,021
Shared-based compensation	-	-	192	192
Dividends (Note 36)	-	(406,000)	-	(406,000)
End of financial year	**1,558,021**	**1,195,514**	**623,985**	**3,377,520**
2019 (restated)				
Beginning of financial year	1,374,000	1,551,516	(201,824)	2,723,692
Adjustment to opening balance (Note 45 (i))	-	(29,403)	29,403	-
Beginning of financial year (restated)	1,374,000	1,522,113	(172,421)	2,723,692
Profit after tax	-	464,443	-	464,443
Revaluation gains on land and buildings (Note 35)	-	-	5,302	5,302
Fair value gains on available for sale financial assets	-	-	2,831,316	2,831,316
Fair value gains on available for sale financial assets transferred to profit or loss on disposal	-	-	(138,152)	(138,152)
Tax on transfer reclassified from Fair Value Reserve [Note 4(vi) and Note 35(b)(ii)]	-	-	3,649	3,649
Defined benefit	-	-	-	-
Shadow accounting (restated)	-	-	(2,280,341)	(2,280,341)
Total comprehensive income for the year	-	464,443	421,774	886,217
Shared-based compensation	-	-	375	375
Dividends (Note 36)	-	(351,000)	-	(351,000)
End of financial year	**1,374,000**	**1,635,556**	**249,728**	**3,259,284**

The accompanying notes form an integral part of these financial statements.

AIA SINGAPORE PRIVATE LIMITED

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2020

	Note	2020 $'000	2019 (restated) $'000
Cash flows from operating activities			
(Loss)/profit after tax		**(34,042)**	464,443
Adjustments for:			
- Income tax expense	10	**163,719**	188,199
- Amortisation and depreciation expense	11/14	**42,707**	38,925
- (Reversal)/Allowance for doubtful debts	22	**(475)**	28
- Intangible asset, investment property and property and equipment written-off	11/14/16	**12,422**	287
- Investment income	7	**(1,511,525)**	(1,476,128)
- Finance costs	9	**5,890**	9,678
- Fair value (gain)/loss on derivative financial instruments	7	**(92,029)**	18,865
- Impairment charge of intangible assets	11	**81**	252
- Net fair value gains on financial assets at fair value through profit or loss	7	**(1,331,573)**	(1,000,287)
- Net realised gains on disposal of available for sale financial assets	7	**(457,963)**	(140,635)
- Reversal of impairment of available for sale debt securities	7	**-**	(16,612)
- Net unrealised foreign exchange loss		**165,974**	57,250
- Net fair value (gain)/loss on investment property	16	**(504)**	486
- Insurance and investment contracts		**4,408,314**	2,958,607
Operating cash flows before changes in working capital		**1,370,996**	1,103,358
Changes in working capital			
- Other assets		**545,043**	(369,487)
- Other liabilities		**(349,462)**	(252,228)
- Provisions		**(653)**	(1,837)
Cash generated from operations		**1,565,924**	479,806
Income tax paid	10	**(20,446)**	(48,327)
Net cash provided by operating activities		**1,545,478**	431,479
Cash flows from investing activities			
Purchases of property and equipment, intangible assets and investment property		**(52,642)**	(35,080)
Interest expenses paid		**(4,156)**	(8,786)
Dividends received		**274,525**	275,377
Interest received		**1,233,188**	1,186,720
Rental income		**6,539**	7,054
Loans to policyholders and subsidiary		**1,414**	156
Proceeds from fixed deposit		**35,971**	230,743
Net purchase of derivative financial instruments		**(32,503)**	(17,791)
Net purchase of other financial assets		**(2,485,110)**	(1,792,399)
Purchase of oversea branch business from parent company	44	**(8,000)**	-
Cash transferred from oversea branch business	44	**8,149**	-
Net cash used in investing activities		**(1,022,625)**	(154,006)
Cash flows from financing activities			
Principal repayment of lease liabilities	15	**(12,879)**	(13,343)
Dividends paid	36	**(406,000)**	(351,000)
Proceeds from intercompany borrowing		**50,000**	-
Interest expense paid for borrowing		**(811)**	-
Net cash used in financing activities		**(369,690)**	(364,343)

The accompanying notes form an integral part of these financial statements.

AIA SINGAPORE PRIVATE LIMITED

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2020

	Note	**2020**	2019
		$'000	$'000
Net increase/(decrease) in cash and cash equivalents		**153,163**	(86,870)
Effect of exchange rate changes on cash and cash equivalents		**(3,290)**	(59)
Cash and cash equivalents at beginning of financial year		**334,360**	421,289
Cash and cash equivalents at end of financial year	23	**484,233**	334,360

Reconciliation of liabilities arising from financing activities

	1 January 2020 $'000	Proceeds from borrowings $'000	Principal/ Interest payments $'000	Non-cash changes $'000					31 December 2020 $'000
				Transfer from oversea branch	Interest expense	Addition – new leases	Termination of lease	Foreign exchange movement	
Promissory note	-	406,000	(406,000)	-	-	-	-	-	-
Lease liabilities	76,082	-	(12,879)	3,094	1,654	10,562	(5,118)	-	73,395
Intercompany borrowing	-	50,000	(811)	-	820	-	-	-	50,009

	1 January 2019 $'000	Proceeds from borrowings $'000	Principal payments $'000	Non-cash changes $'000				31 December 2019 $'000
				Adoption of FRS 116	Interest expense	Addition – new leases	Foreign exchange movement	
Promissory note	-	351,000	(351,000)	-	-	-	-	-
Lease liabilities	-	-	(13,343)	85,081	1,642	2,702	-	76,082

The Company entered into promissory note arrangements with regards to its dividend payments to its shareholder.

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The Company is incorporated and domiciled in Singapore. The address of its registered office is 1 Robinson Road, AIA Tower, Singapore 048542.

The principal activities of the Company are to underwrite life and general insurance and to perform investment functions incidental thereto.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 Adoption of FRS

The Accounting Standards Council Singapore ("ASC") has issued a number of new FRS and amendments to FRS that are effective in the current accounting period of the Company. Of these, the following development is relevant to the Company's financial statements:

(a) Temporary exemption on adoption of FRS 109 Financial Instruments

FRS 109 replaces FRS 39 Financial instruments: Recognition and Measurement and its relevant interpretations.

FRS 109 addresses the classification, measurement and recognition of financial assets and financial liabilities. FRS 109 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual

2. Significant accounting policies (continued)

2.2 Adoption of FRS (continued)

(a) Temporary exemption on adoption of FRS 109 Financial Instruments (continued)

cash flow characteristics of the instrument. In addition, a revised expected credit loss model will replace the incurred loss impairment model in FRS 39.

For financial liabilities, the standard retains most of the FRS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The ASC made further changes to two areas of FRS 109. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss.

The standard is mandatorily effective for financial periods beginning on or after 1 January 2018 (except for prepayment features with negative compensation and modifications or exchange of financial liabilities that do not result in derecognition which will become effective for financial periods beginning on or after 1 January 2019), but the Company qualifies for a temporary exemption as explained in Note 2.2(b).

(b) Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts (Amendments to FRS 104)

As stated in Note 2.2(a), these amendments provide a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of FRS 109 until the earlier of the effective date of FRS 117 and financial reporting periods beginning on or after 1 January 2023, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before FRS 117 is applied. Based on the amendments to FRS 104, the Company is eligible for and will elect to apply the temporary option to defer the effective date of FRS 109 in order to implement the changes in parallel with FRS 117.

Additional disclosures about temporary exemption from FRS 109 is made in Note 43.

2. Significant accounting policies (continued)

2.2 Adoption of FRS (continued)

(c) Deferral for FRS 117 Insurance Contracts

ASC adopted IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments without modification into FRS 117 and FRS 109. FRS 117 Insurance Contracts will replace the current FRS 104 insurance contract standard. FRS 117 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, FRS 117 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. However, IASB proposed in June 2019 to defer IFRS 17 and extend the temporary IFRS 9 exemption available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral was published in the Exposure Draft amendments to IFRS 17 for public consultation which ended on 25 September 2019. This was consequently approved on 18 March 2020 where the effective date has now been deferred to periods beginning on or after 1 January 2023. ASC has announced on 2nd October 2020 that they are aligning with IASB's proposed deferral for FRS 117.

(d) FRS 1 Presentation of financial statements and FRS 8 Accounting policies, changes in accounting estimates and errors (Definition of material)

FRS 1 revises the definition of material to following:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

2. Significant accounting policies (continued)

2.2 Adoption of FRS (continued)

(a) FRS 1 Presentation of financial statements and FRS 8 Accounting policies, changes in accounting estimates and errors (Definition of material) (continued)

The revised definition adjusts this to use the terminology “could reasonably be expected”, which adds the element of reasonability, rather than any potential effect on users. The revised definition also narrows the definitions of those who may be affected from the previous term of “users” to “primary users”, which further narrows the view of what may be material in a given circumstance. In addition, the revised definition adds the concept that obscuring information may also be relevant in determining whether an element is material to primary users.

In accordance with the requirements of FRS 1 and FRS 8, the Company adopted retrospective adjustments for the voluntary change in accounting policy in relation to shadow accounting for Universal Life business as disclosed in Note 45 (i).

2.3 Revenue recognition

(a) Premium income

For the accounting policy on premium income, see Note 2.22.

(b) Investment return

Investment return consists of investment income and investment experience.

Investment income consists of dividends, rent receivable, and interest income.

Investment experience comprises realised gains and losses, unrealised gains and losses on investments held at fair value through profit or loss and impairment on financial assets as disclosed in Note 2.8(e).

2. Significant accounting policies (continued)

2.3 Revenue recognition (continued)

(b) Investment return (continued)

Interest income is recognised as it accrues, using the effective interest method.

Rental income from operating leases (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Dividend income is recognised when the right to receive payment is established.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains or losses represent the difference between carrying value at the year end and the carrying value at the previous year end or purchase price if purchased during the year, less the reversal of previously recognised unrealised gains or losses in respect of disposals made during the year.

(c) Other fee income

Other fee income consists primarily of fund management fees and income from any incidental non-insurance activities. Recognition of other fee income is described and disaggregated in Note 5.

(d) Other operating revenue

Other operating revenue largely consist of administrative fees, membership fees or rental concessions received from lessors.

The performance obligation in these administrative service contracts and membership fees can be broadly divided into two distinct categories:

(i) Service transferred over time – services are provided evenly over the contract term. The fees billed to the client every period is aligned to the efforts spent by the Company to perform those services and therefore, revenue is recognised over the contract term on a systematic basis.

(ii) Service transferred at a point in time – this usually refers to additional administrative requests. The fees are recognised as revenue at the point in time when the related services take place.

Included within Other operating revenue are COVID-19 related rent concessions received from lessors to which the Company applied the practical expedient as disclosed in Note 2.19(c).

2. Significant accounting policies (continued)

2.4 Group accounting

The Company is a wholly-owned subsidiary of AIA Company, Limited ("AIA"), incorporated in Hong Kong. These financial statements are the separate financial statements of AIA Singapore Private Limited. The Company is exempted from the requirement to prepare consolidated financial statements as AIA is a wholly-owned subsidiary of AIA Group Limited ("AIAGL"), which produces consolidated financial statements available for public use. The registered office of AIA Group Limited is 35/F, AIA Central, Connaught Road, Central, Hong Kong.

(a) Subsidiaries

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investments in the subsidiaries are accounted for as described in Note 2.14.

(b) Associated companies

Associated companies are entities over which the Company has significant influence, but not control, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%.

The Company's share of the results of associated companies is not accounted for in the statement of comprehensive income except for dividends received. Investments in associated companies are accounted for as described in Note 2.14.

2.5 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

The financial statements of the Company are presented in Singapore Dollars, which is the Company's functional currency.

2. Significant accounting policies (continued)

2.5 Currency translation (continued)

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. Foreign exchange differences are recorded in Investment experience (except for equity securities held as available for sale as explained in Note 2.8(d)).

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

2.6 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset and liability that affects neither accounting nor taxable profit or loss at the time of the transaction.

2. Significant accounting policies (continued)

2.6 Income taxes (continued)

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities except for investment properties. Investment property measured at fair value is presumed to be recovered entirely through sale.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a transaction which is recognised directly in equity or in other comprehensive income.

In addition to paying tax on shareholder's profits, certain of the Company's life insurance businesses pay tax on policyholders' investment returns ("policyholder tax") at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total income tax expense.

2.7 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash at bank and on hand, deposits with financial institutions and other short-term highly liquid investments with maturity at acquisition of three months or less, which are subject to an insignificant risk of change in value.

2. Significant accounting policies (continued)

2.8 Financial assets

(a) Classification

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed, and their performance is evaluated on a fair value basis, in accordance with a documented Company investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are presented as “cash and cash equivalents”, “receivables from sales of investments”, “accrued investment income”, “insurance receivables”, “related party receivables”, “other receivables”, “amounts recoverable from reinsurers” and “loans and deposits” on the balance sheet.

(iii) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in other comprehensive income relating to that asset is reclassified to profit or loss.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

(d) Subsequent measurement

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

Interest and dividend income on available for sale financial assets, are recognised separately in profit or loss. Changes in the fair values of available for sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in other comprehensive income and accumulated in fair value reserve. Changes in fair values of available for sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in fair value reserve, together with the related currency translation differences.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(e) Impairment

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decreases can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Available for sale financial assets

In addition to the objective evidence of impairment described in Note 2.8(e)(i), a significant or prolonged decline in the fair value of the security below its cost is objective evidence that the available for sale financial asset is impaired.

If objective evidence of impairment exists, the cumulative loss that had been recognised in other comprehensive income (fair value reserve) is reclassified from equity to profit or loss. The amount of cumulative loss, that is reclassified, is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. The impairment losses recognised as an expense for an equity security are not reversed through profit or loss in subsequent periods.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(f) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.9 Derivative financial instruments

Derivative financial instruments principally include cross currency interest rate swaps, forward exchange contracts, interest rate swaps and equity index options that derive their value mainly from underlying foreign exchange rates, interest rates and movement of underlying equity price. A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive or as liabilities when the fair values are negative.

Whilst the Company enters into derivative transactions to provide economic hedges under AIA's risk management framework, it does not currently apply hedge accounting to these transactions. This is either because the transactions would not meet the specific FRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. These transactions are therefore treated as held for trading and fair value movements are recognised immediately in profit or loss.

2.10 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method.

2.11 Property and equipment

(a) Measurement

(i) Land and buildings

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at revalued amounts less accumulated impairment losses. Buildings and leasehold land are subsequently carried at revalued amounts less accumulated depreciation and accumulated impairment losses.

2. Significant accounting policies (continued)

2.11 Property and equipment (continued)

(a) Measurement (continued)

(i) *Land and buildings* (continued)

Property valuations are executed by an independent professional valuer. A detailed valuation is carried out once every two years and a desktop valuation is performed in the intervening year. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

Increases in carrying amounts arising from revaluation are recognised in other comprehensive income and accumulated in the asset revaluation reserve, unless they reverse a revaluation decrease of the same asset previously recognised in profit or loss. In this case, the increases are recognised in profit or loss. Decreases in carrying amounts are recognised in other comprehensive income to the extent of any credit balance existing in the asset revaluation reserve in respect of that asset and reduces the amount accumulated in the asset revaluation reserve. All other decreases in carrying amounts are recognised as a loss in profit or loss.

(ii) *Other property and equipment*

All other items of property and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(iii) *Components of costs*

The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2. Significant accounting policies (continued)

2.11 Property and equipment (continued)

(b) Depreciation

Freehold land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Buildings (including building improvements)	2-54 years
Furniture, fittings, fixtures and equipment	5-10 years
Computer hardware and software	3 years
Motor vehicles	5 years

Assets under construction included in property and equipment are not depreciated as these assets are not yet available for use.

The residual values, estimated useful lives and depreciation method of property and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in profit or loss for the financial year in which the changes arise.

(c) Subsequent expenditure

Subsequent expenditure relating to property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits associated with the item, will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "Other net realised gains" in Note 7. Any amount in revaluation reserve relating to that item is transferred to retained earnings directly.

2. Significant accounting policies (continued)

2.12 Investment properties

Investment properties include those portions of office buildings that are held for long-term rental yields and/or for capital appreciation and land under operating leases that is held for long-term capital appreciation or for a currently indeterminate use.

Investment properties are initially recognised at cost and subsequently carried at fair value, determined annually by an independent professional valuer on the highest-and-best-use basis. Changes in fair values are recognised in profit or loss.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

Where a property is partly used as an investment property and partly for the use of the Company, these elements are recorded separately within property and equipment and investment property respectively, where the component used as investment property would be capable of separate sale or finance lease.

2.13 Provisions and contingencies

Provisions are recognised when the Company has a present, legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of past event, but either a payment is not probable or the amount cannot be reliably estimated.

2.14 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are measured at cost less accumulated impairment losses in the Company's balance sheet. On disposal of an investment in a subsidiary or an associated company, the difference between the net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

2. Significant accounting policies (continued)

2.15 Impairment of non-financial assets

Intangible assets
Property and equipment (including property held for own use)
Investment in subsidiaries and associated companies
Prepayment (included in Other assets)

Intangible assets, property and equipment and investment in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating-units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease to the extent it offsets previously recognised revaluation increases in that asset. Please refer to paragraph "Property and equipment" for the treatment of a revaluation decrease.

An impairment loss for an asset is reversed only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also credited to profit or loss.

2. Significant accounting policies (continued)

2.16 Employee compensation

(a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The Company's contributions are recognised as employee compensation expense when they are due.

(b) *Annual leave and long service leave*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(c) *Post-retirement benefits obligation*

The Company operates unfunded defined benefit plans that provide life benefits for employees. Only employees who opted to stay in this plan on 1 January 2014 and retirees that have retired as of 1 January 2014 are eligible. For defined benefit plans, the costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to profit or loss so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The resulting scheme surplus or deficit appears as an asset or liability in the balance sheet.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in staff costs in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs. Details of the plans can be found in Note 27.

2. Significant accounting policies (continued)

2.16 Employee compensation (continued)

(d) Share-based compensation

The ultimate holding company, AIA Group Limited ("AIAGL"), launched a number of share-based compensation plans, under which the Company receives services from the agents, employees, directors and officers as consideration for the shares and/or share options of AIAGL. These share-based compensation plans comprise the Share Option Scheme ("SO Scheme"), the Restricted Share Unit Scheme ("RSU Scheme"), the Employee Share Purchase Plan ("ESPP"), and the Agency Share Purchase Plan ("ASPP").

The AIA Group's share compensation plans offered to the Company's employees 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 grant of AIAGL's shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or options awarded. Non-market vesting conditions are included in assumptions about the number of shares and/or options that are expected to be vested. At each period end, the Company revises its estimates of the number of shares and/or options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to equity. 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.

The Company estimates the fair value of share options using a binomial lattice model. This model requires inputs such as 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.

(d) Job Support Scheme

Grant income of $11,957,000 (2019: Nil) was recognised during the financial year under the Jobs Support Scheme ("the JSS"). The JSS is a temporary scheme introduced in Singapore Budget 2020 to help enterprises retain local employees. Under the JSS, employers will receive cash grants in relation to the gross monthly wages of eligible employees.

2. Significant accounting policies (continued)

2.17 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

2.18 Obligation under repurchase agreements ("repos")

Repos are treated as collateralised borrowings and the amount borrowed is shown as a liability in the balance sheet. The securities sold under repos are treated as pledged assets and continue to be recognised as an asset in the balance sheet. The difference between the amount received and paid under repos is amortised as interest expense.

2.19 Leases

(a) When the Company is the lessee

At the inception of the contract, the Company assesses if the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

- Right-of-use assets

  The Company recognised a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

  The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

  Right-of-use assets (except for those which meets the definition of an investment property) are presented within "Property and equipment".

2. Significant accounting policies (continued)

2.19 Leases (continued)

(a) *When the Company is the lessee*

- Lease liabilities

Lease liability is measured at amortised cost using the effective interest method. Lease liability shall be remeasured when:

- There is a change in future lease payments arising from changes in an index or rate;
- There is a change in the Company's assessment of whether it will exercise an extension option; or
- There are modifications in the scope or the consideration of the lease that was not part of the original term.

Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The interest in respect of lease liabilities is recognised as finance costs.

- Short-term and low-value assets

The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

(b) *When the Company is the lessor*

Lessor accounting under FRS 116 is substantially unchanged from FRS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in FRS 17. Therefore, FRS 16 does not have an impact for leases where the Company is the lessor.

