

# AIA SINGAPORE PRIVATE LIMITED - BRUNEI DARUSSALAM BRANCH

## ANNUAL REPORT

*For the financial year ended 31 December 2022*

**AIA SINGAPORE PRIVATE LIMITED -  
BRUNEI DARUSSALAM BRANCH**

**ANNUAL REPORT**

*For the financial year ended 31 December 2022*

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## **Independent Auditor's Report**

To the Board of Directors and Shareholders of  
**AIA Singapore Private Limited - Brunei Darussalam Branch**  
(Established in Brunei Darussalam)  
5th Floor, Pavo Point, Simpang 37  
Jalan Kianggeh, Kampung Kianggeh, BA1211  
Negara Brunei Darussalam

### **Report on the Audit of the Financial Statements**

#### ***Our Opinion***

In our opinion, the accompanying financial statements of AIA Singapore Private Limited - Brunei Darussalam Branch (the "Branch") give a true and fair view of the financial position of the Branch as at 31 December 2022, and its financial performance, changes in head office account and cash flows for the year then ended in accordance with International Financial Reporting Standards. ("IFRS") and the provisions of the Brunei Darussalam Companies Act, Chapter 39 (the "Act").

#### ***What we have audited***

The financial statements of the Branch comprise:

- the statement of comprehensive income for the financial year ended 31 December 2022
- the balance sheet as at 31 December 2022
- the statement of changes in head office account for the financial year ended 31 December 2022
- the statement of cash flows for the financial year ended 31 December 2022; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing. 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 Branch in accordance with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the "Code"), together with the ethical requirements that are relevant to our audit of the financial statements in Brunei Darussalam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

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Independent Auditor's Report  
To the Board of Directors and Shareholders of  
AIA Singapore Private Limited - Brunei Darussalam Branch

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Act and the IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Branch'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 International Standards on Auditing 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.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism 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 Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Independent Auditor's Report  
To the Board of Directors and Shareholders of  
AIA Singapore Private Limited - Brunei Darussalam Branch

- 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 Branch'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 Branch 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 those charged with governance 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 Branch have been properly kept in accordance with the provisions of the Act. We have obtained all the information and explanations that we required.

**PricewaterhouseCoopers Services**

A handwritten signature in blue ink, appearing to read 'Chai Xiang Yuin'.

Chai Xiang Yuin  
Partner

Brunei Darussalam  
30 March 2023

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2022

	Notes	2022 B\$	2021 B\$
<b>Revenue</b>			
Premium and fee income		78,521,389	75,966,157
Premiums ceded to reinsurers		(1,076,901)	(1,053,667)
<b>Net premium and fee income</b>	5	77,444,488	74,912,490
Investment return	6	(37,952,994)	32,733,548
<b>Total revenue</b>		39,491,494	107,646,038
<b>Expenses</b>			
Insurance contract benefits	7	16,393,317	(46,513,523)
Insurance contract benefits ceded	7	617,103	1,654,562
<b>Net insurance contract benefits</b>		17,010,420	(44,858,961)
Commission and other acquisition expenses		(11,335,427)	(11,621,476)
Operating expenses		(7,948,128)	(7,300,444)
Investment management expenses		(2,346,113)	(2,811,300)
Interest expense on lease liabilities		(53,916)	(57,603)
<b>Total expenses</b>	7	(4,673,164)	(66,649,784)
<b>Profit before tax</b>		34,818,330	40,996,254
Income tax credit/(expense)	8	5,160,631	(4,756,621)
<b>Profit after tax</b>		39,978,961	36,239,633
<b>Other comprehensive income ("OCI"):</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value losses on available for sale financial assets		(96,043,949)	(26,124,483)
Fair value losses/(gains) on available for sale financial assets transferred to profit or loss on disposal		6,812,966	(23,822,810)
Impairment of available for sale financial assets	6	22,743,480	-
<b>Other comprehensive losses</b>	20	(66,487,503)	(49,947,293)
<b>Total comprehensive losses</b>		(26,508,542)	(13,707,660)



Kenneth Ling  
General Manager

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

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## BALANCE SHEET

As at 31 December 2022

	Notes	2022 B\$	2021 B\$
<b>ASSETS</b>			
Property and equipment	10	2,976,081	3,464,293
Reinsurance assets	12	3,317,537	3,194,906
Loans and deposits	13	13,573,053	13,170,791
Financial investments:			
<i>Available for sale</i>			
Debt securities	14	411,613,315	466,898,771
Equity securities	14	125,601,936	153,668,639
<i>At fair value through profit or loss</i>			
Equity securities	14	71,021,333	89,223,734
Derivative financial instruments	15	69	-
		608,236,653	709,791,144
Deferred tax assets	9	4,840,481	-
Other assets	16	7,920,491	7,832,448
Cash and cash equivalents	17	12,231,960	5,088,117
<b>Total assets</b>		<b>653,096,256</b>	<b>742,541,699</b>
<b>LIABILITIES</b>			
Insurance contracts	18	382,818,398	442,652,439
Outstanding claims		745,597	921,717
Derivative financial instruments	15	484	266
Current tax liabilities	8	8,230,256	12,472,382
Other liabilities	19	63,519,487	62,251,081
<b>Total liabilities</b>		<b>455,314,222</b>	<b>518,297,885</b>
<b>HEAD OFFICE ACCOUNT</b>			
Retained earnings		232,181,702	192,202,741
Reserves	20	(34,399,668)	32,041,073
<b>Total head office account</b>		<b>197,782,034</b>	<b>224,243,814</b>
<b>Total liabilities and head office account</b>		<b>653,096,256</b>	<b>742,541,699</b>