(c) *Rent concessions*

As a result of COVID-19, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments.

As a lessee

On 28 May 2020, an amendment to FRS 16 was issued and this amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. If the practical expedient is applied, lessees can elect to account for such rent concessions in the profit or loss instead of accounting for them as lease modifications.

2. Significant accounting policies (continued)

2.19 Leases (continued)

(c) *Rent concessions (continued)*

As a lessee (continued)

The Company has elected to early adopt the amendments to FRS 16 which introduced a practical expedient for a lessee to elect not to assess whether a rent concession is a lease modification, if all the following conditions are met:

(i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(iii) there is no substantive change to other terms and conditions of the lease.

The Company has elected to apply this practical expedient to all property leases. As a result of applying the practical expedient, rent concessions of $278,000 (Note 2.3 (d)) was recognised as other operating revenue in the profit or loss during the year.

As a lessor

In Singapore, under the COVID-19 (Temporary Measures) Act 2020, landlords are required to provide the following rent concessions to qualifying tenants:

(i) Transfer the property tax rebates for qualifying properties for the period 1 January 2020 to 31 December 2020; and

(ii) Provide up to four months of rent waiver for qualifying SME tenants.

Property tax rebates and cash grants received from the Singapore Government to help businesses deal with the impact from COVID-19 of $980,000 are netted within Investment management expenses and others in Note 9. For the property tax rebates, the Company is obliged to pass on the benefits to its tenants and has transferred these to the tenants in form of rent concessions during the current financial year.

Rent concessions provided to tenants of $706,00 are netted within rental income in Note 7.

2. Significant accounting policies (continued)

2.20 Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation period and amortisation method of intangible assets are reviewed at least once annually at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise. The amortisation charge for the year is included in profit or loss under “Operating expenses”.

<u>Computer software</u>

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs directly associated with the internal production of identifiable and unique software by the Company that will generate economic benefits exceeding those costs over a period greater than a year, are recognised as intangible assets. All other costs associated with developing or maintaining computer software programmes are recognised as an expense in profit or loss as incurred.

Costs of acquiring computer software licences and costs incurred in the internal production of computer software are amortised using the straight-line method over the estimated useful life of the software, which does not generally exceed a period of 3 years for purchased software and 15 years for internally developed software.

<u>Other intangible assets</u>

Other intangible assets include club membership which is stated at cost and less impairment losses. The club membership has indefinite useful life and assessment for impairment is performed annually or more frequently if the events and circumstances indicate the carrying value may be impaired.

2. Significant accounting policies (continued)

2.21 Reinsurance

The Company cedes reinsurance in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies.

Premiums ceded and claims reimbursed are presented on a gross basis in profit or loss. The corresponding commission from reinsurance business is recognised upon receipt of acceptance confirmation from the ceding company.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance liabilities or benefits paid and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in profit or loss. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Company will receive from the reinsurer can be reliably measured.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts

(a) Classification

The Company issues contracts that transfer insurance risk, financial risk or both. For the purposes of these financial statements, contracts are classified as Insurance Contracts or Investment Contracts.

(i) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario in which it does not. Scenarios considered are those with commercial substance.

(ii) Investment contracts

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Once a contract has been classified as an insurance or investment contract, no reclassification is subsequently performed, unless the terms of the agreement are later amended.

Both insurance and investment contracts may contain a Discretionary Participation Feature ("DPF"). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:
    - the performance of a specified pool of contracts or a specified type of contract; or
    - realised and/or unrealised investment returns on a specified pool of assets held by the Company; or
    - profit or loss of the Company or an insurance fund held by the Company.

2. **Significant accounting policies** (continued)

2.22 **Insurance and investment contracts** (continued)

(b) Recognition and measurement

(i) Insurance and investment contracts

(1) Insurance contracts (general business)

General insurance contracts include personal lines and personal accident hybrid insurance. Premiums are recognised when they become payable by the contract holder and then earned as revenue over the policy period. Premiums are shown before deduction of commission.

Claims are charged to profit or loss as incurred. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported.

<u>Outstanding claims</u>

Full provision is made for the estimated cost of all claims notified but not settled at the date of the balance sheet, less reinsurance recoveries, using the best information available at that date.

<u>Deferred acquisition costs</u>

Deferred acquisition costs which represent commission and other related expenses for general insurance are deferred over the period in which the related premiums are earned.

(2) Traditional insurance contracts (life business)

Traditional insurance contracts include accident and health insurance, whole life and term life insurance, endowment insurance, and annuity policies with significant life contingency risk. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

2. **Significant accounting policies** (continued)

2.22 **Insurance and investment contracts** (continued)

(b) Recognition and measurement (continued)

(i) Insurance and investment contracts (continued)

(2) Traditional insurance contracts (life business) (continued)

Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported.

A number of insurance contracts contain dividends or bonuses. Dividends are either regular (payable on the eligible policy anniversary) or terminal (payable on policy termination). Dividends and bonuses are included as benefit payments in the calculation of policy liabilities. These insurance contracts are participating policies and are classified as insurance contracts with discretionary participating features (“DPF”). The DPF is classified as a liability in the Company’s balance sheet and as part of claims and benefits incurred in the profit or loss.

(3) Investment type insurance contracts (life business) – Universal life

Premiums are recognised as revenue when they are received. Premiums are shown before deduction of commission.

Interest credited to the account balances increases the policy liability while benefit claims are charged as benefit outgo in profit or loss.

(4) Investment type insurance contracts (life business) – Investment-linked

Premiums are recognised as revenue when they are received. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(i) Insurance and investment contracts (continued)

(5) Investment contracts with DPF (life business)

These are investment contracts with additional non-guaranteed benefits supplemental to guaranteed benefits, and they are participating. Premiums are recognised as revenue when they become payable by the contract holder. When withdrawals or claims are made, the liability is reduced accordingly.

(6) Investment contracts without DPF (life business)

These are investment contracts with fixed and guaranteed terms, and they are non-participating. Premiums received are recorded as a liability. When withdrawals or claims are made, the liability is reduced accordingly.

Fee income on investment contracts without DPF consists primarily of service fees that are charged up-front for administrative services provided over time and service fees from any other additional services provided. All fee income on investment contracts without DPF for services provided over time are recognised over the contract period. The deferred fee income is recorded under “investment contract liabilities”. Service fees from additional services provided are recognised at a point when the services are provided to the customers.

Deferred origination costs

Deferred origination costs which represent commission and other incremental expenses directly related to the issue of each new contract, are deferred and amortised over the period that services are provided.

(7) Investment contracts (life business) – Investment-linked

These are unit-linked contracts without significant insurance risk. Premiums received are recorded as a liability. When withdrawals or claims are made, the liability is reduced accordingly.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis

(1) Insurance contracts (general insurance)

The valuation basis for the general insurance contracts follows Insurance (Valuation and Capital) (Amendment) Regulations 2020 and MAS Notice 133 (Notice on Valuation and Capital Framework for Insurers), including any subsequent amendments to the notices and regulations.

The valuation liability is determined by the sum of premium liabilities (higher of unearned premium reserve and the unexpired risk reserve, at fund level) and claims liabilities.

- Unearned premium reserves:
  - For personal accident hybrid products, the valuation liability is determined by unearned premium reserves, which is equal to the 1/24 rule on unearned cash premium, net of reinsurance basis; and
  - For personal lines products, the valuation liability is determined by the unearned premium reserves, which is the 1/52 rule on unearned cash premium paid for Workmen Compensation and 1/24 rule on other lines of business, net of reinsurance basis.
- Unexpired risk reserve: the total unearned premium reserve multiplied by estimation of the loss ratio over the unexpired period with allowances for maintenance expense of 27 per cent and claims handling expense of 6 per cent. A Provision for Adverse Deviation (“PAD”) margin is added to the best estimate in determining unexpired risk reserve in order to have 75 per cent level of sufficiency.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(1) Insurance contracts (general insurance) (continued)

- Claims liabilities: the best estimate liability is calculated using statistical methods which include the chain ladder method, where ratios of claim development are measured in the historical data and these ratios are then used to project further development in the data, as well as the Bornhuetter-Ferguson method. Information on paid and incurred claims is utilised in these methods. A Provision for Adverse Deviation ("PAD") margin is added to the best estimate in order to have 75 per cent level of sufficiency.

(2) Traditional insurance contract (life business)

The valuation basis for both the insurance and investment contracts follows the local statutory valuation requirements of the Insurance (Valuation and Capital) (Amendment) Regulations 2020 and MAS Notice 133 (Notice on Valuation and Capital Framework for Insurers), including any subsequent amendments to the notice and regulations.

Generally, the valuation of a life business policy involves first a projection of future cash flows using realistic assumptions (including assumptions on expenses, mortality and morbidity rates, lapse rates, etc.) and then discounting these cash flow streams at appropriate interest rates. The boundary of insurance contract has been considered in valuing liabilities for products that are renewable with non-guaranteed premium rates in nature. The Company has assessed the impact of this change in Note 45 (ii).

The liability in respect of any policy will be not be less than zero unless there is money due to the insurer when the policy is terminated on the valuation date, in which event the value of the liability may be negative to the extent of the amount due to the insurer.

At each financial year end, liability adequacy tests are performed to assess the adequacy of policy liabilities by using the current best estimates of future cash flows and the investment income from the assets backing such liabilities.

2. **Significant accounting policies** (continued)

2.22 **Insurance and investment contracts** (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(2) Traditional insurance contract (life business) (continued)

The valuation on the local statutory basis includes Provision for Adverse Deviation ("PAD") which is added to the best estimate valuation assumptions in the determination of the policy liabilities. The PAD loading is set to meet at least 75 per cent level of sufficiency.

<u>Non-participating policy</u>

The liability in respect of a non-participating policy is the value of expected future payments arising from the policy, including any expense that the insurer expects to incur in administering the policy and settling any relevant claims and any provision made for any adverse deviation from expected experience, less expected future receipts arising from the policy.

<u>Participating policy</u>

The liability in respect of a participating policy is the sum of -

- the value of expected future payments arising from guaranteed benefits of the policy including any expense that the insurer expects to incur in administering the policies and settling the relevant claims, less expected future receipts arising from the policy;

- the value of expected payments arising from non-guaranteed benefits of the policy in respect of future allocation of bonus and future allocation to the surplus account, under section 17(6) of the Act; and any provision made for any adverse deviation from the expected experience.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(2) Traditional insurance contract (life business) (continued)

<u>Life Insurance Par Fund</u>

The Life Insurance Par Fund contains all the individual participating life insurance contracts. Participating life insurance contracts are contracts that contain a discretionary participating feature ("DPF"). This feature entitles policyholders to receive additional benefits in the form of annual and terminal bonuses. The amount or timing of the bonus declaration is not guaranteed, and is at the sole discretion of the Company.

The total liability in respect of policies of the Par Fund is calculated as -

(a) the sum of the liability in respect of each policy of the fund determined in the manner described above; or
(b) the Minimum Condition Liability of the fund; or
(c) the value of policy assets of the fund,

whichever is the highest.

In addition, when (a) is less than the maximum of (b), or (c), then (a) needs to be recalculated with adjustments to the non-guaranteed benefits, for all or part of the participating policies of the fund such that the recalculated (a) is equal to the maximum of (b) or (c).

(3) Investment type insurance contracts (life business) – Universal Life

The policy liability for universal life is determined as the highest of:

(a) the value obtained by projecting the liabilities under the policy at the guaranteed crediting rate and discounting at the risk-free rate adjusted for matching adjustment; or
(b) the value obtained by projecting at the current crediting rate and discounting at the best estimate investment return.

2. Significant accounting policies (continued)

2.22 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Valuation basis (continued)

(4) Investment type insurance contracts (life business) – Investment-linked

The liability in respect of an investment-linked policy is the sum of:

- the unit reserves, calculated as the value of the underlying assets backing the units and liabilities relating to the policy; and
- the non-unit reserves, calculated as the expected future payments arising from the policy (other than those relating to the unit reserves), including any expenses that the insurer expects to incur in administering the policies and settling the relevant claims and any provision made for any adverse deviation from the expected experience, less expected future receipts arising from the policy (other than those relating to the unit reserves).

(5) Investment contracts with DPF (life business)

The valuation basis is similar to that of a participating policy as described in Note 2.22(b)(ii)(2) Traditional insurance contract (life business).

(6) Investment contracts without DPF (life business)

The liabilities for these contracts are at fair value. The valuation basis is similar to that of a non-participating policy as described in Note 2.22(b)(ii)(2) Traditional insurance contract (life business).

(7) Investment contracts (life business) – Investment-linked

The liabilities for these contracts are at fair value. The valuation basis is similar to that of an investment-linked policy as described above. The fair values of the liabilities are determined using the current unit values that reflect the fair values of the financial assets contained within the Company's unitised investments fund linked to the liabilities, multiplied by the number of units attributed to the contract holder at the balance sheet date.

2. Significant accounting policies (continued)

2.23 Liability adequacy tests

At each financial year end, liability adequacy tests are performed to assess the adequacy of policy liabilities by using the current best estimates of future cash flows and the investment income from the assets backing such liabilities.

The valuation on the local statutory basis implicitly ensures that the policy liabilities meet the liability adequacy tests as Provisions for Adverse Deviation ("PAD") are added on to the best estimate valuation assumptions in the determination of the policy liabilities.

2.24 Shadow accounting

Investment experience (realised and unrealised investment gains and losses) has a direct effect on the measurement of insurance contract liabilities. Shadow accounting permits adjustments to insurance contract liabilities and the related assets to be reflected in other comprehensive income to match the extent to which unrealised investment gains and losses are recognised in other comprehensive income.

a) Participating Fund

Changes in insurance contract liabilities within the Participating Fund which arise from unrealised gains or losses on available for sale assets and unrealised gains or losses arising from the fair valuation of land and buildings are recognised directly in the fair value reserve and asset revaluation reserves respectively. Hence the change in these liabilities will match the corresponding unrealised gains and losses from those assets.

b) Universal Life business

The Company has adopted shadow accounting on its Universal Life business portfolio in the current financial year to match the presentation of change in insurance contract liabilities within the Universal Life business portfolio against the corresponding unrealised gains or losses arising from available for sale assets backing these Universal Life policies which are recognised directly in the fair value reserve. Prior to this change in accounting policy, the Company recognised the change in insurance contract liabilities for this business directly in profit before tax, which created a mismatch with the recognition of the changes in unrealised gains or losses arising from available for sale assets backing these universal life policies. With effect from 1 January 2020, and applied retrospectively, the Company now recognises any changes in insurance contract liabilities for this business directly in the fair value reserve. The change in insurance contract liabilities that is presented in fair value reserve is representative of the change in fair value reserve of the underlying available for sale assets given the correlation between the asset and liabilities of the Universal life business portfolio. The impacts of this voluntary change in accounting policy are disclosed in Note 45 (i).

2. Significant accounting policies (continued)

2.24 Shadow accounting (continued)

b) Universal Life business (continued)

The above affects the presentation of certain items within the statement of comprehensive income and statement of changes in equity, and reallocation thereafter from profit after tax to other comprehensive income. However, it has no effect on total comprehensive income or total equity.

2.25 Related party transactions

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

2.26 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.27 Dividends to Company's shareholder

Dividends to the Company's shareholder are recognised when the dividends are approved for payment.

2.28 Business combination under common control

Business combinations under common control are accounted for using the predecessor method of accounting. Under the predecessor method of accounting, the income statements include the results of the acquired business from the date of combinations. The assets and liabilities of the acquired business are accounted for at the date of combination, based on the carrying amounts of the acquiree adjusted for alignment of accounting policies, if any. The impact of the transfer of business is outlined in Note 44. The excess of the cost of acquisition over the aggregate carrying amounts of assets and liabilities based on the predecessor's measurement basis as of the date of the combination is taken to equity.

3. Interpretations and amendments to published standards effective in 2020

On 1 January 2020, the Company adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Company and had no material effect on the amounts reported for the current or prior financial years.

3. Interpretations and amendments to published standards effective in 2020 (continued)

Standards issued but not yet effective

The Company has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
FRS 109 Financial Instruments, FRS 39 Financial Instruments: Recognition and Measurement and FRS 107 Financial Instruments: Disclosures (Interest Rate Benchmark Reform – Phase 2)	*1 January 2021*
Amendments to:	
- *FRS 116 Leases (Covid-19 – Related Rent Concessions)*	*1 June 2020*
- *FRS 9 Financial Instruments, FRS 39 Financial Instruments: Recognition and Measurement and FRS 7 Financial instruments: Disclosures (Interest Rate Benchmark Reform)*	*1 January 2021*
- *References to the conceptual framework in FRS Standards FRS 103 Business Combinations (Definition of a business)*	*1 January 2022*
- *FRS 116 Property, Plant and Equipment (Proceeds before Intended Use)*	
- *FRS 37 Provisions, Contingent Liabilities and Contingent Assets (Onerous Contracts – Cost of Fulfilling a Contract)*	
Amendments to:	*1 January 2023*
- *FRS 1 Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)*	
FRS 117 Insurance Contracts	*1 January 2023*
FRS 110 Consolidated Financial Statements and FRS 128 Investment in associates and joint ventures (Sale or contribution of assets between an investor and its associate or joint venture)	*To be determined*

The new or amended accounting Standards and Interpretations listed above are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Company. These are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

The main impact as a result of the adoption of Interest Rate Benchmark Reform – Phase 2 is on Interest rate swaps outlined in Derivative financial instruments (Note 21). Given the quantum of the notional amounts of the Interest rate swap, we believe that the adoption of the Reform will not result in a material impact to the financial statements even though there is uncertainty around the alternative interest rate benchmark.

The Company has elected to early adopt the amendments to FRS 16 Leases as outlined in Note 2.19 (c).

4. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Policy liabilities

The Company makes estimates, assumptions and judgements in determining the reported amount of policy liabilities. These estimates, assumptions and judgements are best estimates of future experience, based on historical experience, trends and other factors. They are regularly reviewed by the Actuary to ensure that they remain relevant and valid. As future experience is uncertain, it is appropriate to include margins to allow for possible adverse deviations in experience. Under the local statutory valuation requirement, this is achieved through an explicit margin in the policy liability – Provision for Adverse Deviation ("PAD").

(a) Contract provisions for life business

The determination of the contract liabilities is based on sound actuarial principles. The provisions include both guaranteed and non-guaranteed benefits to policyholders.

The life business policy liabilities are calculated in accordance with the Insurance (Valuation and Capital) (Amendment) Regulations 2020 and also MAS Notice 133 (Notice on Valuation and Capital Framework for Insurers), including any subsequent revisions to the notice and regulations.

Process used to determine valuation assumptions

The process used to determine the valuation assumptions for the life and general business involved comparing the current assumptions to the results of the recent experience studies and historical experience, and taking into account of the trends and expectations of future events that are believed to be reasonable under the circumstances. Adjustments are then made to the assumptions if necessary so that they remain relevant and valid. Smoothing of the rates in the assumptions may also be applicable across ages and/or durations.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(a) Contract provisions for life business (continued)

Process used to determine valuation assumptions (continued)

<u>Mortality, annuitant mortality and morbidity</u> (continued)

Estimates are made as to the expected number of incidences for each of the years in which the Company is exposed to risk. The Company bases the mortality estimates on its own experience, reinsurer information and published tables, adjusted where appropriate to reflect recent trends and characteristics of special niche markets. The main source of uncertainty is that epidemics (such as AIDS, SARS, COVID-19) and wide ranging lifestyle changes could result in future mortality being significantly different than that in the past for the age groups in which the Company has significant exposure to mortality risk.

In the review of the best estimate assumptions for mortality, reference was made to the historical experience and the latest Continuous Mortality Investigation Study.

The best estimate assumptions for annuitant mortality are based on external tables and include mortality improvement factors.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(a) Contract provisions for life business (continued)

Process used to determine valuation assumptions (continued)

Mortality, annuitant mortality and morbidity (continued)

In the review of the best estimate assumptions for critical illness, reference was made to the historical experience and the latest experience study on critical illness. The critical illness incidence rates are differentiated by gender and smoker status.

In the review of the best estimate assumptions for accident and hospitalisation benefits, reference was made to the historical experience and the latest study.

Lapse and surrender rates

In the review of the best estimate assumptions for lapse and surrender rates, reference was made to the historical experience and the latest experience study.

Discount rates

Risk-free discount rates, in accordance with MAS Notice 133, are used in determining the liability in respect of non-participating policies, the non-unit reserves of investment-linked policies, and the Minimum Condition Liability ("MCL") of participating policies (where MCL is the policy liability but without any provision for non-guaranteed benefits).

The risk-free discount rate is determined by three-segment approach where discount rates within each segment are determined as follows:

a) Segment 1 (Valuation date to last liquid point ("LLP")): Discount rate is determined based on market information on government bonds for similar duration at the valuation date, for periods up to the LLP. The LLP is set as 20 years and for SGD and 30 years for USD denominated liabilities.

b) Segment 2 (From LLP to end of Convergence Period): Discount rate is determined based on extrapolating the risk-free forward rates between first segment and third segment. The length of Segment 2 is known as the convergence period, set as 40 years for SGD and 30 years for USD denominated liabilities.

c) Segment 3 (From the end of convergence period onwards): Discount rate is determined based on an Ultimate Forward Rate ("UFR"). The UFR of 3.8% is calculated as the sum of expected real interest rate and expected inflation rate. For both SGD and USD denominated liabilities:

i) The expected real interest rate is 1.8%; and

ii) The expected inflation rate is 2.0%

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(a) Contract provisions for life business (continued)

Process used to determine valuation assumptions (continued)

Discount rates (continued)

For other foreign-currency denominated liabilities, in accordance with MAS Notice 133, the discount rates used are:

Currency	LLP	Convergence Period	UFR
AUD (Australian Dollar)	30	30	3.80%

Best estimates of future investment returns are used for the discount rates in determining the best estimate policy liability in respect of participating and non-participating Universal Life policies. These are based on assets backing the contracts, current market returns as well as expectations about future economic and financial developments.

- Illiquidity Premium ("IP")

  Illiquidity Premium ("IP"), in accordance with MAS Notice 133, is applicable to products which are classified as Whole Life, Endowment, or Annuity in Form L6 as set out in MAS Notice 129 (Notice on Insurance Returns (Accounts and Statements)), excluding investment-linked policies and portfolios that apply matching adjustment.

  The actual IP is calculated at the insurance fund level taking into account of the Strategic Asset Allocation ("SAA") extracted from the latest board-approved investment policy ("calculated fund level IP"). The central allocation is used where a range exists for the strategic asset allocation for each of the asset class.

  An IP of 55 basis points is applied to corporate debt securities, in accordance with MAS Notice 133.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(a) Contract provisions for life business (continued)

Process used to determine valuation assumptions (continued)

Discount rates (continued)

The IP is applied as a parallel upward adjustment to the spot risk-free discount rate. The IP applied at each period is determined as follows:
at the valuation date, for periods up to the LLP.

a) IP is applied in full for periods up to the LLP.

b) Within the period of 10 years immediately after the LLP, the difference between the IP and 10 basis points is amortised in accordance with the following table:

Year	1	2	3	4	5	6	7	8	9	10
Factor	95%	90%	80%	70%	55%	40%	25%	12%	3%	0%

c) An IP of 10 basis points is applied from year 10 onwards after the LLP.

- Matching Adjustment (“MA”)

Matching Adjustment (“MA”), in accordance with MAS Notice 133, is applicable to participating and non-participating insurance products, excluding investment-linked policies. These products are denominated in SGD or USD and not applied to other currencies. The Company currently adopts MA for all USD denominated non-participating Universal Life products.

Expenses and inflation

Management expenses are computed using the expense unit cost factors based on the most recent final Expense Analysis available.

An inflation rate of 2% p.a. is assumed.

The commission scales used are those applicable to the various plans. Additional loadings to provide for overrides and other agency benefits are included, based on the most recent agency add-on study report.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(b) Insurance contract provisions for general insurance

General insurance contract liabilities consist of premium liabilities (maximum of unearned premium reserves or unexpired risk reserves) and claim liabilities. The determination of these liabilities is based on sound actuarial principles.

The general insurance liabilities are calculated in accordance with the Insurance (Valuation and Capital) (Amendment) Regulations 2020 and MAS Notice 133 (Notice on Valuation and Capital Framework for Insurers), including any subsequent revisions to the regulations.

Process used to determine valuation assumptions for premium liabilities

The unearned premium reserve (“UPR”) is derived from the 1/52 rule on unearned cash premium for Workmen Compensation and the 1/24 rule on other lines of business, net of reinsurance basis.

The best estimate of the unexpired risk reserve (“URR”) is derived from the multiplication of the total UPR and estimation of the loss ratio over the unexpired period, which is usually based on either the selected loss ratio or Initial Expected Loss Ratio ("IELR") for the 2020 accident year. The IELRs for 2020 accident year for Personal Lines and Personal Accident are 17 per cent and 60 per cent respectively. This together with an allowance for maintenance expenses of 27 per cent (2019: 20 per cent) of the UPR and claims handling expenses of 6 per cent (2019: 4 per cent) of the expected claims forms the best estimate of the unexpired risk reserve ("URR").

A Provision for Adverse Deviation (“PAD”) margin is applied to the URR using a percentage which is 130 per cent of the PAD percentage applied to the claims reserves. The margins for the premium liability are greater than the margins used for the claim liability as there is greater uncertainty in estimating incidence and severity of claims which have not yet occurred at the valuation date. It must be noted that the estimates set out are subject to considerable uncertainty. A diversification credit of 29 per cent is assumed due to the offsetting effects between the lines of business.

This URR, together with a PAD margin, after a diversification credit, is then compared to the Company's held unearned premium reserve at a fund level to arrive at the final premium liability.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(b) Insurance contract provisions for general insurance (continued)

Process used to determine valuation assumptions for claims liability

Paid Claim Development ("PCD") and Paid Bornhuetter-Ferguson ("PBF") are used in establishing the claim estimates for these classes of business. PCD is a chain ladder method, where ratios of claim development are measured in the historical data and these ratios are then used to project further development in the data. Information on paid claims is utilised in these methods.

The MAS requires companies to hold an additional amount to cover the possibility of adverse development in the claims. The requirement is that companies should hold reserves at a level so that they have a 75 per cent chance that they will be sufficient. We calculate this provision for adverse deviation ("PAD") by applying a percentage to the total claim reserves at a class level.

The Mack method, Bootstrap method and Stochastic Bornhuetter-Ferguson ("BF") method were considered in the determination of PAD. The results from the Mack method were selected as it produces a consistent and reasonable range of results.

Having estimated the level of PAD by class of business, the next step is to estimate the PAD applicable to the overall business. To the extent that there is no perfect correlation between classes, there would be expected to be a credit available for diversification. In other words, if there was perfect correlation between the Personal Accident and Fire classes, a deterioration of say 10 per cent in the Fire outstanding claim estimates should coincide with a deterioration of 10 per cent in Personal Accident. The diversification credit for 2020 is 29% (2019: 29%) for both claims and premium liabilities.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(c) Changes in assumptions and methodology

The Company regularly reviews its assumptions to reflect the current best estimate assumptions.

General insurance

The changes in assumptions in 2020 resulted in the following changes to policy liabilities:

- Increase of $0.01 million due to change in provision for adverse deviation ("PAD").
- Increase of $0.06 million due to change in claims handling expense and allowance for maintenance expense.
- Decrease of $0.13 million due to change in development factors in the run-off triangle calculation.

Life business

The changes in assumptions in 2020 resulted in the following changes to policy liabilities (after reinsurance):

- Non-Par Fund $1,062.91 million increase in policy liabilities for the non-participating policies. The main drivers are:
  - Increase of $1,392.00 million due to valuation interest rate assumptions change.
  - Increase of $15.73 million due to morbidity assumptions change.
  - Increase of $18.76 million due to expenses assumptions change.
  - Decrease of $38.23 million due to UL Crediting Rate assumptions change.
  - Decrease of $327.74 million due to change in PAD

- Investment-Linked Fund $2.67 million increase in policy liabilities for the investment-linked policies
  - Decrease of $0.06 million due to valuation interest rate assumptions change.
  - Decrease of $1.61 million due to change in PAD.
  - Increase of $4.34 million due to expense assumptions change.

- Brunei branch S$2.84 million decrease in policy liabilities. The main drivers are:
  - Increase of $2.88 million due to valuation interest rate assumptions change.
  - Increase of $0.81 million due to changes in operating assumptions.
  - Decrease of $6.53 million due to change in PAD.

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(d) Sensitivity analysis

The following tables show the sensitivity of the value of policy liabilities as at 31 December 2020 to movements in the main variables used in the estimation of the policy liabilities.

General insurance contracts

For general insurance, sensitivity analysis is carried out for claims liabilities. No sensitivity analysis is carried out for premium liabilities because the liability is taken at the higher of UPR and URR. UPR is a mathematically calculated reserve not sensitive to changes in assumptions. At the moment, UPR is approximately 1.2 (2019: 1.2 times) higher than URR, and the sensitivity analysis applied to URR will not lead to URR exceeding UPR.

Sensitivity analysis is performed on 3 significant valuation assumptions for claims liabilities as at 31 December 2020: loss ratio, expenses and development factor.

	Change in 2020 liability in $ millions		
Variable	Change in variable	Before reinsurance	After reinsurance
Better loss ratio	-10%	(0.13)	(0.13)
Worsening of loss ratio	+10%	0.13	0.13
Increase in expense	+10%	0.02	0.02
Lowering of expense	-10%	(0.02)	(0.02)
Slower paid development factor	-5%	0.86	0.86

Life business

For the life business, the analysis is performed on the two significant valuation assumptions: mortality and morbidity and the future investment return (or discount rate).

4. Critical accounting estimates, assumptions and judgements (continued)

(i) Policy liabilities (continued)

(d) Sensitivity analysis (continued)

Life business (continued)

Insurance contracts (life business)

	Change in 2020 policy liability in $ millions		
Variable	Change in variable	Before reinsurance	After reinsurance
Better mortality and morbidity	-10%	(731.60)	(295.06)
Worsening of mortality and morbidity	+10%	753.07	300.22
Increase in discount rate	+50 bps	(813.34)	(621.70)
Lowering of discount rate	-50 bps	926.96	709.75

Investment contracts

	Change in 2020 policy liability in $ millions		
Variable	Change in variable	Before reinsurance	After reinsurance
Better mortality and morbidity	-10%	0.02	0.02
Worsening of mortality and morbidity	+10%	(0.02)	(0.02)
Increase in discount rate	+50 bps	(0.14)	(0.14)
Lowering of discount rate	-50 bps	0.18	0.18

For contracts with DPF, the Company has the discretion to adjust bonus scales under shock scenarios. For sensitivity analysis relating to assets, see Note 39(B)(e).

(ii) Product classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Company exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Company to pay significant additional benefits to its customers. In the event the Company has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in Note 2.22(a).

4. Critical accounting estimates, assumptions and judgements (continued)

(iii) Fair values of financial assets

The Company determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgement is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction and general market conditions.

Changes in fair value of financial assets held by the Company'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 net assets of the participating funds that would be allocated to policyholders if all relevant surpluses at the balance sheet date were to be declared as a policyholder dividend based on current local regulations. With the application of shadow accounting as described in Note 2.24, both of the foregoing changes are ultimately reflected in profit or loss.

Changes in fair value of financial assets held to back the Company's unit-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in profit or loss. Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in Note 39(B)(e).

(iv) Fair values of property held for own use and investment property

The Company uses independent professional valuers to determine the fair values of properties on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. In most cases, current use of the properties is considered to be the highest and best use for determining the fair value. Different valuation techniques may be adopted to reach the fair value of the properties.

4. Critical accounting estimates, assumptions and judgements (continued)

(iv) Fair values of property held for own use and investment property (continued)

The independent professional valuer determined the fair value of properties based on the properties' highest-and-best-use using the discounted cash flow approach and direct comparison approach (2019: discounted cash flow approach and direct comparison approach) at the balance sheet date. For investment properties, the discounted cash flow approach may be used by reference to net rental income allowing for reversionary income potential to estimate the fair value of the properties.

Further details of the fair value of property held for own use and investment property are provided in Note 39(B)(f).

(v) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgement. The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence that a financial asset, or group of assets, is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
  - adverse changes in the payment status of issuers; or
  - national or local economic conditions that correlate with increased default risk.

For loans and receivables, impairment loss is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the Company of financial assets or individual accounts.

Further details of the impairment of financial assets during the year are provided in Note 39(B)(c).

4. Critical accounting estimates, assumptions and judgements (continued)

(vi) Tax on the Transfer

In the financial year ended 2017, the Company established a trust structure to acquire and hold certain financial investments of the insurance funds ("The Transfer"). Following the Transfer, the Company continues to hold these financial investments of the insurance funds via units in the trust structure. As the Company retains the risks and rewards of the underlying financial investments, the disclosures in these financial statements relating to these assets are based on the underlying financial investment holdings. The risk management of the transferred financial investments are disclosed in Note 39.

There was a current tax liability arising from the Transfer. In relation to the current tax liability arising from the transfer of available for sale debt securities ("transferred debt securities portfolio"), it is assumed that debt securities invested by the Company are mostly held to maturity. As such, as at 31 December 2017 an amount of $80,503,000 in tax was recognised under Fair Value Reserve (Note 35(b)(ii)) pursuant to para 61A under FRS 12 Income Taxes. The tax will be reclassified to profit and loss based on the expected maturity of the transferred debt securities portfolio which can be up to year 2049. During the current financial year, Tax on the transfer of $2,258,000 (2019: $3,649,000) (Note 10) has been reclassified to profit and loss for the transferred debt securities portfolio that matured in 2020. The remaining balance of the Tax on the transfer under Fair Value Reserve (Note 35(b)(ii)) is $72,198,000 (2019: $74,456,000).

This assumption is supported by historical data for the past 7 years for the transferred debt securities portfolio. Over this period, the Company sold on average annually less than 5% of the transferred debt securities portfolio i.e. before maturity of the debt instruments and excluding pre-mature redemptions by respective debt issuers.

(vii) Uncertain tax positions

In determining the income tax liabilities, management has estimated the amount of taxable income and the deductibility of certain expenses ("uncertain tax positions") in the relevant tax jurisdiction. This involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the tax authority.

The Company has open tax assessments with the tax authority at the balance sheet date and has recognised an additional tax liability on these uncertain tax positions.

4. Critical accounting estimates, assumptions and judgements (continued)

(viii) Critical judgement over the lease terms

As at 31 December 2020, the Company's lease liabilities, which are measured with reference to an estimate of the lease term, amounted to $73,395,000 of which $49,522,000 (2019: $52,892,000) arose from extension options. Extension option is included in the lease term if the lease is reasonably certain to be extended. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise the extension option.

For leases of office space, the following factors are considered to be most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Company typically includes the extension option in lease liabilities;
- Otherwise, the Company considers other factors including its historical lease periods for similar assets, costs required to obtain replacement assets, and business disruptions.

The extension options for certain equipment and leases of office space have not been included in lease liabilities because the Company could replace the assets without significant cost or business disruption.

The assessment of reasonably certain to exercise extension options is only revised if a significant change in circumstance occurs that is within the control of the lessee. During the current financial year, there is no significant change in the assessment.

As at 31 December 2020, potential future (undiscounted) cash outflows of approximately $8,143,000 (2019: Nil) have not been included in lease liabilities because it is not reasonably certain that the leases will be extended.

4. Critical accounting estimates, assumptions and judgements (continued)

(ix) Impact of COVID-19

The COVID-19 pandemic has affected almost all countries of the world, and resulted in border closures, production stoppages, workplace closures, movement controls and other measures imposed by the various governments.

Set out below is the impact of COVID-19 on the Company's financial performance reflected in this set of financial statements for the year ended 31 December 2020:

i. The Company has assessed that the going concern basis of preparation for this set of financial statements remains appropriate.
ii. In 2020, border closures, limitation placed on face to face customer interaction and workplace closures have resulted in periods where the Company's operations scale down to adhere to the respective governments' movement control measures. These have negatively impacted new business sales volume in 2020, resulting in a lower than expected premium and fee income for 2020.
iii. The Company has considered the market conditions (including the impact of COVID-19) as at the balance sheet date, in making estimates and judgements on the recoverability of assets as at 31 December 2020. The significant estimates and judgement applied on impairment of trade receivables are disclosed in Notes 39(B)(c).

As the global COVID-19 situation remains very fluid as at the date these financial statements were authorised for issuance, the Company cannot reasonably ascertain the full extent of the probable impact of the COVID19 disruptions on its operating and financial performance for the financial year ending 31 December 2020. If the situation persists beyond management's current expectations, the Company's assets may be subject to further write downs in the subsequent financial periods.

5. Premium and fee income

The following table disaggregates the Company's revenue by major sources:

	2020 $'000	2019 $'000
Premium income from insurance contracts[(1)] and Fee income for services embedded in insurance contracts[(1)]	**6,066,085**	5,602,012
Fee income for investment contracts without DPF	**13,189**	12,151
	6,079,274	5,614,163

Note
[(1)] *Includes income in respect of investment contracts with DPF.*

Fee income for services embedded in insurance contracts represents periodic fee from policyholders for services rendered as part of an insurance contract. The Company does not bifurcate these services from the host insurance contract and therefore such services are accounted for under FRS 104.

Fee income for investment contracts without DPF refers to fees charged for the provision of asset management and administrative services for investment contracts without DPF. This is charged at a fixed percentage on the value of assets under management. Revenue is recognised as services are provided and the fees are deducted from the policyholders' account balances. The related administrative services are provided over the contract term. Therefore, up-front administrative service fees are deferred and recognised as revenue systematically over the contract term.

6. Premiums ceded to reinsurers

	2020 $'000	2019 $'000
Life insurance contracts	**670,596**	(618,382)
General insurance contracts		
- Premiums written	**(187)**	(205)
- Change in unearned premium	**(25)**	4
	670,384	(618,583)

During the financial year, the Company recaptured the co-insurance contract with RGA Global Reinsurance Company and signed an addendum to the co-insurance contract with AIA Reinsurance Limited ("AIA Re"), recapturing the Healthshield, accelerating critical illness, term and financial guardian rider portfolios while ceding out an investment linked and financial guardian rider portfolio ("addendum"). The recapture of the RGA coinsurance contract and addendum to AIA re coinsurance contract resulted in a gain of $919,647,000 and $139,781,000, recorded in 'premiums ceded to reinsurances' and loss of ($1,148,000,000) and ($173,600,000), recorded in 'Insurance and investment contract benefits ceded' respectively during the year.

6. Premiums ceded to reinsurers (continued)

As part of the addendum to AIA Re, the Company recognised a net inception deferral of 127,700,000.