Kenneth Ling  
General Manager

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

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT

For the financial year ended 31 December 2022

	Notes	Retained earnings B\$	Reserves B\$	Total Head Office Account B\$
<b>2022</b>				
<b>At 1 January 2022</b>		<b>192,202,741</b>	<b>32,041,073</b>	<b>224,243,814</b>
Profit after tax		39,978,961	-	39,978,961
Fair value losses on available for sale financial assets		-	(96,043,949)	(96,043,949)
Fair value losses on available for sale financial assets transferred to profit or loss on disposal		-	6,812,966	6,812,966
Impairment of available for sale financial assets	6	-	22,743,480	22,743,480
Total comprehensive losses for the financial year		39,978,961	(66,487,503)	(26,508,542)
Share-based compensation (Note 20)		-	46,762	46,762
<b>At 31 December 2022</b>		<b>232,181,702</b>	<b>(34,399,668)</b>	<b>197,782,034</b>
<b>2021</b>				
<b>At 1 January 2021</b>		155,963,108	81,977,958	237,941,066
Profit after tax		36,239,633	-	36,239,633
Fair value losses on available for sale financial assets		-	(26,124,483)	(26,124,483)
Fair value gains on available for sale financial assets transferred to profit or loss on disposal	6	-	(23,822,810)	(23,822,810)
Total comprehensive losses for the financial year		36,239,633	(49,947,293)	(13,707,660)
Share-based compensation (Note 20)		-	10,408	10,408
<b>At 31 December 2021</b>		<b>192,202,741</b>	<b>32,041,073</b>	<b>224,243,814</b>



Kenneth Ling  
General Manager

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



# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## STATEMENT OF CASH FLOWS

For the financial year ended to 31 December 2022

	Notes	2022 B\$	2021 B\$
<b>Cash flows from operating activities</b>			
Profit after tax		<b>39,978,961</b>	36,239,633
Adjustments for:			
- Income tax (credit)/expense	8	<b>(5,160,631)</b>	4,756,621
- Depreciation expense	10	<b>522,761</b>	524,121
- Property and equipment written-off	10	<b>1,625</b>	-
- Interest expense	11	<b>53,916</b>	57,603
- Investment income	6	<b>(17,007,950)</b>	(17,194,586)
- Fair value losses on derivative financial instruments	6	<b>63</b>	5,557
- Impairment of available for sale financial assets	6	<b>22,743,480</b>	-
- Net fair value losses on financial assets at fair value through profit or loss	6	<b>24,912,795</b>	8,749,573
- Net realised losses/(gains) on disposal of available for sale financial assets	6	<b>6,804,547</b>	(23,822,810)
- Net unrealised foreign exchange losses/(gains)		<b>867,146</b>	(803,469)
- Insurance contracts		<b>(58,241,482)</b>	1,481,749
Operating cash flows before changes in working capital		<b>15,475,231</b>	9,993,992
Changes in working capital			
- Other assets		<b>(51,540)</b>	(1,377,191)
- Other liabilities		<b>1,778,842</b>	6,162,510
- Outstanding claims		<b>(177,693)</b>	289,781
Cash generated from operations		<b>1,549,609</b>	5,075,100
Income tax paid	8	<b>(3,921,976)</b>	(3,655,059)
<b>Net cash generated from operating activities</b>		<b>13,102,864</b>	11,414,033
<b>Cash flows from investing activities</b>			
Net purchases of property and equipment (excluding ROU assets)	10	<b>(36,174)</b>	(12,707)
Interest received		<b>15,267,520</b>	15,313,334
Dividend received		<b>1,794,623</b>	1,567,508
Repayment of term deposit		-	1,278,112
(Loans to)/repayment of loans from policyholders		<b>(411,732)</b>	266,686
Net purchases of derivative financial instruments		<b>(63)</b>	(5,557)
Net purchases of other financial assets		<b>(22,206,675)</b>	(37,418,259)
<b>Net cash used in investing activities</b>		<b>(5,592,501)</b>	(19,010,883)
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities	11	<b>(372,023)</b>	(370,103)
<b>Net cash used in financing activities</b>		<b>(372,023)</b>	(370,103)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,138,340</b>	(7,966,953)
Effect of exchange rate changes on cash and cash equivalents		<b>5,503</b>	7,841
Cash and cash equivalents at beginning of financial year		<b>5,088,117</b>	13,047,229
<b>Cash and cash equivalents at end of financial year</b>	17	<b>12,231,960</b>	5,088,117