7. Investment return

	2020 **$'000**	2019 $'000
Interest income	**1,227,613**	1,190,857
Dividend income	**277,373**	278,217
Rental income	**6,539**	7,054
Investment income	**1,511,525**	1,476,128
Available for sale		
Net realised gains from debt securities	**161,730**	25,349
Net realised gains from equity securities	**296,233**	115,286
Net realised gains on available for sale financial assets reflected in profit or loss (Note 35(b)(ii))	**457,963**	140,635
Designated at fair value through profit or loss		
Net gains from debt securities	**132,671**	70,778
Net gains from equity securities	**1,198,902**	929,509
Held for trading		
Net fair value movement on derivatives	**92,029**	(18,865)
Net gains on financial assets at fair value through profit or loss	**1,423,602**	981,422
Reversal of impairment of available for sale debt securities	**-**	16,612
Net foreign exchange losses	**(120,599)**	(83,770)
Net fair value gains/(losses) on investment property (Note 16)	**504**	(486)
Other net realised gains	**316**	9,134
Investment experience	**1,761,786**	1,063,547
Investment return	**3,273,311**	2,539,675

8. Timing of revenue recognition

	2020 **$'000**	2019 $'000
Service transferred at a point in time	**860**	811
Service transferred over time	**21,431**	21,544
Revenue from contract with external customers	**22,291**	22,355

9. Expenses

	2020	2019 (restated)
	$'000	$'000
Insurance contract benefits	**(3,207,614)**	(3,078,156)
Change in insurance contract liabilities	**(4,482,480)**	(3,006,511)
Change in investment contract benefits	**(444,737)**	(364,408)
Insurance and investment contract benefits	**(8,134,831)**	(6,449,075)
Insurance and investment contract benefits ceded	**(338,884)**	822,872
(Deferral)/amortisation of reinsurance gains	**(114,766)**	11,096
Insurance and investment contract benefits ceded	**(453,650)**	833,968
Net insurance and investment contract benefits	**(8,588,481)**	(5,615,107)
Commissions and other acquisition expenses	**(748,634)**	(725,136)
Deferral and amortisation of acquisition costs (Note 17)	**(546)**	78
Amortisation of origination costs and others (Note 17)	**(18,606)**	(16,406)
Commission and other acquisition expenses	**(767,786)**	(741,464)
Employee benefit expenses	**(170,076)**	(171,350)
Depreciation (Note 14)	**(25,634)**	(24,193)
Amortisation (Note 11)	**(17,073)**	(14,732)
Reversal/(allowance) for doubtful debts for insurance receivables (Note 22)	**475**	(28)
Operating lease rentals	**(4)**	(41)
Other operating expenses	**(167,266)**	(166,369)
Operating expenses	**(379,578)**	(376,713)
Investment interest expense	**(4,236)**	(8,036)
Interest expense on lease liabilities (Note 15)	**(1,654)**	(1,642)
Finance costs	**(5,890)**	(9,678)
Investment management expenses and others	**(160,937)**	(149,855)
Total expenses	**(9,902,672)**	(6,892,817)

Employee benefit expenses consist of:

	2020	2019
	$'000	$'000
Wages and salaries	**(154,195)**	(139,830)
Employer's contribution to defined contribution plans including Central Provident Fund	**(15,519)**	(13,697)
Other staff benefits	**(5,983)**	(12,228)
Share-based compensation	**(6,336)**	(5,595)
Jobs support scheme grant	**11,957**	-
	(170,076)	(171,350)

Key management personnel compensation is as follows:

	2020	2019
	$'000	$'000
Salaries and other short-term employee benefits	**(10,040)**	(8,614)
Share-based compensation	**(2,774)**	(2,698)
Other benefits	**(516)**	-
	(13,330)	(11,312)

10. Income tax

Income tax expense

	2020	2019 (restated)
	$'000	$'000
Tax expense attributable to results is made up of:		
- Current income tax	**11,632**	6,428
- Tax on Transfer from Fair Value Reserve [Note 4(vi) and Note 35(b)(ii)]	**2,258**	3,649
- Withholding tax	**9,110**	9,088
- Deferred income tax (Note 28)	**140,490**	190,196
	163,490	209,361
Under/(Over)provision in prior financial years		
- Current income tax	**125,981**	(21,162)
- Deferred income tax (Note 28)	**(125,752)**	-
	163,719	188,199
Tax expense is made up of:		
- Amounts attributable to policyholders' returns	**205,133**	165,056
- Amounts attributable to shareholders' profits	**(41,414)**	23,143
	163,719	188,199

The tax expense on results differs from the amount that would arise using the Singapore standard rate of income tax as explained below:

	2020	2019 (restated)
	$'000	$'000
Profit before tax	**129,677**	652,642
Tax calculated at a tax rate of 17% (2019:17%)	**22,045**	110,949
Different basis of tax	**78,505**	61,675
Expenses not deductible for tax purposes	**4,473**	4,904
Effect of different tax rate on concessionary income	**(3,716)**	(3,782)
Income not subject to tax	**(158,814)**	(169,764)
Tax on Transfer from Fair Value Reserve [Note 4(vi) and Note 35(b)(ii)]	**2,258**	3,649
Deferred tax on participating fund non-guaranteed benefits (Note 28)	**209,629**	192,642
Under/(over)provision in prior financial years	**229**	(21,162)
Withholding tax	**9,110**	9,088
Total income tax expense	**163,719**	188,199

10. **Income tax** (continued)

Movements in current income tax liabilities/(recoverables)

	2020	2019
	$'000	$'000
Beginning of financial year	**(4,434)**	49,637
Transfer from oversea branch (Note 44)	**11,458**	-
Income tax paid	**(20,446)**	(48,327)
Tax payable on profit		
- current financial year	**11,632**	6,428
- withholding tax	**9,110**	9,088
- under/(over)provision in prior financial years	**125,981**	(21,162)
Group relief scheme	**-**	(98)
At end of financial year	**133,301**	(4,434)

As at 31 December 2020, the current income tax liabilities balance consists of $121,932,000 (2019: $4,434,000) payable to (2019: receivable from) Inland Revenue Authority of Singapore ("IRAS") and balance of $11,369,000 (2019: Nil) payable to the Ministry of Finance and Economy of Brunei.

11. Intangible assets

Computer software

	2020	2019
	$'000	$'000
Cost		
Beginning of financial year	**153,944**	136,268
Additions	**2,426**	1,709
Transfer from property and equipment - Assets under construction (Note 14)	**20,179**	15,967
End of financial year	**176,549**	153,944
Accumulated amortisation		
Beginning of financial year	**95,276**	80,544
Amortisation charge (Note 9)	**17,073**	14,732
End of financial year	**112,349**	95,276
Net book value		
End of financial year	**64,200**	58,668

Other intangible assets – Club memberships

	2020	2019
	$'000	$'000
Cost		
Beginning of financial year	**877**	1,209
Additions	**16**	-
Write off	**-**	(80)
Less: impairment charge for the year	**(81)**	(252)
Carrying value of the club memberships	**812**	877

12. Investment in subsidiaries

	2020 **$'000**	2019 $'000
Equity investment at cost	**47,250**	47,250

Name of Company	Country of incorporation	Principal activities	Cost of investment less impairment in value **2020** **$'000**	2019 $'000	% of paid-up capital held by the Company **2020** **%**	2019 %
LC Ventura (Tampines)	Singapore	Property Investment	**37,250**	37,250	100	100
AIA Financial Advisers Pte Ltd	Singapore	Provision of business and management consultancy services	**10,000**	10,000	100	100

The nature of the balance is non-current.

13. Investment in associated companies

	2020 **$'000**	2019 $'000
Equity investment at cost less impairment		
Cost	**-**	*
Less: accumulated impairment	**-**	-
Net book value	**-**	*

* *Less than $1,000*

All associated companies have been liquidated on 22 October 2020.

13. Investment in associated companies (continued)

Name of Company	Country of incorporation	Principal activities	Cost of investment less impairment in value		% of paid-up capital held by the Company	
			2020 **$'000**	2019 $'000	**2020** **%**	2019 %
Chelshire Investments Pte Ltd	Singapore	Property development and investment	**-**	*	**-**	50
Chelville Investments Pte Ltd	Singapore	Property development and investment	**-**	*	**-**	50
			-	*		

* *Less than $1,000*

The summarised financial information of the associated companies is as follows:

	2020 **$'000**	2019 $'000
- Assets	**-**	190
- Liabilities	**-**	75
- Net gain for the financial year	**-**	-

14. Property and equipment

	Land and buildings $'000	Furniture, fittings, fixtures and equipment $'000	Computer hardware and software $'000	Motor vehicles $'000	Assets under construction $'000	Total $'000
2020						
Cost/valuation						
Beginning of financial year	488,765	57,762	36,616	802	21,996	605,941
Transfer from oversea branch (Note 44)	3,264	1,696	147	-	-	5,107
Additions	10,592	684	1,518	374	37,030	50,198
Transfer from/(to) assets under construction	-	1,360	4	-	(1,364)	-
Transfer to intangible assets (Note 11)	-	-	-	-	(20,179)	(20,179)
Transfer from investment property (Note 16)	1,599	-	-	-		1,599
Reclassification of asset	(3,583)	3,583	-	-	-	-
Write off for the year	(7,109)	(725)	-	-	(7,032)	(14,866)
Revaluation deficit (Note 35(b)(i))	(266)	-	-	-	-	(266)
Revaluation adjustment	(3,183)	-	-	-	-	(3,183)
End of financial year	490,079	64,360	38,285	1,176	30,451	624,351
Representing:						
Cost	93,694	64,360	38,285	1,176	30,451	227,966
Valuation	396,385	-	-	-	-	396,385
	490,079	64,360	38,285	1,176	30,451	624,351
Accumulated depreciation						
Beginning of financial year	12,318	40,023	32,143	662	-	85,146
Transfer from oversea branch (Note 44)	309	513	118	-	-	940
Depreciation charge (Note 9)	16,499	6,357	2,579	199	-	25,634
Write off for the year	(2,133)	(311)	-	-	-	(2,444)
Revaluation adjustment	(3,183)	-	-	-	-	(3,183)
End of financial year	23,810	46,582	34,840	861	-	106,093
Net book value						
End of financial year	**466,269**	**17,778**	**3,445**	**315**	**30,451**	**518,258**

14. Property and equipment (continued)

	Land and buildings $'000	Furniture, fittings, fixtures and equipment $'000	Computer hardware and software $'000	Motor vehicles $'000	Assets under construction $'000	Total $'000
2019						
Cost/valuation						
Beginning of financial year	389,952	57,504	34,801	802	11,786	494,845
Adoption of FRS 116	84,274	-	807	-	-	85,081
Additions	6,244	191	2,116	-	27,522	36,073
Transfer from/(to) assets under construction	(211)	1,556	-	-	(1,345)	-
Transfer to intangible assets (Note 11)	-	-	-	-	(15,967)	(15,967)
Transfer from investment property (Note 16)	6,051	-	-	-	-	6,051
Reclassification of asset	702	(702)	-	-	-	-
Write off for the year	-	(787)	(1,108)	-	-	(1,895)
Revaluation surplus (Note 35(b)(i))	4,842	-	-	-	-	4,842
Revaluation adjustment	(3,089)	-	-	-	-	(3,089)
End of financial year	488,765	57,762	36,616	802	21,996	605,941
Representing:						
Cost	86,976	57,762	36,616	802	21,996	204,152
Valuation	401,789	-	-	-	-	401,789
	488,765	57,762	36,616	802	21,996	605,941
Accumulated depreciation						
Beginning of financial year	-	34,358	30,871	501	-	65,730
Depreciation charge (Note 9)	15,394	6,261	2,377	161	-	24,193
Write off for the year	-	(583)	(1,105)	-	-	(1,688)
Reclassification of asset	13	(13)	-	-	-	-
Revaluation adjustment	(3,089)	-	-	-	-	(3,089)
End of financial year	12,318	40,023	32,143	662	-	85,146
Net book value						
End of financial year	**476,447**	**17,739**	**4,473**	**140**	**21,996**	**520,795**

The land and buildings were valued by an independent professional valuer based on the properties' highest-and-best-use using the discounted cash flow approach and direct comparison approach (2019: discounted cash flow approach and direct comparison approach) at the balance sheet date. A detailed valuation is carried out once every two years and a desktop valuation is performed in the intervening year. These are regarded as Level 3 fair values and the nature of the balance is non-current.

14. Property and equipment (continued)

Details of valuation techniques and process are disclosed in Note 39.

(a) If the land and buildings stated at valuation had been included in the financial statements at cost less depreciation, the net book value would have been as follows:

	2020	2019
	$'000	$'000
Land and buildings	**68,327**	72,855

Right-of-use assets acquired under leasing arrangements are presented together with the owned assets of the same class. Details of such leased assets are disclosed in Note 15.

15. Leases

(A) Leases – The Company as a lessee

Land and buildings
The Company leases office space for the purpose of back office operations, as well as for providing customer service and sales and financial advisory services to customers.

Computer hardware and software
The Company leases computer hardware (e.g. printers) for back office operations.

There are no externally imposed covenant on these lease arrangements.

(a) Carrying amounts

ROU assets classified within property and equipment

	2020	2019
	$'000	$'000
Land and buildings	**69,884**	74,658
Computer hardware and software	**524**	665
	70,408	75,323

15. Leases (continued)

(A) Leases – The Company as a lessee (continued)

(b) Depreciation charge during the financial year

	2020 $'000	2019 $'000
Land and buildings	**13,316**	12,318
Computer hardware and software	**141**	142
Total	**13,457**	12,460

(c) Interest expense

	2020 $'000	2019 $'000
Interest expense on lease liabilities	**1,654**	1,642
Total (Note 9)	**1,654**	1,642

(a) Lease expense not capitalised in ROU assets

	2020 $'000	2019 $'000
Short-term lease expense	**42**	30

(e) Total cash outflow for all leases in 2020 was $12,879,000 (2019: $13,343,000).

(f) Additions of ROU assets during the financial year ended 31 December 2020 was $10,562,000 (2019: $2,702,000).

(g) In the current financial year, the Company has terminated one lease contract. The early termination resulted in a gain of $142,000 (2019: Nil) (presented in "operating expenses") which is the net effect of the derecognition of the carrying amount of right-of-use asset of $4,976,000 and derecognition of corresponding lease liability of $5,118,000.

(h) Future cash outflow which are capitalised in ROU assets

(i) Extension options

The leases for leasehold building and office equipment contain extension periods, for which the related lease payments had been included in lease liabilities as the Company is reasonably certain to exercise the extension options. Majority of the extension options are exercisable by the Company and not by the lessor.

15. Leases (continued)

(B) Leases – The Company as a lessor

The Company leases building floor areas to third parties for monthly lease payments. These leases are classified as operating leases because the risk and rewards incidental to ownership of the assets are not substantially transferred. Undiscounted lease payments from the operating leases to be received after the reporting date are as follows:

	2020 **$'000**	2019 $'000
Not later than one year	**5,915**	5,392
Between one and five years	**6,692**	10,369
	12,607	15,761

16. Investment property

	2020 **$'000**	2019 $'000
Beginning of financial year	**190,511**	197,048
Net transfer to property and equipment (Note 14)	**(1,599)**	(6,051)
Net fair value gains/(losses) recognised in profit or loss (Note 7)	**504**	(486)
End of financial year	**189,416**	190,511

Investment property is carried at fair value at the balance sheet date as determined by an independent professional valuer and the nature of the balance is non-current. Investment property is leased to related and non-related parties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease based on future negotiations.

The following amounts are recognised in profit or loss:

	2020 **$'000**	2019 $'000
Rental income	**6,165**	6,594
Direct operating expenses arising from an investment property that generated rental income	**(2,441)**	(2,733)

Details of valuation techniques and process are disclosed in Note 39.

17. Deferred acquisition and origination costs

(a) Deferred acquisition costs on insurance contracts

	2020	2019
	$'000	$'000
Carrying amount		
Deferred acquisition costs on insurance contracts	**1,515**	2,061
Movement in the year		
Beginning of financial year	**2,061**	1,983
Deferral and amortisation of acquisition costs (Note 9)	**(546)**	78
End of financial year	**1,515**	2,061

(b) Deferred origination costs on investment contracts

	2020	2019
	$'000	$'000
Carrying amount		
Deferred origination costs on investment contracts	**73,590**	92,196
Movement in the year		
Beginning of financial year	**92,196**	108,602
Deferral of origination costs	-	-
Amortisation of origination costs (Note 9)	**(1,429)**	(1,761)
Impact of assumption changes	-	-
Impact of policy movements (Note 9)	**(17,177)**	(14,645)
End of financial year	**73,590**	92,196
Total	**75,105**	94,257

Deferred acquisition and origination costs are expected to be recoverable over the term of the insurance contracts for general insurance business that expire in less than 12 months and investment contracts without DPF which are expected to be realised over the contract term.

18. Reinsurance assets

	2020 $'000	2019 $'000
Amounts recoverable from reinsurers	**8,926**	6,233
Ceded insurance contract liabilities	**1,470,135**	2,032,646
Ceded outstanding claims	**22,424**	30,599
	1,501,485	2,069,478

Amounts recoverable from reinsurers are due within 12 months, while ceded insurance contract liabilities and ceded outstanding claims are largely due more than 12 months after the financial year ended 31 December 2020.

19. Loans and deposits

	2020 $'000	2019 $'000
Policy loans	**357,779**	347,939
Unsecured loans	**-**	381
Loan to a subsidiary	**49,200**	57,000
Loans - net	**406,979**	405,320
Term deposits with banks	**115,259**	136,113
Total	**522,238**	541,433

Policy loans are secured by the cash value of the life policy and bear interest at 6% (2019: 6%) per annum. Policy loans have no fixed terms of repayment.

The loan to a subsidiary is unsecured and repayable within 30 years from 10 October 2002 although there has been no date set at which repayment will commence. The weighted average effective interest rate at the balance sheet date is 2.47% (2019: 3.32%) per annum.

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Deposits are stated at amortised cost using the effective interest method.

19. **Loans and deposits** (continued)

The fair values of loans receivable are set out below. They were computed based on cash flows discounted using market borrowing rates.

	2020 **$'000**	2019 $'000
Loan to a subsidiary	**52,678**	57,989

20. **Financial investments**

Financial assets are summarised by measurement category in the table below:

	2020 **$'000**	2019 $'000
Available for sale	**43,418,282**	38,234,734
Fair value through profit or loss		
- Designated at fair value on initial recognition	**9,852,254**	8,210,159
Total	**53,270,536**	46,444,893

20. Financial investments (continued)

Financial assets, available for sale

	2020	2019
	$'000	$'000
Debt securities		
Non-pledged	**32,959,110**	30,185,400
Pledged under derivatives (Note 21)	**54,686**	112,898
Pledged under repos (Note 26)	**445,274**	92,425
Total debt securities	**33,459,070**	30,390,723
Equity securities	**9,959,212**	7,844,011
Total available for sale financial assets	**43,418,282**	38,234,734

The weighted average effective interest rate of debt securities was 3.96% (2019: 4.05%) per annum.

Financial investments, at fair value through profit or loss

	2020	2019
	$'000	$'000
Debt securities	**2,190,950**	1,862,640
Equity securities	**7,661,304**	6,347,519
Total fair value through profit or loss	**9,852,254**	8,210,159

The weighted average effective interest rate of debt securities was 3.12% (2019: 3.32%) per annum.

Equity securities are typically non-current in nature.

Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factors in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The Company has determined that the investment funds and structured securities, such as collateralised debt obligations that the Company has an interest in, are structured entities.

20. Financial investments (continued)

Interests in structured entities (continued)

The following table summarises the Company's interest in unconsolidated structured entities as at 31 December 2020.

$'000	Structured securities[1]	Investment funds[2]
2020		
Available for sale debt securities	421,700	965,155
Available for sale equity securities	-	5,006,516
Debt securities at fair value through profit or loss	-	283,962
Equity securities at fair value through profit or loss	-	6,099,435
Total	**421,700**	**12,355,068**
2019		
Available for sale debt securities	131,313	871,594
Available for sale equity securities	-	3,117,057
Debt securities at fair value through profit or loss	-	267,220
Equity securities at fair value through profit or loss	-	4,807,121
Total	131,313	9,062,992

Notes
(1) Structured securities include collateralised debt obligations.
(2) Balance represents the Company's interest in trusts.

The Company's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities.

21. Derivative financial instruments

Description	Notional amount	Fair values Assets	Fair values Liabilities
	$'000	$'000	$'000
2020			
Cross currency interest rate swaps	4,381,600	**161,991**	**133,365**
Forward exchange contracts	810,321	**9,698**	**13,243**
Interest rate swaps	275,000	**43,511**	**-**
Equity index options	200,340	**52,378**	**59,540**
Total		**267,578**	**206,148**
2019			
Cross currency interest rate swaps	4,238,286	88,391	183,138
Forward exchange contracts	238,926	2,989	270
Interest rate swaps	275,000	26,914	-
Total		118,294	183,408

(a) *Cross currency interest rate swaps*

Cross currency interest rate swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain and loss on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices, and the timing of payments.

(b) *Forward exchange contracts*

Forward exchange contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date.

(c) *Interest rate swaps*

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

(d) *Equity index options*

Equity index options are options where the underlying instruments are equity indexes. Exposure to gains and losses on index put and call is affected by the value of underlying instrument, strike price, volatility, time until expiration, interest rates and dividends paid by the component securities.

21. Derivative financial instruments (continued)

Collateral under derivative transactions

At 31 December 2020, the Company has pledged debt securities with carrying value of $55 million (2019: $113 million) for liabilities and held cash collateral of $91 million (2019: $13 million) for assets in respect of derivative transactions. The Company did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

22. Other assets

	2020 $'000	2019 $'000
Prepayments	**73,784**	73,412
Accrued investment income	**336,192**	334,155
Due from agents brokers and intermediaries	**2,669**	1,315
Due from insurance and investment contract holders	**178,087**	166,471
Related party receivables	**-**	16
Receivables from sales of investments	**91,960**	3,683
GST receivables	**21,727**	31,309
Other receivables	**35,099**	31,448
	739,518	641,809
Less: Allowance for impairment of insurance receivables - non-related parties	**(830)**	(1,305)
	738,688	640,504

The carrying amount of insurance receivables that are individually determined to be impaired as at 31 December 2020 was $830,000 (2019: $1,305,000).

Movement in allowance for impairment in respect of insurance receivables due from insurance contract holders was as follows:

	2020 $'000	2019 $'000
Beginning of financial year	**1,305**	1,277
(Reversal)/Allowance for impairment charge (Note 9)	**(475)**	28
End of financial year	**830**	1,305

All amounts other than prepayments are expected to be recovered within 12 months after the end of the financial year.

Related party receivables are unsecured, interest free and have no fixed terms of repayment.

23. Cash and cash equivalents

	2020 **$'000**	2019 $'000
Cash at bank and on hand	**375,364**	231,914
Short-term bank deposits	**108,869**	102,446
	484,233	334,360

24. Insurance contracts

	2020 **$'000**	2019 $'000
Beginning of the financial year	**36,420,842**	31,763,780
Transfer from oversea branch (Note 44)	**438,821**	-
Net asset value movements attributed to policyholders	**888,085**	665,263
Valuation premiums and deposits	**3,090,823**	2,194,365
Liabilities released for policy termination or other policy benefits paid and related expenses	**(1,756,106)**	(1,551,377)
Fees from account balances	**(415,653)**	(407,662)
Accretion of interest	**282,689**	269,678
Foreign exchange movement	**(311,439)**	(124,544)
Other movements	**3,014,736**	3,611,339
End of the financial year	**41,652,798**	36,420,842

Other movements mainly consist of Par fund investment revenue, changes in assumptions on policy liabilities as mentioned in Note 4(i)(c) and deferred gains arising from the difference between amounts paid for reinsurance contracts and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts that were released during the year as disclosed in Note 9.

25. Investment contracts

	2020 $'000	2019 $'000
Beginning of financial year	**5,395,459**	4,849,701
Valuation premiums and deposits	**720,542**	447,095
Liabilities released for policy termination or other policy benefits paid and related expenses	**(660,874)**	(451,506)
Fees from account balances	**(13,189)**	(12,151)
Foreign exchange movement	**(2,332)**	(931)
Other movements	**1,231,819**	563,251
End of the financial year[1]	**6,671,425**	5,395,459

Note:
[1] Of investment contract liabilities, $54m (2019: $67m) represents deferred fee income.

26. Obligation under repurchase agreements

The Company has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date. The securities related to these agreements are not derecognised from the Company's balance sheet but are retained within the appropriate financial asset classification. The Company pledges assets for repurchase agreements which are generally conducted under terms that are usual and customary to standard securitised borrowing contracts.

The following table specifies the fair value of financial assets that are pledged under repurchase agreements at each period end:

	2020 $'000	2019 $'000
Debt securities, available for sale (Note 20)	**445,274**	92,425

<u>Collateral</u>

At 31 December 2020, the Company has pledged debt securities with carrying value of $445,274,000 (2019: $92,425,000). In the absence of default, the Company does not sell or repledge the debt securities collateral received and they are not recognised in the balance sheet. The following table shows the obligations under repurchase agreements at each year end:

	2020 $'000	2019 $'000
Repurchase agreements	**444,194**	88,032

27. Provisions

	Employee benefits $'000	Provision for policyholders support $'000	Others $'000	**Total $'000**
At 1 January 2020	**2,089**	**13,070**	**960**	**16,119**
Charged to profit or loss	46	-	-	46
Utilised during the year	(94)	-	-	(94)
Released during the year	-	(780)	-	(780)
Total remeasurement included in OCI	175	-	-	175
Exchange differences	-	-	2	2
At 31 December 2020	**2,216**	**12,290**	**962**	**15,468**

	Employee benefits $'000	Provision for policyholders support $'000	Others $'000	**Total $'000**
At 1 January 2019	2,035	14,960	959	**17,954**
Charged to profit or loss	54	-	-	**54**
Released during the year	-	(1,890)	-	**(1,890)**
Exchange differences	-	-	1	**1**
At 31 December 2019	**2,089**	**13,070**	**960**	**16,119**

Employee benefits

AIA operates unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment.

Provision for policyholders support

The provision for policyholders support refers to the Critical Year Option ("CYO") provision. The critical year is the projection of the last policy year in which out-of-pocket premium payment is required.

Other provisions

Other provisions comprise provisions in respect of regulatory matters and litigation. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate, the Company is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

28. Deferred income taxes

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheet as follows:

	2020 **$'000**	2019 $'000
Deferred tax liabilities to be settled after more than 12 months	**1,441,090**	1,386,767

Deferred tax liabilities

	Asset revaluation gains $'000	Fair value gains $'000	Non-guaranteed benefits $'000	Others $'000	**Total $'000**
2020					
Beginning of financial year	43,342	132,187	1,334,773	(123,535)	**1,386,767**
Charged/(credited) to profit or loss (Note 10)		-	209,629	(194,891)	**14,738**
Credited to asset revaluation reserve (Note 35(b)(i))	(16,886)	-	-	3,346	**(13,540)**
Charged to fair value reserve (Note 35(b)(ii))	-	138,803	-	-	**138,803**
Charged to other reserve (Note 35(b)(iv))	-	-	-	(86,387)	**(86,387)**
Receipt from the subsidiary company for the utilisation of the Company's tax losses under the Group Relief scheme	-	-	-	709	**709**
End of financial year	26,456	270,990	1,544,402	(400,758)	**1,441,090**
2019					
Beginning of financial year*	43,802	(56,530)	1,142,131	7,032	**1,136,435**
Charged/(credited) to profit or loss (Note 10)*	-	-	192,642	(2,446)	**190,196**
Credited to asset revaluation reserve (Note 35(b)(i))	(460)	-	-	-	**(460)**
Charged to fair value reserve (Note 35(b)(ii))	-	188,717	-	-	**188,717**
Charged to other reserve (Note 35(b)(iv))*	-	-	-	(128,121)	**(128,121)**
End of financial year*	43,342	132,187	1,334,773	(123,535)	**1,386,767**

*restated deferred tax balances for the financial year ended 31 December 2019 arising from adoption of shadow accounting for Universal Life business (Note 45 (i)).

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Company has unutilised tax losses of $2,076,678,000 (2019: $941,246,000) at the balance sheet date. The tax losses have no expiry date.

29. Borrowings

	2020 **$'000**	2019 $'000
Borrowings from immediate holding company	**50,000**	-

The Company issued a tier-2 capital debt instrument in June 2020. The borrowings from immediate holding company is unsecured and repayable 10 years from 30 June 2020 ("Issue Date"). The interest is as follows:

(i) 3.236% per annum in respect of the period from (and including) Issue Date to (but excluding) 30 June 2025 ("Reset Date");

(ii) based on 5-year SGD Swap Rate on the Reset Date (subject to a minimum of zero) plus the spread of 2.636% in respect of the period from (and including) the Reset Date to (but excluding) 30 June 2030.

Current market borrowing rate of an equivalent instrument at the balance sheet date:

	2020 **$**
Borrowings from immediate holding company	**3.08%**

The fair value of borrowings from immediate holding company including interest is computed based on cash flow discounted at market borrowing rates is $50,925,000. The fair values are within Level 2 of the fair value hierarchy.

The maturity analysis of the borrowings to changes in interest rates are disclosed in Note 39 (B)(a)(i).

30. Other liabilities

	2020 **$'000**	2019 $'000
Trade and other payables	**526,631**	472,233
Life insurance deposits	**837,707**	824,596
Policy dividend payable	**1,846,492**	1,719,808
Provision for experience refund	**12,437**	4,217
Collaterals held for derivatives	**90,950**	12,924
Collaterals held for repurchase agreements	**449**	1,520
Investment payables	**131,207**	25,446
Reinsurance payables	**46,914**	1,069,186
Outstanding claims	**85,558**	74,327
Payables to immediate holding company	**15,354**	12,050
Payables to a subsidiary	**6,352**	7,151
Payables to other related companies	**14,409**	16,303
Lease liabilities	**73,395**	76,082
	3,687,855	4,315,843

Other liabilities other than lease liabilities are all expected to be settled within 12 months after the end of the financial year.

31. Contract balance

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers other than insurance contracts:

	2020 **$'000**	2019 $'000
Contract liabilities, which are included in "Investment contract liabilities"	**53,554**	66,770

Contract liabilities are the Company's obligation to transfer services to a customer under a non-insurance contract for which the Company has received consideration in advance from the customer. Contract liabilities are released to revenue as the Company satisfies its obligations under the contract.

Revenue recognised in the current financial year that was included in the contract liability balance at the beginning of the period amount to $13,189,000 (2019: $12,151,000).

32. Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are satisfied (or partially unsatisfied) at the reporting date:

$'000	Less than 1 year	Over 1 year and within 2 years	Over 2 years and within 5 years	Over 5 years	Total
Fee income for investment contracts without DPF as at:					
31 December 2020	**1,047**	**1,047**	**3,140**	**48,320**	**53,554**
31 December 2019	1,282	1,282	3,847	60,359	66,770

All consideration from contracts with customers other than insurance contracts is included in the amounts presented above.

33. Share capital

	No. of shares '000	Amount $'000
2020		
Beginning of financial year	1,374,000	1,374,000
Issuance of new shares (Note 44)	184,021	184,021
End of financial year	1,558,021	1,558,021
2019		
Beginning and end of financial year	1,374,000	1,374,000

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

On 1 January 2020, the Company issued 184,021,162 ordinary shares to AIA Company Ltd for the acquisition of the business of AIA Company Ltd - Brunei Darussalam Branch. The newly issued shares rank pari passu in all aspects with the previously issued shares. Details of the transfer of oversea branch are set out in Note 44.

34. Regulatory capital

As at 31 December 2020, $1,755 million (2019: $993 million) of capital (excluding Par) has been set aside by the Company to meet risk-based capital requirements for regulatory reporting purposes. These amounts are not available for distribution to the shareholder, are measured according to the regulatory prescriptions and are subject to changes in line with the underlying risks underwritten by the respective businesses.

35. Reserves

	2020	2019 (restated)
	$'000	$'000
(a) Composition:		
Asset revaluation reserve	**468,009**	454,735
Fair value reserve	**5,609,399**	3,364,948
Other capital reserves	**(434,616)**	(434,616)
Other reserves*	**(5,018,807)**	(3,135,339)
	623,985	249,728

* Restated as a result of the adoption of shadow accounting for Universal Life business (Note 45 (i))

(b) Movements

	2020	2019 (restated)
(i) Asset revaluation reserve		
Beginning of financial year	**454,735**	449,433
Revaluation (loss)/gain of		
- Land and buildings (Note 14)	**(266)**	4,842
- Deferred tax on asset revaluation changes (Note 28)	**13,540**	460
	13,274	5,302
End of financial year	**468,009**	454,735
(ii) Fair value reserve		
Beginning of financial year	**3,364,948**	668,135
Financial assets, available for sale		
- Fair value gains/(losses)	**2,838,959**	3,022,516
- Tax on fair value changes	**(158,770)**	(191,200)
	2,680,189	2,831,316
Reclassification to profit or loss (Note 7)	**(457,963)**	(140,635)
Tax on reclassification	**19,967**	2,483
	(437,996)	(138,152)
Tax on Transfer (Note 10)	**2,258**	3,649
End of financial year	**5,609,399**	3,364,948

The ending balance of fair value reserve consists of an amount of $72,198,000 (2019: $74,456,000) relating to tax on the Transfer. The tax will be reclassified to profit or loss based on the expected maturity of the transferred debt securities portfolio. Details on the Transfer are set out in Note 4(vi).

35. Reserves (continued)

(b) Movements (continued)

(iii) Other capital reserves

Other capital reserves represent reserves arising from transfer of business in prior years.

	2020	2019 (restated)
	$'000	$'000
(iv) Other reserves		
Beginning of financial year	**(3,135,339)**	(855,373)
Shadow accounting	**(1,969,872)**	(2,408,462)
Tax on movement for the year (Note 28)	**86,387**	128,121
Other reserves loss	**(1,883,485)**	(2,280,341)
Remeasurement of defined benefit	**(175)**	-
Share based compensation	**192**	375
End of financial year	**(5,018,807)**	(3,135,339)

Other reserves represent shadow accounting reserves, share-based compensation reserves and remeasurement gain for defined benefits.

36. Dividends

	2020	2019
	$'000	$'000
Ordinary dividends paid		
Final dividend paid in respect of the previous financial year of 29.55 cents (2019: 25.55 cents) per share	**406,000**	351,000

37. Contingencies

The Company is exposed to legal actions, the outcomes of which are contingent on various events, including court decisions. The Company has assessed the known cases and is of the opinion that the likelihood of adverse outcomes is possible but not probable at this point in time. In the event that the results in the various proceedings are found against the Company, the adverse impact based on the Company's assessment is not expected to be material to the Company's financial results or position.

38. Commitments

(a) The Company entered into repos (Note 26) during the financial year and the securities under repos are treated as pledged assets. As of year-end, borrowings amounting to $444,194,000 (2019: $88,032,000) were backed by securities sold under repurchase agreements as disclosed in Note 20.

(b) Investment commitments

	2020	2019
	$'000	$'000
Not later than one year	**518,459**	389,975

Investment and capital commitments consist of commitments to invest in private equity partnerships.

39. Risk management

The Company issues contracts that involve insurance risk, financial risk or both. This section summarises these risks and the way the Company manages them.

The Company's risk management and investment policies are guided by the Singapore Insurance Act and Securities and Futures Act. Financial derivatives are transacted as long as they are those that are permitted under the Monetary Authority of Singapore ("MAS") Notices and guidelines.

Besides the local statutory regulations, the Company adopts the overall policies, standards and procedures set up by the Group Financial Risk Committee ("FRC") for the management of liquidity, market, credit and derivative risks.

The risks associated with traditional life and accident and health products are insurance risk and financial risk.

(A) Insurance risk

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

39. **Risk management** (continued)

(A) **Insurance risk** (continued)

Lapse

This is the risk that the rate of policies termination deviates from the Company's expectation.

Ensuring customers buy products that meet their needs is central to the Company's operating philosophy. Through effective implementation of the Business Quality Framework, comprehensive sales training programs and active monitoring of sales activities and persistency, the Company seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers' needs.

The Company carries out regular reviews of persistency experience and the results are assimilated into new and in-force product management. In addition, many of our products include surrender charges upon early termination by policyholders, thereby reducing our exposure to lapse risk.

Expense overrun

The risk that the cost of selling new business and of administering the in-force book exceeds the assumptions made in pricing and/or reserving.

To manage expense overrun risk the Company allows for an appropriate level of expenses in product pricing that reflects a realistic medium to long-term view of our cost structure and expense inflation. Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Company's very substantial experience within the markets in which we operate.

Morbidity and Mortality

The risk that the occurrence and/or amounts of medical/death claims are higher than the assumptions made in pricing or reserving.

The Company adheres to well-defined market-oriented underwriting and claims guidelines and practices that have been developed based on extensive historical experience and with the assistance of professional reinsurers.

The Actuarial department conduct regular experience studies of all the insurance risk factors in its in-force book. These internal studies together with external data are used to identify emerging trends which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

39. Risk management (continued)

(A) Insurance risk (continued)

Morbidity and Mortality (continued)

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Group seeks to anticipate and respond promptly to potential adverse experience impacts on its products. Environmental risk, including climate change, forms part of our overall insurance risk profile through its role in the frequency and intensity of certain diseases and the health and mortality impacts of natural disasters.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters. We assess the overall level of insurance risk by taking into consideration a range of diverse risk factors across the many categories in our product range. This diversity of risk, combined with our reinsurance programme helps us to distribute risk and provide protection against the impact of catastrophic events and short-term environmental impacts.

Recent initiatives to manage morbidity risk and improve claims management include the promotion of wellness programmes such as AIA Vitality and the establishment of a dedicated Healthcare team to improve customer healthcare experience.

<u>Premium Risk</u>

Premiums and risk charges for all general insurance policies, certain term insurance policies, investment-linked policies and accident and health riders are not guaranteed. They may be changed after appropriate notice is given to policyholders. Market or regulatory restraints over the extent of such changes may reduce the ability to manage the risk.

Concentration of insurance risk

Concentration of risk may arise where a particular event or series of events could significantly impact the Company's liabilities. The Company is also exposed to geographical concentration of risk as most of the business is resident in Singapore.

Frequency and severity of claims

For contracts where death or diagnosis of critical illness are the insured risk, the most significant factors that could increase overall frequency of claims are epidemics (such as AIDS, SARS, COVID-19) or wide spread changes in lifestyle resulting in earlier or more claims than expected.

39. Risk management (continued)

(A) Insurance risk (continued)

Frequency and severity of claims (continued)

Other factors affecting the frequency and severity of claims include:

- Insurance risk under disability contracts is dependent on economic conditions in industry. Recession and unemployment in an industry tend to increase the number of claims for disability benefits as well as reduce the rate of recovery from disability.
- Insurance risk under hospitalisation contracts is dependent on medical cost and medical technology.
- Insurance risk under accidental contracts is more random and dependent on occupation.

Claims development

The claims development period for general claims is relatively short. Given the small scale of the related claims reserves in the context of the Company as a whole, no claims development table is presented.

Risk management objectives and policies for mitigating insurance risk

For contracts with discretionary participating feature (“DPF”), a significant portion of the insurance risk is shared with the insured party. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no similar mitigating terms and conditions in the contracts that can reduce the insurance risk accepted. However, the Company mitigates and manages insurance risk by:

- Conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs.
- Operating within the underwriting and claims management policies, standards and procedures developed by Group Financial Risk Committee.
- Sharing risks with reinsurers. Mortality risk and morbidity risk in excess of their respective retention limits are ceded to reduce fluctuations in claims payments. Retention limits are set mainly based on underwriting expertise, operational results, the expected size of the business portfolio and other considerations. Yearly renewable term reinsurance is used for most products. For new products/risk types with greater uncertainty in claim experience, quota share arrangements or co-insurance are used.
- Using reinsurance solutions to help reduce concentration and volatility risk and as protection against catastrophe.

39. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products

General insurance contracts

The Company usually guarantees a fixed level of benefits that are payable upon a claim event (e.g. accidental death) or reimburses the actual expenses subject to certain limits, if any (e.g. hospital expense reimbursement, motor, fire, loss of baggage).

The main source of risk is the incidence rates that trigger the claim events. Premiums are not guaranteed. They may be changed after the appropriate notice is given to policyholders. The policies can be unilaterally cancelled by the Company after appropriate notice is given to policyholders.

Traditional insurance contracts with DPF (life business)

These insurance contracts include whole life insurance, endowment insurance, and some annuity contracts, with significant life contingency risk. For the whole life and endowment insurance contracts, significant benefits are payable upon insured events such as death or disability. For annuity contracts, the policyholders will receive a regular stream of payments as long as they are alive. Improvements in the annuitants' mortality and decreasing interest rates are the main source of risk.

These insurance contracts also contain a DPF which entitles the policyholder to receive additional benefits or bonuses, in addition to the guaranteed benefits. The future bonuses are non-guaranteed and are dependent on the future performance of the fund and other factors. The Company has the discretion to vary the amount or timing of the distribution of these bonuses. To manage policyholders' reasonable expectations, the Company continues to communicate to policyholders through its sales illustrations, annual statements and other materials the non-guaranteed nature of bonuses and dividends (both annual and terminal) and where applicable, of accumulation rates for dividends and coupons left on deposit.

39. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products (continued)

Traditional insurance contract without DPF (life business)

These contracts are non-participating and are mainly protection based, including some annuity contracts.

For protection based contracts, the Company usually guarantees a fixed level of benefits that are payable upon a claim event (e.g. death, disability, critical illness). The main source of risk is the incidence rates that trigger the claim events. Premiums for certain term insurance policies and accident and health riders are not guaranteed. They may be changed after the appropriate notice is given to policyholders.

Investment-type insurance contracts (life business) – Universal life

Premiums, after deduction of any premium charges, are added to the policy value of the policyholder to which the Company will credit interest (subject to a minimum crediting rate). Deductions are then made for charges including insurance risk charges, and withdrawals. Upon the insured event of death, the policyholder will receive either the sum of the insured amount and the policy value, or the higher of the insured amount or the policy value, depending on contract terms.

Investment-type insurance contracts (life business) – Investment-linked

These are investment-linked policies, where policyholders can use their premiums to purchase units of the investment-linked sub-funds set up by the Company. The value of these units is directly linked to the performance of these investment-linked sub-funds. Upon the insured event such as death, depending on the type of death coverage, the policyholder can receive the higher of the insured amount or the value of the units owned, or the insured amount in addition to the value of the units. Policy administration fees, risk charges for mortality and morbidity, and fund management fees, where applicable, are charged to the investment-linked account balances of the policyholders. The Company bears little or no investment risk as the policyholders bear the investment risk.

39. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products (continued)

Investment-type insurance contracts (life business) – Investment-linked (continued)

The tables below present the Company's liabilities for major categories of insurance and investment contracts.

General Insurance contracts:

Product type	2020				2019			
	Before reinsurance	Reinsurance	Deferred acquisition cost	After reinsurance	Before reinsurance	Reinsurance	Deferred acquisition cost	After reinsurance
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Personal accident hybrid	2,055	(6)	(213)	1,836	5,220	(25)	(866)	4,329
Personal lines	7,343	(69)	(1,302)	5,971	7,130	(75)	(1,195)	5,859
Total insurance contracts - general	9,398	(75)	(1,515)	7,807	12,350	(100)	(2,061)	10,188

Traditional insurance contracts (life business):

Product type	2020				2019			
	Before reinsurance		After reinsurance		Before reinsurance		After reinsurance	
	$'000	%	$'000	%	$'000	%	$'000	%
With DPF:								
Whole life	18,701,764	84%	18,602,327	84%	16,251,989	80%	16,187,900	80%
Endowment	3,358,147	15%	3,347,627	15%	3,915,613	19%	3,901,024	19%
Other	79,285	1%	77,740	1%	82,981	1%	81,541	1%
With DPF subtotal	22,139,196	100%	22,027,694	100%	20,250,583	100%	20,170,465	100%
Without DPF:								
Whole Life	1,465,972	26%	913,222	21%	1,274,626	28%	882,283	26%
Endowment	496,513	9%	496,514	12%	565,013	13%	564,938	17%
Term	1,387,543	24%	949,059	22%	1,057,514	24%	790,796	23%
Accident & health	580,057	10%	573,797	13%	374,438	8%	366,145	11%
Others	1,770,355	31%	1,401,784	32%	1,200,223	27%	785,351	23%
Without DPF subtotal	5,700,440	100%	4,334,376	100%	4,471,814	100%	3,389,513	100%

39. Risk management (continued)

(A) Insurance risk (continued)

Terms and conditions of major products (continued)

Investment type insurance contracts (life business):

Product type	2020				2019			
	Before reinsurance		After reinsurance		Before reinsurance		After reinsurance	
	$'000	%	$'000	%	$'000	%	$'000	%
Universal life	7,466,797	50%	7,471,172	50%	7,058,176	56%	6,188,187	53%
Investment-linked	7,350,748	50%	7,353,024	50%	5,546,116	44%	5,545,978	47%
Total	14,817,545	100%	14,824,196	100%	12,604,292	100%	11,734,165	100%
Total insurance contracts-life	**42,657,181**		**41,186,266**		**37,326,689**		**35,294,143**	

Investment contracts (life business):

Product type	2020				2019			
	Before reinsurance		After reinsurance		Before reinsurance		After reinsurance	
	$'000	%	$'000	%	$'000	%	$'000	%
With DPF	4,135,561	62%	4,135,561	62%	2,672,495	50%	2,672,495	50%
Investment-linked	2,482,310	38%	2,482,310	38%	2,656,194	50%	2,656,194	50%
Total investment contracts - life	6,617,871	100%	6,617,871	100%	5,328,689	100%	5,328,689	100.00%

Note that the amount above includes the present value of expected tax payments on the distribution to policyholders from the Par fund arising from non-guaranteed benefits.

(B) Financial risk

Financial risk is the potential loss resulting from adverse movements in financial markets, changes in the financial condition of counterparties and in market liquidity to buy and sell investments. Financial risk is subdivided into credit risk, market risk (which includes interest rate, credit spread, equity price, property price and foreign exchange rate risk) and liquidity risk. The Company manages its exposure to financial risk within tolerances agreed by the Group Financial Risk Committee. Risk metrics such as those described above are used to identify exposure to each of the major financial risks.

The Company's investment in any securities, financial instruments and other investment titles follow the relevant policies, principles, processes and procedures for the respective asset class established by AIA Group Investment and AIA Group Risk. The Company only invests in securities and geographic markets where it has the expertise, resources, systems and infrastructure to ensure that it is able to evaluate the risk, price and monitor each investment. Where the Company does not have expertise or resources, it will outsource the management to a third party manager and monitor the performance regularly.

39. Risk management (continued)

(B) Financial risk (continued)

(a) Liquidity risk

The Company identifies liquidity risk as occurring in two ways:

- Funding Liquidity Risk

  This is the risk that the Company does not have sufficient cash or collateral to (i) make payments to counterparties as they fall due; or (ii) meet our policyholder obligations via products that permit surrender, withdrawal or other forms of early termination for a cash value; and we can only do so by liquidating assets at significant losses.

- Investment Liquidity Risk

  This is the risk that an asset cannot be sold in the market quickly, or, if its sale is executed very rapidly, that this can only be achieved at a heavily discounted price. It is primarily a function of the market for an asset, and not the circumstances of the Company. Market liquidity risk may result in the Company facing a funding liquidity crisis, or suffer losses and deplete its capital.

The Company takes a total active liquidity view by managing exposures and their funding across all payment obligations and currencies. We manage liquidity risk by matching our near-medium term expected cash flows from our liabilities and assets, and through insurance product design.

A portion of the Company's assets are kept in the form of marketable securities or liquid assets (e.g. Singapore Government bonds), to facilitate the conversion to cash quickly should the need arise.

The Company also conducts liquidity stress testing as part of the AIA Group Liquidity Management Risk Standard to ensure sufficient liquidity is maintained to meet our expected financial commitments as they fall due.

The Company mitigates liquidity risks by also seeking stable sources of liquidity that are less likely to be adversely affected in the event of stressed market conditions. One important area is the positive cash flows from insurance premiums and other businesses (e.g. rentals). Where feasible, the Company can explore diversification across a range of channels (e.g. credit lines, repos), and source from other investors or instruments.

The Company has put in place a multi-currency revolving credit facility agreement with a facility amount of US$100 million (2019: US$154 million) to augment the Company's primary source of liquid funds.

39. Risk management (continued)

(B) Financial risk (continued)

(a) Liquidity risk (continued)

(i) Maturity analysis of net financial assets (excluding insurance and investment contract liabilities)

	Due in 1 year or less $'000	Due after 1 year through 5 years $'000	Due after 5 years through 10 years $'000	Due after 10 years $'000	No maturity $'000	**Total $'000**
2020						
Financial assets						
Debt securities:						
- Available for sale	422,158	6,376,119	9,222,098	17,438,695	-	**33,459,070**
- At fair value through profit or loss	63,884	503,271	900,642	723,153	-	**2,190,950**
Equity securities:						
- Available for sale	-	-	-	-	9,959,212	**9,959,212**
- At fair value through profit or loss	-	-	-	-	7,661,304	**7,661,304**
Loans and deposits	10,278	-	-	154,181	357,779	**522,238**
Other assets (exclude prepayments)	664,904	-	-	-	-	**664,904**
Reinsurance receivables	8,926	-	-	-	-	**8,926**
Derivative financial instruments	62,076	60,965	138,324	6,213	-	**267,578**
Cash and cash equivalents	484,233	-	-	-	-	**484,233**
	1,716,459	**6,940,355**	**10,261,064**	**18,322,242**	**17,978,295**	**55,218,415**
Financial liabilities						
Borrowing	-	-	50,000	-	-	**50,000**
Obligation under repurchase agreement	444,194	-	-	-	-	**444,194**
Other liabilities (exclude lease liabilities)	3,614,460	-	-	-	-	**3,614,460**
Lease liabilities	12,816	50,884	9,695	-	-	**73,395**
Derivative financial instruments	82,638	107,288	12,164	4,058	-	**206,148**
	4,154,108	**158,172**	**21,859**	**4,058**	**-**	**4,338,197**
2019						
Financial assets						
Debt securities:						
- Available for sale	1,521,780	5,389,908	9,275,303	14,203,732	-	**30,390,723**
- At fair value through profit or loss	86,679	366,460	832,272	577,229	-	**1,862,640**
Equity securities:						
- Available for sale	-	-	-	-	7,844,011	**7,844,011**
- At fair value through profit or loss	-	-	-	-	6,347,519	**6,347,519**
Loans and deposits	381	-	-	193,113	347,939	**541,433**
Other assets (exclude prepayments)	567,092	-	-	-	-	**567,092**
Reinsurance receivables	6,233	-	-	-	-	**6,233**
Derivative financial instruments	7,899	11,393	71,111	27,891	-	**118,294**
Cash and cash equivalents	334,360	-	-	-	-	**334,360**
	2,524,424	**5,767,761**	**10,178,686**	**15,001,965**	**14,539,469**	**48,012,305**
Financial liabilities						
Obligation under repurchase agreement	88,032	-	-	-	-	**88,032**
Other liabilities (exclude lease liabilities)	4,239,761	-	-	-	-	**4,239,761**
Lease liabilities	12,142	46,012	17,928	-	-	**76,082**
Derivative financial instruments	3,831	139,816	34,587	5,174	-	**183,408**
	4,343,766	**185,828**	**52,515**	**5,174**	**-**	**4,587,283**

39. Risk management (continued)

(B) Financial risk (continued)

(a) Liquidity risk (continued)

(ii) Undiscounted cash flow by investment and insurance contracts

Insurance contract and investment contract liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a certain nature. Insurance contract and investment contract liabilities also include insurance benefits and claims and investment contract benefits of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts, (i) the Company is currently not making payments until the occurrence of an insurable event, such as death or disability; (ii) payments are conditional on survivorship; or (iii) payments may occur due to surrender or other non-scheduled events which are out of the Company's control.

The Company has made significant assumptions to determine the estimated undiscounted cash flows of these insurance benefits and claims and investment contract benefits, of which assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest credit ratings, offset by expected future deposits and premiums on in-force policies.

Due to the significance of the assumptions used, the maturity profiles presented below could be materially different from actual payments. The amounts presented in the maturity profiles are undiscounted and therefore exceed the insurance contract liabilities included in the balance sheet. The amount of liabilities presented below does not include the portion backed by assets which can be easily liquidated through fund liquidation of units by unit-holders of investment-linked funds.

	Due in 1 year or less $'000	Due after 1 year through 5 years $'000	Due after 5 years through 10 years $'000	Due after 10 years $'000	Total $'000
2020					
Liabilities					
Insurance contracts	(22,310)	(311,574)	(3,008,416)	(71,600,424)	(74,942,724)
Investment contracts	120,380	(75,025)	(927,357)	(10,324,553)	(11,206,555)
2019					
Liabilities					
Insurance contracts	16,500	(603,499)	(2,960,463)	(68,713,100)	(72,260,562)
Investment contracts	105,274	(68,662)	(701,005)	(7,120,244)	(7,784,637)

39. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk

Market risk is the risk of financial loss from adverse movements in the value of assets owing to market factors, including changes in interest and foreign exchange rates, as well as movements in the spread of credit instruments to corresponding government bonds. The Group FRC approves all policies and metrics associated with the evaluation of market risk exposures, and the Company's Board approves the ALM and Corporate Investment Policy and Fund Mandates for Singapore, which collectively facilitates the Company's Investment Committee and Investment Department's management of the relevant market or investment risks.

Market risks are controlled to some extent via the Strategic Asset Allocation ("SAA") targets and Tactical Asset Allocation ("TAA") proposed by the Company Investment Committee and approved by the Company Board. The SAA targets and TAA ranges define the long-term investment objectives of the Company. Short to medium term trading opportunities may also be taken into consideration in the implementation of the ALM and Corporate Investment Policy as and when pronounced market trends and significant deviations from fair value arise. Deviations from SAA targets shall be within the TAA ranges. The SAA is reviewed on an annual basis. The SAA seeks to optimise risk-adjusted returns, taking into consideration the liability risk characteristics, customers' reasonable expectations while meeting our risk tolerance on regulatory capital.

There are a number of key activities to control exposure to derivatives and non-standard investments. For derivatives these policies include operational requirements and exposure limits which are linked to the policies and standards issued by Group Financial Risk Committee. For non-standard investments, they should be within specified limits and should not breach SAA. In terms of governance, Group Risk should be notified and the Investment Committee should approve the investment.

<u>Equity price risk</u>

Equity price risk arises from changes in the market value of equity securities and equity funds. Investments in equity assets on a long-term basis are expected to align policyholders' expectations to provide diversification benefits and enhance returns.

The extent of exposure to equities at any time is at the discretion of the Investment Department operating within the terms of the AIA Group's and the Company's strategic asset allocations.

39. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Equity price risk (continued)

From a risk perspective, particular emphasis is placed on managing concentrations and volatility in the Company's equity exposures. The AIA Group's "Margin of Safety" Investment approach is designed to target value in equity selection. Equity exposures are also included in the aggregate credit exposure reports on individual counterparties to ensure concentrations are avoided.

The Company is exposed to equity security price risk arising from the investments held by the Company which are classified on the balance sheet as available for sale. The portfolio of available for sale equities in the insurance funds are mainly listed. For investment-linked contracts, the equity security price risk is borne by contract holders.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures.

If prices for equity securities change by 10% with all other variables including tax rate being held constant, the effects on total shareholder's equity will be:

	2020 Increase/ (decrease) shareholders' equity $'000	2019 Increase/ (decrease) shareholders' equity $'000
10% rise in equity price	**995,921**	784,401
10% fall in equity price	**(995,921)**	(784,401)

Interest rate risk

The Company's exposure to interest rate risk predominantly arises from any difference between the duration of the assets and liabilities, or any difference between the return on investments and insurance liabilities. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Company's insurance liabilities. Exposure to interest rate risks may be split between variable, fixed and non-interest bearing instruments. This exposure can be heightened in products with inherent options or guarantees.

39. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Company manages interest rate risk by ensuring appropriate insurance product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of our investment assets with the duration of insurance liabilities. For in-force policies, the Company regularly reviews the bonus payout to participating policyholders and the crediting rates applicable to policyholder account balances, considering amongst other things the earned yields and policyholders' reasonable expectations.

The table below summarises the nature of the interest rate risk associated with financial assets:

	Variable rates $'000	Fixed rates $'000	Non-interest bearing $'000	**Total $'000**
At 31 December 2020				
Financial Assets				
Cash and cash equivalents	483,000	-	1,233	**484,233**
Other assets (exclude prepayments)	-	-	664,904	**664,904**
Reinsurance receivables	-	-	8,926	**8,926**
Debt securities	2,064,205	33,370,511	215,304	**35,650,020**
Equity securities	-	-	17,620,516	**17,620,516**
Loans and deposits	-	522,238	-	**522,238**
Derivative financial instruments	-	-	267,578	**267,578**
Total financial assets	2,547,205	33,892,749	18,778,461	**55,218,415**
At 31 December 2019				
Financial Assets				
Cash and cash equivalents	333,073	-	1,287	**334,360**
Other assets (exclude prepayments)	-	-	567,092	**567,092**
Reinsurance receivables	-	-	6,233	**6,233**
Debt securities	1,519,331	29,923,419	810,613	**32,253,363**
Equity securities	-	-	14,191,530	**14,191,530**
Loans and deposits	381	541,052	-	**541,433**
Derivative financial instruments	-	-	118,294	**118,294**
Total financial assets	1,852,785	30,464,471	15,695,049	**48,012,305**

39. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Credit Spread Risk

Credit spread risk arises from changes in the market value of non-government securities as a result of a change in perception as to their likelihood of repayment. These price changes are distinct from those resulting from changes in interest rates. The Company invests in non-government securities in a number of its portfolios. Because these securities are mostly held to maturity, credit spread risk is only considered to the extent that the Company may be forced to sell those securities before they mature.

The Company nonetheless manages its credit spread risk carefully, focusing on overall portfolio quality and diversification and seeking to avoid excessive volatility in the mark-to-market value of its investment portfolios.

Foreign exchange rate risk

The Company is exposed to foreign exchange rate risk to the extent that it holds un-hedged positions where the assets backing the liabilities are in different currencies to the liabilities. However, currency mismatch is acceptable for diversification and yield enhancement purposes. The Company manages foreign exchange rate risk by hedging our exposures accordingly, and in compliance with regulatory requirements.

Property price risk

Property price risk arises from interests in real estate assets, which form part of the Company's investment portfolios and are subject to market value changes due to general or specific factors. A considerable number of such real estate assets are self-occupied and used for operating purposes. Real estate assets are expected to provide useful diversification benefits and a long-term return with some inflation protection.

The price risk in property can be driven by broader economic and social factors, notably tenant supply and demand, liquidity of individual buildings, evolving infrastructure or government actions that may directly or indirectly influence the market. It can also be driven by the characteristics of specific holdings: their location within an area, the competitiveness of their facilities and their physical condition.

Any material property investment is individually reviewed to ensure it does not give rise to an unacceptable concentration of exposure and that it does not compromise the financial flexibility of the Company.

39. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Foreign exchange rate risk

The Company's foreign exchange net assets/(liabilities) position by major currencies are shown in the following table:

	SGD $'000	USD $'000	HKD $'000	Others $'000	Total $'000
At 31 December 2020					
Assets					
Intangible assets	65,012	-	-	-	**65,012**
Investment in subsidiaries	47,250	-	-	-	**47,250**
Property and equipment	518,258	-	-	-	**518,258**
Investment property	189,416	-	-	-	**189,416**
Deferred acquisition costs	75,105	-	-	-	**75,105**
Reinsurance assets	1,446,424	55,061	-	-	**1,501,485**
Loans and deposits	454,278	67,947	-	13	**522,238**
Debts and equities	27,075,805	22,416,796	1,222,718	2,555,217	**53,270,536**
Derivative financial instruments	48,348	210,904	-	8,326	**267,578**
Other assets	474,713	253,546	-	10,429	**738,688**
Cash and cash equivalents	306,177	168,538	2,702	6,816	**484,233**
Total Assets	30,700,786	23,172,792	1,225,420	2,580,801	**57,679,799**
Liabilities					
Insurance contracts	29,061,328	12,559,622	-	31,848	**41,652,798**
Investment contacts	6,574,790	96,635	-	-	**6,671,425**
Borrowing	50,000	-	-	-	**50,000**
Obligation under repurchase agreements	281,442	162,752	-	-	**444,194**
Derivative financial instruments	649	182,433	-	23,066	**206,148**
Provisions	15,468	-	-	-	**15,468**
Deferred tax liabilities	1,441,090	-	-	-	**1,441,090**
Current tax liabilities	133,301	-	-	-	**133,301**
Other liabilities (exclude lease liabilities)	2,898,023	711,210	932	4,295	**3,614,460**
Lease liabilities	73,395	-	-	-	**73,395**
Total Liabilities	40,529,486	13,712,652	932	59,209	**54,302,279**
Less: Net fair value amounts of currency derivative positions		(5,098,393)	-	(384,037)	
Net exposure		4,361,747	1,224,488	2,137,555	

***** *Less than $1,000*

39. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Foreign exchange rate risk (continued)

	SGD $'000	USD $'000	HKD $'000	Others $'000	Total $'000
At 31 December 2019					
Assets					
Intangible assets	59,545	-	-	-	**59,545**
Investment in subsidiaries	47,250	-	-	-	**47,250**
Investment in associated companies	*	-	-	-	*****
Property and equipment	520,729	-	66	-	**520,795**
Investment property	190,511	-	-	-	**190,511**
Deferred acquisition costs	94,257	-	-	-	**94,257**
Reinsurance assets	1,074,435	995,043	-	-	**2,069,478**
Loans and deposits	488,203	53,219	-	11	**541,433**
Debts and equities	24,535,972	19,201,576	822,035	1,885,310	**46,444,893**
Derivative financial instruments	29,104	69,255	-	19,935	**118,294**
Current tax recoverable	4,434	-	-	-	**4,434**
Other assets	428,722	202,635	-	9,147	**640,504**
Cash and cash equivalents	229,594	94,287	271	10,208	**334,360**
Total Assets	27,702,756	20,616,015	822,372	1,924,611	**51,065,754**
Liabilities					
Insurance contracts	24,893,236	11,521,102	-	6,504	**36,420,842**
Investment contacts	5,320,047	75,412	-	-	**5,395,459**
Obligation under repurchase agreements	-	88,032	-	-	**88,032**
Derivative financial instruments	14	178,602	-	4,792	**183,408**
Provisions	16,119	-	-	-	**16,119**
Deferred tax liabilities	1,386,767	-	-	-	**1,386,767**
Other liabilities (exclude lease liabilities)	2,832,471	1,406,106	259	925	**4,239,761**
Lease liabilities	76,082	-	-	-	**76,082**
Total Liabilities	34,524,736	13,269,254	259	12,221	**47,806,470**
Less: Net fair value amounts of currency derivative positions		(4,356,386)	-	(476,605)	
Net exposure		2,990,375	822,113	1,435,785	

***** *Less than $1,000*

39. Risk management (continued)

(B) Financial risk (continued)

(b) Market risk (continued)

Foreign exchange rate risk (continued)

Sensitivity analysis for foreign currency risk and its effects on total equity

	Increase/(decrease)		
	Profit before tax $'000	Other comprehensive income $'000	Total equity $'000
2020			
USD/SGD - strengthened 10%	380,589	55,586	436,175
USD/SGD - weakened 10%	(380,589)	(55,586)	(436,175)
2019			
USD/SGD - strengthened 10%	269,036	30,002	299,038
USD/SGD - weakened 10%	(269,036)	(30,002)	(299,038)

(c) Credit risk

The risk arising from the uncertainty of third parties meeting their obligations to the Company when they fall due. Although the primary source of credit risk is the Company's investment portfolio, such risk can also arise through reinsurance, procurement, and treasury activities.

The management of credit risk occurs on two levels in the Company. At the first level, a detailed analysis of individual counterparties and rating recommendation within the internal ratings framework is performed by local and/or Group Investment. At the second level, the Group Risk function manages this internal ratings framework and assesses the recommendations. Internal ratings are then used to determine our risk appetite for exposures to counterparties. A matrix of risk tolerances approved by the Group Financial Risk Committee ensures that credit risk in the investment portfolio is contained within AIA's overall risk appetite. These tolerances cover individual counterparty, segmental concentration and cross-border exposures. The local Investment function can shape the portfolio within those risk tolerances. If there is need to change the limits or invest outside those tolerances/limits, approval from the authorised Group personnel is required via the "Activity Approval and Monitoring Process" ("AAMP") for credit risk.

39. Risk management (continued)

(B) Financial risk (continued)

(c) Credit risk (continued)

With respect to investing activities, investment objectives including asset allocation limits and permitted variances from such limits for the Company and AIA Group are approved by the Group Financial Risk Committee. The guidelines are structured to apply to AIA Group as a whole, and then to the Company.

The Company adopts the overall policies, standards and procedures set up by the Group Financial Risk Committee which covers the approval of credit risk arising from activities (including activities that have been outsourced to third parties) regarding investing and reinsurance, including but not limited to operating cash in bank accounts, deposit placements of investment cash and treasury cash, fixed income securities, repurchase agreements, securities settlement, over-the-counter derivatives and reinsurance receivables. These policies and standards are consistent with the Company's Investment Philosophy and Risk Appetite, as endorsed by the AIA Group Board.

In addition to Risk Tolerances, credit risk is managed through the use of an Investment Risk Watch List, which is maintained by Group Risk. The Investment Risk Watch List may include single-name obligors, countries, industry sectors, asset classes or concentrations, to which AIA Group needs to restrict exposures as they may create potential reputational or financial risk inconsistent with the Risk Tolerances.

	2020	2019
	$'000	$'000
Cash and cash equivalents	**484,233**	334,360
Other assets (exclude prepayments)	**664,904**	567,092
Reinsurance receivables	**8,926**	6,233
Debt securities:		
- Available for sale	**33,459,070**	30,390,723
- At fair value through profit or loss	**2,190,950**	1,862,640
Loans and deposits	**522,238**	541,433
Derivative financial instruments	**267,578**	118,294
Total assets bearing credit risk	**37,597,899**	33,820,775

39. Risk management (continued)

(B) Financial risk (continued)

(c) Credit risk (continued)

The debt securities are analysed in the table below using Standard & Poors rating (or equivalent as determined by the Company when no information is available from Standard & Poors):

	Designated at fair value through profit or loss	Available for sale	Total
31 December 2020	$'000	$'000	$'000
Debt securities:			
AAA	1,179,803	11,175,737	12,355,540
AA	-	2,601,452	2,601,452
A	227,050	9,702,146	9,929,197
BBB	508,924	8,749,318	9,258,242
Below BBB or not rated	275,173	1,230,417	1,505,589
Total debt securities	2,190,950	33,459,070	35,650,020
31 December 2019			
Debt securities:			
AAA	818,294	9,676,257	10,494,551
AA	-	2,259,144	2,259,144
A	326,596	9,796,093	10,122,689
BBB	533,758	7,592,027	8,125,785
Below BBB or not rated	183,992	1,067,202	1,251,194
Total debt securities	1,862,640	30,390,723	32,253,363

Financial assets that are neither past due nor impaired

Cash, interest income due or accrued and derivative financial instruments are with parties of high credit-ratings assigned by international credit-rating agencies. These receivables are neither past due nor impaired and are substantially companies with good collection track record with the Company.

Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies. Such collateralisation minimises any credit risk.

Financial assets that are past due and/or impaired

There is no other class of financial assets past due and/or not impaired except for insurance receivables.

39. **Risk management** (continued)

(B) **Financial risk** (continued)

(c) **Credit risk** (continued)

The age analysis of insurance receivables past due but not impaired is as follows:

	2020 **$'000**	2019 $'000
Past due < 12 months	**49,938**	60,274
Past due over 12 months	**2,561**	1,777
	52,499	62,051

The carrying amount of insurance receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	2020 **$'000**	2019 $'000
Past due over 12 months	**830**	1,305
Less: Allowance for impairment	**(830)**	(1,305)
	-	-
Beginning of financial year	**1,305**	1,277
(Reversal)/Allowance for impairment charge	**(475)**	28
End of financial year	**830**	1,305

(d) **Derivative financial instruments**

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, the Company may enter into derivative transactions as an end user. The more significant types of derivative arrangements in which the Company transacts are swaps and forward contracts.

The Company also uses derivatives to help match assets and liabilities in its businesses, including its insurance operations, for example, in the use of currency and interest rate swaps to convert foreign-currency investment contract assets into Singapore dollar-based assets. Thus, these assets are not subjected to currency risk. Group Financial Risk Committee provides oversight in the use of derivatives. The committee examines and approves, among other things, the nature and purpose of the derivative transaction.

39. Risk management (continued)

(B) Financial risk (continued)

(e) Sensitivity analysis

The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's profit before tax and other comprehensive income. This includes all investment in debt and equity securities excluding investment-linked contracts as the risk is borne by contract holders and is excluded from the sensitivity analysis.

If prices for available for sale equity securities had changed by 10% (2019: 10%) and interest rate for debt securities had changed by 50 basis points (2019: 50 basis points) with all other variables including tax rate being held constant, the effects on profit before tax and other comprehensive income would have been:

	Increase/(decrease)		
	Profit before tax $'000	Other comprehensive income $'000	Total equity $'000
2020			
10% rise in equity price	-	995,921	995,921
10% fall in equity price	-	(995,921)	(995,921)
50 basis point rise in interest rates	-	(1,772,763)	(1,772,763)
50 basis point fall in interest rates	-	1,772,763	1,772,763
2019			
10% rise in equity price	-	784,401	784,401
10% fall in equity price	-	(784,401)	(784,401)
50 basis point rise in interest rates	-	(1,435,938)	(1,435,938)
50 basis point fall in interest rates	-	1,435,938	1,435,938

For sensitivity analysis relating to insurance and investment contracts, see Note 4(i)(d).

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements

(i) Financial instruments by category

The following tables present the fair values of the Company's financial assets and financial liabilities:

$'000	Note	Fair value: Designated at fair value through profit or loss	Fair value: Available for sale	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
31 December 2020							
Loans (exclude Policy loans)	19	-	-	-	49,200	49,200	52,678
Policy loans	19	-	-	-	357,779	357,779	
Term deposits	19	-	-	-	115,259	115,259	
Financial investments:							
Debt securities	20	2,190,950	33,459,070	-	-	35,650,020	35,650,020
Equity securities	20	7,661,304	9,959,212	-	-	17,620,516	17,620,516
Derivative financial instruments	21	-	-	267,578	-	267,578	267,578
Reinsurance receivables	18	-	-	-	8,926	8,926	
Other receivables	22	-	-	-	328,712	328,712	
Accrued investment income	22	-	-	-	336,192	336,192	
Cash and cash equivalents	23	-	-	-	484,233	484,233	
Financial assets		**9,852,254**	**43,418,282**	**267,578**	**1,680,301**	**55,218,415**	

$'000	Note	Fair value: Fair value through profit or loss	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
Financial liabilities:						
Borrowing				50,000	50,000	50,925
Investment contract liabilities	25	6,671,425	-	-	6,671,425	6,671,425
Obligations under repurchase agreements	26	-	-	444,194	444,194	
Derivative financial instruments	21	-	206,148	-	206,148	206,148
Other liabilities (exclude lease liabilities)	29	-	-	3,614,460	3,614,460	
Lease liabilities	29	-	-	73,395	73,395	
Financial liabilities		**6,671,425**	**206,148**	**4,182,049**	11,059,622	

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(i) Financial instruments by category (continued)

$'000	Note	Fair value: Designated at fair value through profit or loss	Fair value: Available for sale	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
31 December 2019							
Loans (exclude Policy loans)	19	-	-	-	57,381	57,381	58,361
Policy loans	19	-	-	-	347,939	347,939	
Term deposits	19	-	-	-	136,113	136,113	
Financial investments:							
Debt securities	20	1,862,640	30,390,723	-	-	32,253,363	32,253,363
Equity securities	20	6,347,519	7,844,011	-	-	14,191,530	14,191,530
Derivative financial instruments	21	-	-	118,294	-	118,294	118,294
Reinsurance receivables	18	-	-	-	6,233	6,233	
Other receivables	22	-	-	-	232,937	232,937	
Accrued investment income	22	-	-	-	334,155	334,155	
Cash and cash equivalents	23	-	-	-	334,360	334,360	
Financial assets		**8,210,159**	**38,234,734**	**118,294**	**1,449,118**	**48,012,305**	

$'000	Note	Fair value: Fair value through profit or loss	Fair value: Held for trading	Cost/ Amortised Cost	Total carrying value	Total fair value
Financial liabilities:						
Investment contract liabilities	25	5,395,459	-	-	5,395,459	5,395,459
Obligations under repurchase agreements	26	-	-	88,032	88,032	
Derivative financial instruments	21	-	183,408	-	183,408	183,408
Other liabilities (exclude lease liabilities)	29	-	-	4,239,761	4,239,761	
Lease liabilities	29c			76,082	76,082	
Financial liabilities		**5,395,459**	**183,408**	**4,403,875**	**9,982,742**	

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in Note 39B)(b) for the key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(i) Financial instruments by category (continued)

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

(ii) Fair value measurements on a recurring basis

The Company measures at fair value financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds, certain property and equipment, investment property, and certain investment contract liabilities on a recurring basis. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The Company does not have assets or liabilities measured at fair value on a non-recurring basis during the financial year ended 31 December 2020.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

The following methods and assumptions were used by the Company to estimate the fair value of financial instruments.

Loans and receivables

For loans that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The carrying value of policy loans approximate to their fair value.

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers, private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor's credit spreads, foreign exchange rates, and credit default rates. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

Derivative financial instruments

The Company values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

When the Company holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Company takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that requires the exchange of collateral on the basis of each party's net credit risk exposure). The Company measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance assets

The carrying amount of amount receivable from reinsurers is not considered materially different to its fair value.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

Obligations under repurchase agreements

The contract values of payables under repurchase agreements approximate their fair value as these obligations are short-term in nature.

Other assets

The carrying amount of other assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

Properties

In valuing the investment properties and properties in use, the current use of the properties are considered to be its highest and best use. Fair values of the Company's properties have been generally derived using the sales comparison approach and discounted cashflow approach. Under sale comparison approach, sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is selling price per square feet. Under the discounted cashflow approach, reference is made to the net rental income allowing for reversionary income potential to estimate the fair value of the properties.

Investment contract liabilities

For investment contract liabilities, the fair values have been estimated using discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder, the fair value generally approximates to the fair value of the underlying assets.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(ii) Fair value measurements on a recurring basis (continued)

Investment contract liabilities (continued)

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured according to the Company's practice for insurance contract liabilities. These are not measured at fair value as there is currently no agreed definition of fair value for investment and insurance contracts with DPF under FRS. In the absence of any agreed methodology it is not possible to provide a range of estimates within which fair value is likely to fall. The Accounting Standards Council ("ASC") is expecting to address this issue in Phase II of its insurance contracts project.

Other liabilities

The fair values of other unquoted liabilities are estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those with no stated maturity, where the carrying value approximates to fair value.

(iii) Fair value hierarchy for fair value measurement on recurring basis

Assets and liabilities recorded at fair value in the balance sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the market place used to measure their fair values as discussed below:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities or equity fund holding such assets. The Company considers that government debt securities issued by G7 countries (United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain derivative contracts, certain classes of structured securities, real estate fund investments, direct private equity investments, certain property and equipment and investment property.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Company considers factors specific to the asset or liability.

<u>Impact of COVID 19 on Level 3 instruments</u>
The outbreak of the novel coronavirus (COVID-19), declared a global pandemic by the World Health Organisation on 11 March 2020, has impacted global financial markets, and market activity is being impacted in many sectors. Given the use of significant unobservable inputs in valuing level 3 securities, the Company consider that less weight can be attached to previous market evidence in the use of valuing these securities.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

The following table presents the Company's assets and liabilities measured at fair value at 31 December 2020.

31 December 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
- Equity securities	7,414,052	247,252	-	**7,661,304**
- Debt securities	-	2,190,950	-	**2,190,950**
Available for sale financial assets				
- Equity securities	8,466,887	574,218	918,107	**9,959,212**
- Debt securities	69,295	33,062,827	326,948	**33,459,070**
Derivative financial instruments	-	267,578	-	**267,578**
Property and equipment – Land and buildings	-	-	396,385	**396,385**
Investment property	-	-	189,416	**189,416**
Total assets on a recurring fair value measurement basis	15,950,234	36,342,825	1,830,856	**54,123,915**
Liabilities				
Investment contracts	-	-	6,671,425	**6,671,425**
Derivative financial instruments	-	206,148	-	**206,148**
Total liabilities on a recurring fair value measurement basis	-	206,148	6,671,425	**6,877,573**

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss				
- Equity securities	6,086,170	261,349	-	**6,347,519**
- Debt securities	-	1,862,640	-	**1,862,640**
Available for sale financial assets				
- Equity securities	6,405,735	835,143	603,133	**7,844,011**
- Debt securities	-	30,350,439	40,284	**30,390,723**
Derivative financial instruments	-	118,294	-	**118,294**
Property and equipment – Land and buildings	-	-	401,789	**401,789**
Investment property	-	-	190,511	**190,511**
Total assets on a recurring fair value measurement basis	12,491,905	33,427,865	1,235,717	**47,155,487**
Liabilities				
Investment contracts	-	-	5,395,459	**5,395,459**
Derivative financial instruments	-	183,408	-	**183,408**
Total liabilities on a recurring fair value measurement basis	-	183,408	5,395,459	**5,578,867**

The Company's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 31 December 2020, the Company transferred nil (2019: $18 million) and $0.07 million (2019: Nil) of assets measured at fair value from Level 1 to Level 2 and Level 1 to Level 3, respectively. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Company transferred $28 million (2019: Nil) of assets from Level 2 to Level 1 during the year ended 31 December 2020.

The Company's Level 2 financial instruments include debt securities, equity securities, and derivative instruments. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers, corroborated with internal reviews as necessary. When the quotes from third party pricing services and brokers are not available, internal valuation techniques and inputs as described above in this note will be used to derive the fair value for the financial instruments.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

The tables below set out a summary of changes in the Company's Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended 31 December 2020 and 2019. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 31 December 2020 and 2019.

Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain classes of structured securities, real estate fund investments, and direct private equity investments, certain property and equipment and investment property.

	Available for sale debts $'000	Available for sale equity $'000	Property and equipment $'000	Investment property $'000	Investment contracts $'000
31 December 2020					
Beginning of financial year	40,284	603,133	401,789	190,511	(5,395,459)
Net movement on investment contract liabilities					-
Total gains/(losses) relating to assets and liabilities still held at the reporting date	-	-	-	504	(1,275,966)
- Reported under investment return in profit or loss	(13,944)	-	-	-	-
- Reported under fair value reserve in the statement of comprehensive income	1,811	(47,543)	(3,449)	-	-
Purchases	313,289	396,582	29	-	-
Sales	(14,492)	(34,633)	-	-	-
Transfer out of Level 3	-	568	-	-	-
Write off	-	-	-	-	-
Net transfer to property and equipment	-	-	(1,984)	(1,599)	-
End of financial year	326,948	918,107	396,385	189,416	(6,671,425)
Change in unrealised gains included in profit or loss for assets and liabilities held at the end of the reporting period, under investment return	-	-	-	504	-

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iii) Fair value hierarchy for fair value measurement on recurring basis (continued)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2019.

	Available for sale debts $'000	Available for sale equity $'000	Property and equipment $'000	Investment property $'000	Investment contracts $'000
31 December 2019					
Beginning of financial year	40,474	468,488	389,952	197,048	(4,849,701)
Net movement on investment contract liabilities					
Total losses relating to assets and liabilities still held at the reporting date	-	-	-	(486)	(545,758)
- Reported under investment return in profit or loss	(516)	-	-	-	-
- Reported under fair value reserve in the statement of comprehensive income	326	(40,765)	1,753	-	-
Purchases	-	204,628	3,542	-	-
Sales	-	(29,218)	-	-	-
Transfer out of Level 3	-	-	-	-	-
Net transfer to property and equipment	-	-	6,542	(6,051)	-
End of financial year	40,284	603,133	401,789	190,511	(5,395,459)
Change in unrealised losses included in profit or loss for assets and liabilities held at the end of the reporting period, under investment return	-	-	-	(486)	-

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in Note 25.

Assets transferred out of Level 3 mainly relate to corporate debt instruments of which market observable inputs became available during the period and were used in determining the fair value.

There are no differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iv) Significant unobservable inputs for Level 3 fair value measurements

As at 31 December 2020, the valuation techniques and applicable unobservable inputs used to measure the Company's Level 3 financial instruments are summarised as follows:

($'000) Description	Fair value at 31 December 2020	Valuation techniques	Unobservable inputs	Range (weighted average)	Effect on fair value due to increase/ (decrease) in unobservable inputs
Property and equipment - land and buildings	396,385	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.25%-3.50% (3.43%)	Higher/(lower)
			Price per square feet	$1,535-$2,488 ($1,806)	Higher/(lower)
Investment property - land and building	189,416	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.00%-3.25% (3.15%)	Higher/(lower)
			Price per square feet	$2,076-$2,488 ($2,321)	Higher/(lower)
Investment contracts	6,671,425	Discounted cash flows	Discount rate for liquidity	0.284%-3.165%	Lower/(higher)

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iv) Significant unobservable inputs for Level 3 fair value measurements (continued)

($'000) Description	Fair value at 31 December 2019	Valuation techniques	Unobservable inputs	Range (weighted average)	Effect on fair value due to increase/ (decrease) in unobservable inputs
Property and equipment - land and buildings	401,789	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.50%-3.75% (3.68%)	Higher/(lower)
			Price per square feet	$1,561-$2,527 ($1,830)	Higher/(lower)
Investment property - land and building	190,511	-Discounted cash flow analysis -Sales comparison approach	Yield adjustments based on management's assumptions*	3.25%-3.50% (3.40%)	Higher/(lower)
			Price per square feet	$2,076-$2,527 ($2,333)	Higher/(lower)
Investment contracts	5,395,459	Discounted cash flows	Discount rate for liquidity	1.522% - 3%	Lower/(higher)

* The yield adjustments are made for any difference in the nature, location or condition of the specific property.

Valuation processes

The Company has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Company in general uses third-party pricing providers and, only in rare cases when no third-party prices exist, prices derived from internal models will be used. Chief Investment Officer reviews the reasonableness of the prices used and report price exceptions, if any. Group Derivatives & Analytics team analyses reported price exceptions and reviews price challenge responses from third party pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Valuations Advisory Committee which is part of the Company's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(iv) Significant unobservable inputs for Level 3 fair value measurements (continued)
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The Company engaged external, independent and qualified valuers to determine the fair value of the Company's properties at the end of every financial year. The valuation on open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of other properties were derived using the sales comparison approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity.

In valuing the properties in use, the current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. For land and buildings, the unobservable inputs include the yield adjustments based on management assumptions and price per square feet.

The Company has subscriptions to private pricing services for gathering such information in determining the fair value of financial assets. If the information from private pricing services is not available, the Company uses the proxy pricing method based on internally developed valuation inputs.

(v) Fair value for assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed is given below.

	Fair value hierarchy				
	Level 1	Level 2	Level 3	Total	Carrying amount
31 December 2020	$'000	$'000	$'000	$'000	$'000
Assets for which the fair value is disclosed					
Financial assets					
Loans (excluding policy loans)	-	-	52,678	52,678	**49,200**
Total assets for which the fair value is disclosed	-	-	**52,678**	**52,678**	**49,200**
Liabilities for which the fair value is disclosed					
Financial liabilities					
Borrowing	-	50,925	**-**	50,925	**50,000**
Total liabilities for which the fair value is disclosed	-	**50,925**	**-**	**50,925**	**50,000**

39. Risk management (continued)

(B) Financial risk (continued)

(f) Fair value measurements (continued)

(v) Fair value for assets and liabilities for which the fair value is disclosed at reporting date (continued)

	Fair value hierarchy				
31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Carrying amount $'000
Assets for which the fair value is disclosed					
Financial assets					
Loans (excluding policy loans)	-	-	58,361	58,361	**57,381**
Total assets for which the fair value is disclosed	**-**	**-**	**58,361**	**58,361**	**57,381**

(g) Financial instruments subject to enforceable master netting arrangement

The following table shows the assets that are subject to offsetting, enforceable master netting agreements and similar arrangements at each period end:

				Related amounts not set off in the balance sheet		
$'000	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
31 December 2020						
Financial assets:						
Derivative assets	**267,578**	**-**	**267,578**	**-**	**(90,950)**	**176,628**
31 December 2019						
Financial assets:						
Derivative assets	118,294	-	118,294	-	(12,924)	105,370

39. Risk management (continued)

(B) Financial risk (continued)

(g) Financial instruments subject to enforceable master netting arrangement (continued)

The following table shows the liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each period end:

$'000	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Related amounts not set off in the balance sheet: Cash collateral received	Net amount
31 December 2020						
Financial liabilities:						
Derivative liabilities	**206,148**	-	**206,148**	**(54,686)**	**-**	**151,462**
Repurchase agreement arrangements	**444,194**	-	**444,194**	**(445,274)**	**449**	**(631)**
31 December 2019						
Financial liabilities:						
Derivative liabilities	183,408	-	183,408	(112,898)	-	70,510
Repurchase agreement arrangements	88,032	-	88,032	(92,425)	1,520	(2,873)

The Company entered into enforceable master netting agreements for derivative transactions as well as the repurchase agreements for debt instruments with various counterparties. The transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the FRS netting criteria. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties.

40. Employee compensation

During the financial year ended 31 December 2020, the AIA Group made further awards of share options and restricted share units ("RSUs") to certain employees, directors and officers of the Company under the Share Option Scheme ("SO Scheme"), the Restricted Share Unit Scheme ("RSU Scheme"), and the Employee Share Purchase Plan ("ESPP"). In addition, the AIA Group made further awards of restricted stock subscription units ("RSSUs") to eligible agents under the Agency Share Purchase Plan ("ASPP").

40. Employee compensation (continued)

(i) RSU Scheme

Under the RSU Scheme, the vesting of the awarded RSUs is conditional upon the eligible participants remaining in employment with the AIA 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. For RSU awards that are vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares.

The maximum number of shares that can be awarded under this scheme is 302,264,978 (2019: 301,100,000) representing approximately 2.5 per cent (2019: 2.5 per cent) of the number of shares in issue of AIAGL at 31 December 2020.

	2020 Number of shares	2019 Number of shares
Restricted Share Units		
Outstanding at beginning of financial year	**1,746,245**	2,084,649
Transfer from oversea branch (Note 44)	**13,883**	-
Granted	**584,588**	594,504
Vested	**(568,596)**	(735,560)
Transfer out	**-**	(44,515)
Forfeited	**(142,406)**	(152,833)
Outstanding at end of financial year	**1,633,714**	1,746,245

(i) SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO awards are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the AIA Group. For SO awards vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. The awarded share options expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share. The total number of shares under options that can be awarded under the scheme is 302,264,978 (2019: 301,100,000), representing 2.5 per cent (2019: 2.5 per cent) of the number of shares in issue of AIAGL at 31 December 2020.

40. Employee compensation (continued)

(ii) SO Scheme (continued)

Information about share options outstanding and share options exercisable by the Company's employees and directors as at the end of the financial year is as follows:

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options	**Weighted average exercise price (HK$)**	Number of share options	Weighted average exercise price (HK$)
Share Options				
Outstanding at beginning of financial year	**191,842**	**62.90**	228,441	51.24
Granted	**-**	**-**	54,961	76.38
Exercised	**(78,478)**	**50.30**	(91,560)	41.90
Transfer out	**-**	**-**	-	-
Outstanding at end of financial year	**113,364**	**71.62**	191,842	62.90
Share options exercisable at end of financial year	**113,364**	**71.62**	191,842	62.90
Weighted average remaining contractual life (years)	**7.70**		8.08	

The range of exercise prices for the share options outstanding as of 31 December 2020 and 2019 is summarised in the table below.

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options outstanding	**Weighted average remaining contractual life (years)**	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK$36 - HK$45	-	-	-	-
HK$46 - HK$55	-	-	78,478	7.19
HK$66 – HK$75	**58,403**	**7.20**	58,403	8.20
HK$76 – HK$85	**54,961**	**8.24**	54,961	9.24
Outstanding at end of financial year	**113,364**		191,842	

40. Employee compensation (continued)

(iii) ESPP

Under the plan, eligible employees of the Company can purchase ordinary shares of AIAGL with qualified employee contributions and the AIA Group will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 10% (2019: 8%) of the annual basic salary subject to a maximum of HK$150,000 (2019: HK$117,000) per annum. The awarded matching restricted stock purchase units are expected to be settled in equity of AIAGL. For the financial year ended 31 December 2020, eligible employees of the Company paid $3,270,606 (2019: $2,504,368) to purchase 232,329 (2019: 187,021) ordinary shares of AIAGL.

(iv) ASPP

The structure of ASPP generally follows that of ESPP, the key difference being that the eligible agents are required to pay a subscription price of US$1 to subscribe for each new share in AIAGL at the end of the vesting period. Under the plan, eligible agents of the Company can purchase ordinary shares of AIAGL with qualified agent contributions and AIAGL will award one matching restricted stock subscription unit to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share of AIAGL. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased during the plan cycle and maintain their agent contracts with the AIA Group. The granted matching restricted stock subscription units are expected to be settled in equity of AIAGL. The level of qualified agent contribution is subject to a maximum of US$15,000 per annum. For the financial year ended 31 December 2020, eligible agents paid $4,541,019 (2019: $4,659,385) to purchase 333,629 (2019: 346,117) ordinary shares of AIAGL.

40. Employee compensation (continued)

(v) Valuation methodology

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

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

	Year ended 31 December 2020			
	Share options	**Restricted share units**	**ESPP Restricted stock purchase units**	**ASPP Restricted stock subscription units**
Assumptions				
Risk-free interest rate	**0.85%**	**0.78%**	**0.15%-1.68%**	**0.87%**
Volatility	**24%**	**24%**	**N/A**	**N/A**
Dividend yield	**1.6%**	**1.6%**	**1.6%**	**1.6%**
Exercise price (HK$)	**71.53**	**N/A**	**N/A**	**N/A**
Option life (in years)	**10.00**	**N/A**	**N/A**	**N/A**
Expected life (in years)	**7.84**	**N/A**	**N/A**	**N/A**
Weighted average fair value per option/unit at measurement date (HK$)	**15.51**	**62.32**	**79.91**	**60.45**

40. Employee compensation (continued)

(v) Valuation methodology (continued)

	Year ended 31 December 2019			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.44%	1.36%*	1.44%-1.76%	1.59%
Volatility	20%	20%	20%-24%	20%
Dividend yield	1.5%	1.5%	1.5%-1.6%	1.5%
Exercise price (HK$)	62.50	N/A	N/A	N/A
Option life (in years)	10.00	N/A	N/A	N/A
Expected life (in years)	7.97	N/A	N/A	N/A
Weighted average fair value per option/unit at measurement date (HK$)	15.55	54.21	73.28	63.75

* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for grants made during the financial year ended 31 December 2020 is nil (2019: HK$76.38).

(vi) Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP for the financial year ended 31 December 2020 is $8.1 million (2019: $7.2 million).

41. Related party transactions

At the balance sheet date, the Company is a wholly-owned entity of AIA Company Ltd, whose ultimate holding company is AIA Group Limited, a Company listed on The Stock Exchange of Hong Kong Limited. Both immediate holding and ultimate holding companies are incorporated in Hong Kong.

41. **Related party transactions** (continued)

The following related party transactions took place between the Company and related parties during the financial year on terms agreed between the parties concerned:

	2020 $'000	2019 $'000
Reinsurance premiums paid to related companies	**87,761**	402,857
Reinsurance claims recovered from related companies	**155,203**	305,513
Reinsurance commission received from related companies	**26,200**	34,075
Annual fee and others charged for coinsurance arrangement	**13,717**	17,610
Computer charges paid to related companies	**8,955**	10,239
Service fee received from a related company	**-**	3,024
Rental and service fee received from immediate holding company	**367**	210
Service fee paid to immediate holding company	**43,150**	32,573
Service fee paid to related companies	**129,344**	116,945
Rental and service fee paid to a subsidiary	**8,969**	8,926
Interest income from subsidiaries	**1,823**	1,932
Rental and service fee received from a subsidiary	**709**	701
Commission paid to a subsidiary	**86,618**	69,328
Upfront fee paid to a subsidiary	**14,490**	13,090
Other service fee paid to ultimate holding company	**7,970**	7,359
Interest expense on borrowing from immediate holding company	**820**	-
Payment made on behalf by ultimate holding company	**7,503**	7,433
Payment made on behalf and reimbursed by immediate holding company	**18,655**	14,149
Net payment made on behalf and reimbursed by related companies	**183**	418

Other related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel.

Outstanding balances at 31 December 2020, arising from the services, are unsecured and receivable/payable within 12 months from balance sheet date and are disclosed in Note 22 and Note 30 respectively. Details of loans to related parties are disclosed in Note 19, while borrowing from immediate holding company is disclosed in Note 29.

Remuneration of key management personnel is disclosed in Note 9.

42. Capital management

Objectives, policies and processes for managing capital
The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to satisfy regulatory capital requirements at all times.

The Company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a conservative balance.

The Company has two key capital management objectives:

- Financial Strength – Ensuring the Company maintains the quantity and quality of capital appropriate to support its planned operations, absorb losses so as to withstand adverse economic conditions, allow for growth opportunities and meet other risk management and business objectives.
- Financial Flexibility – Ensuring that the Company maintains sufficient cash or liquid assets available to fulfil its obligations and operational needs as they become due.

The Company has in place a Capital Management Policy and Liquidity Management Policy to address its capital management objectives on Financial Strength and Financial Flexibility respectively.

Externally imposed capital requirements
Regulatory capital requirements arise from the Company's insurance operations. The Company is in compliance with the solvency and capital adequacy requirements of its regulators. The primary insurance regulator of the Company is the Monetary Authority of Singapore who prescribes the solvency requirements under the Risk-based Capital Framework. The Company has also established internal solvency benchmarks that exceed the applicable minimum regulatory requirements.

The solvency status of the Company is reported to executive management on a frequent basis to facilitate pre-emptive actions when necessary. For instance, as a result of declining market conditions due to global coronavirus pandemic in 2020, the Company has started enhanced monitoring of the Company's asset and liability position and the Company's capital adequacy ratios.

The Company is required to comply with the regulatory capital requirement prescribed in the Insurance (Valuation and Capital) (Amendment) Regulations 2020 under the Insurance Act and MAS Notice 133. The Company has a capital adequacy ratio in excess of the minimum requirement. Regulated capital of the Company as at 31 December 2020 comprised Available Capital of $15.01 billion (2019: $10.54 billion), Risk Capital of $7.55 billion (2019: $4.09 billion) and Capital Adequacy Ratio of 199% (2019: 258%).

43. Disclosure on temporary exemption from FRS 109

According to FRS 104 Amendments, the Company made the assessment based on the financial position of 31 December 2015, concluding that the carrying amount of the Company's liabilities arising from contracts within the scope of FRS 104 was significant compared to the total carrying amount of all its liabilities. And the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 90 percent. There had been no significant change in the activities of the Company since then that requires reassessment. Therefore, the Company's activities are predominantly connected with insurance, meeting the criteria to apply temporary exemption from FRS 109.

(a) The table below presents the fair value of the following groups of financial assets under FRS 109 as at 31 December 2020 and fair value changes for the year ended 31 December 2020:

	Fair value as at 31 December 2020 $'000	**Fair value changes for the year ended 31 December 2020 $'000**
Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	**34,743,160**	**(2,069,732)**
Other financial assets	**20,455,588**	**(1,920,217)**
	55,198,748	**(3,989,949)**

	Fair value as at 31 December 2019 $'000	Fair value changes for the year ended 31 December 2019 $'000
Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	31,363,173	(2,125,261)
Other financial assets	16,617,040	(1,658,100)
	47,980,213	(3,783,361)

43. Disclosure on temporary exemption from FRS 109 (continued)

(b) The table below presents the credit risk exposure for aforementioned financial assets with contractual terms that give rise to SPPI:

	Carrying amount as 31 December 2020 $'000	Carrying amount as 31 December 2019 $'000
AAA	**11,350,030**	9,824,607
AA	**2,744,484**	2,471,602
A	**9,889,777**	9,751,882
BBB	**8,849,275**	7,596,100
Below BBB or not rated	**1,909,594**	1,718,983
	34,743,160	31,363,174

As at reporting date, fair value of financial assets that do not have low credit risk is (i.e. of investment grade as defined by Moody's) $1,910 million (2019: $1,719 million).

44. Transfer of oversea branch from immediate holding company

The Scheme of Arrangement for the Transfer of Insurance Business as carried on by AIA Company Ltd – Brunei Darussalam Branch ("AIABB") to AIA Singapore Private Ltd – Brunei Branch ("AIASBB") took effect from 1 January 2020.

The acquisition of the insurance business of AIABB by the Company has been accounted for as a business combination involving entities under common control as the Company and AIABB are under the common control of AIA Company Ltd ("AIA Co") before and after the restructuring.

The acquisition is accounted for using merger accounting (also referred to as predecessor accounting) with a prospective approach. Accordingly, the financial statements of the Company are presented as follows:

(i) The balance sheets of the Company as at 31 December 2020, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for the financial year ended 31 December 2020 have been prepared as if AIABB had been part of the Company since 1 January 2020.

(ii) The assets and liabilities of AIABB are brought into the Company's books based on their existing carrying values.

(iii) There is no difference between the purchase consideration and the assets and liabilities of AIABB measured based on predecessor's measurement basis, brought into the Company's books.

(iv) All significant transactions and balances between AIABB and the Company have been eliminated.

44. Transfer of oversea branch from immediate holding company (continued)

The Company paid a cash consideration of $8 million and capital contribution of $184 million (ie. immediate holding company transferred assets and liabilities of AIABB in exchange for cash of $8 million and an equity stake in the Company). Upon the transfer of business, AIASBB became a foreign operation branch of the Company. The economic interest of the ultimate holding company in Brunei business has not changed before and after the transfer.

The assets and liabilities of AIABB are brought into the balance sheets as follows:

	Dec-20	Dec-19[1]	Day 1 impact[2]
	$'000	$'000	$'000
ASSETS			
Property and equipment	3,649	4,167	4,167
Reinsurance assets	1,953	1,237	1,237
Loans and deposits	14,690	19,960	19,960
Financial investments:			
Available for sale			
Debt securities	466,981	436,799	439,733
Equity securities	138,228	95,650	95,650
At fair value through profit or loss			
Debt securities	-	2,934	-
Equity securities	100,087	80,183	80,183
Derivative financial instruments		1	1
Total financial investments	705,296	615,567	615,567
Other assets	7,138	7,656	7,656
Cash and cash equivalents	13,047	8,149	8,149
Total assets	745,773	656,736	656,736
LIABILITIES			
Insurance contracts	503,659	399,187	438,821
Outstanding claims	-	817	-
Derivative financial instruments	-	*	*
Current tax liabilities	11,371	11,458	11,458
Other liabilities	56,953	53,253	54,529
Total liabilities	571,983	464,715	504,808
Net assets	173,790	192,021	151,928
Purchase consideration		192,021	

*less than 1,000

[1]December 2019 balances represent the carrying amounts of AIABB measured using Brunei FRS. These are the numbers that are transferred into the Company on 1 January 2020.
[2]Day 1 impact balances represent the carrying amounts of AIASBB as of 1 January 2020 measured using Singapore FRS.

45. Change in accounting policies

i. Effects of change in shadow accounting for Universal Life business

In the current financial year, the Company adopted shadow accounting on its Universal Life business to change the presentation of movement of insurance contract liability from profit or loss to other comprehensive income in consideration of the following reasons:

a. To match the changes in unrealised gain/loss on Available for Sale financial assets backing the Universal Life business, the Company has adopted shadow accounting to present the movement of insurance contract liability in other comprehensive income;

b. the interest income from bond interest and realised effects when selling bonds to fund for new purchases are mostly credited to policyholders (with the Company earning a spread);

c. the measurement of insurance contract liability in accordance with MAS Notice 133 which introduces the concept of a matching adjustment to discount both the assets and liability at a similar discount rate serves the same intention of FRS 104 para 30 on adjusting the measurement of the policy liabilities to match the unrealised changes in the assets.

The adoption of shadow accounting for the Universal life business makes the financial statements more relevant to the economic decision-making needs of users and no less reliable.

45. Change in accounting policies (continued)

i. Effects of change in shadow accounting for Universal Life business (continued)

The following tables show the adjustments recognised for each line item of the financial statements affected.

	31 December 2020 (Before change in accounting policy) $'000	Impact of change in accounting policy $'000	31 December 2020 (As reported) $'000
Statement of comprehensive income			
Insurance and investment contract benefits	(8,642,989)	508,158	(8,134,831)
Net insurance and investment contract benefits	(9,096,639)	508,158	(8,588,481)
Total expenses	(10,410,830)	508,158	(9,902,672)
Profit before tax	(378,481)	508,158	129,677
Income tax expenses	(77,332)	(86,387)	(163,719)
Net loss	(455,813)	421,771	(34,042)
Other comprehensive income ("OCI"):			
Other reserves losses	(1,461,714)	(421,771)	(1,883,485)
Other comprehensive income, net of tax	795,836	(421,771)	374,065
Statement of Financial Position			
Equity			
Retained earnings	177,614	1,017,900	1,195,514
Reserves	1,641,885	(1,017,900)	623,985

45. Change in accounting policies (continued)

i. Effects of change in shadow accounting for Universal Life business (continued)

The following tables show the adjustments recognised for each line item of the financial statements affected.

	31 December 2019 (As previously reported) $'000	Retrospective adjustments for change in accounting policy $'000	31 December 2019 (As adjusted) $'000
Statement of comprehensive income			
Insurance and investment contract benefits	(7,202,728)	753,653	(6,449,075)
Net insurance and investment contract benefits	(6,368,760)	753,653	(5,615,107)
Total expenses	(7,646,470)	753,653	(6,892,817)
Profit before tax	(101,011)	753,653	652,642
Income tax expenses	(60,078)	(128,121)	(188,199)
Net (loss)/profit	(161,089)	625,532	464,443
Other comprehensive income ("OCI"):			
Other reserves losses	(1,654,809)	(625,532)	(2,280,341)
Other comprehensive income, net of tax	1,047,306	(625,532)	421,774
Statement of Financial Position			
Equity			
Retained earnings	1,039,427	596,129	1,635,556
Reserves	845,857	(596,129)	249,728

45. Change in accounting policies (continued)

ii. Change in contract boundary consideration for products that are renewable with non-guaranteed premium rates

There is a change in contract boundaries consideration resulting from the announcement of Insurance (Valuation and Capital) (Amendment) Regulations 2020 and MAS Notice 133 (Notice on Valuation and Capital Framework for Insurers) with effect from 31 March 2020. The Company has reassessed the contract boundaries on products that are renewable with non-guaranteed premium rates in accordance with paragraph 3.1.4 of MAS Notice 133.

As the change in accounting policy did not have a material effect on the amounts reported in the prior financial years, no adjustment has been made to restate comparative financial information.

46. Authorisation of financial statements

These financial statements were authorised for issue by the Board of Directors of the Company on 29 March 2021.