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

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### STATEMENT OF CASH FLOWS (continued)

For the financial year ended 31 December 2022

#### Reconciliation of liabilities arising from financing activities

	1 January 2022 B\$	Principal payments B\$	Non-cash changes B\$				31 December 2022 B\$
			Interest expense	Addition – new leases	Modification of lease liabilities	Termination of lease agreement	
Lease liabilities	2,575,572	(372,023)	53,916	-	-	-	2,257,465

	1 January 2021 B\$	Principal payments B\$	Non-cash changes B\$				31 December 2021 B\$
			Interest expense	Addition – new leases	Modification of lease liabilities	Termination of lease agreement	
Lease liabilities	2,787,396	(370,103)	57,603	110,120	(9,444)	-	2,575,572



Kenneth Ling  
General Manager

# **AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH**

## **NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2022*

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

### **1. General information**

#### **1.1 Corporate information**

The Brunei Darussalam Branch ("the Branch"), registered on 8 August 2019, is a branch of AIA Singapore Private Limited incorporated in Singapore; whose ultimate holding company is AIA Group Limited, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

The Branch is registered and domiciled in Brunei. The address of its registered office is at 5th Floor, Pavo Point, Simpang 37, Jalan Kianggeh, Kampung Kianggeh, BA1211, Negara Brunei Darussalam.

### **2. Significant accounting policies**

#### **2.1 Basis of preparation**

These financial statements of AIA Singapore Private Limited - Brunei Branch ("the Branch") have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgement in the process of applying the Branch'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. The financial statements of the Branch are presented in Brunei dollars except as otherwise stated.

#### **2.2 Changes in accounting policies**

The International Accounting Standards Board (IASB) has issued a number of new IFRS and amendments to IFRS that are effective in the current accounting period of the Branch. Of these, the following development is relevant to the Branch's financial statements:

(a) Temporary exemption on adoption of IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial instruments: Recognition and Measurement and its relevant interpretations.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## 2. Significant accounting policies (continued)

### 2.2 Changes in accounting policies (continued)

- (a) Temporary exemption on adoption of IFRS 9 Financial Instruments (continued)

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 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 cash flow characteristics of the instrument. In addition, a revised expected credit loss model will replace the incurred loss impairment model in IAS 39.

For financial liabilities, the standard retains most of the IAS 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 IASB made further changes to two areas of IFRS 9. 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 Branch qualifies for a temporary exemption as explained in Note 2.2(b).

- (b) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

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 IFRS 9 until the earlier of the effective date of IFRS 17 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 IFRS 17 is applied. Based on the amendments to IFRS 4, the Branch is eligible for and will elect to apply the temporary option to defer the effective date of IFRS 9 in order to implement the changes in parallel with IFRS 17.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### **2. Significant accounting policies** (continued)

##### **2.2 Changes in accounting policies** (continued)

- (b) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) (continued)

Additional disclosures about temporary exemption from IFRS 9 is made in Note 25.

- (c) Deferral for IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts will replace the current IFRS 4 insurance contract standard. IFRS 17 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, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. On 25 June 2020, the IASB issued the amendments to IFRS 4 and IFRS 17, the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. On 9 December 2021, the IASB issued a narrow amendment to the transition requirements of IFRS 17 which provides entities that first apply IFRS 17 and IFRS 9 at the same time with an option to present comparative information about certain financial assets as if the classification and measurement requirements of IFRS 9 had been applied to those financial assets. The Branch is in the midst of conducting a detailed assessment of the new standard.

The Branch's 2022 annual results have been calculated and reported before the adoption of IFRS 17 for the financial statements that will take effect from 1 January 2023. The preparation of the 2022 comparatives under IFRS 9 and IFRS 17 are progressing as planned, and the Branch will restate the comparative information in the financial statements for the year ended 2023 based on the transition approaches taken on adoption of IFRS 17.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## 2. Significant accounting policies (continued)

### 2.3 Revenue recognition

#### (a) *Premium income and fee income*

For the accounting policy on premium income, see Note 2.15(b).

#### (b) *Investment return*

Investment return consists of investment income and investment experience.

Investment income consists of dividend 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 2.7(e).

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

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, fund management fee rebates, administrative fees and income from any incidental non-insurance activities. Administrative fees refers to additional administrative requests such as switches between funds, redemptions or subscriptions of investments. The fees are recognised as revenue at the point in time when the related services take place.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## **2. Significant accounting policies (continued)**

### **2.4 Currency translation**

#### *(a) Functional and presentation currency*

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

The financial statements of the Branch are presented in Brunei dollars, which is the Branch'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 those financial instruments held as available for sale as explained in Note 2.7(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.

### **2.5 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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## 2. Significant accounting policies (continued)

### 2.5 Income taxes (continued)

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 Branch expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

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.

### 2.6 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.

### 2.7 Financial assets

#### (a) *Classification*

The Branch 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 Branch investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges.



## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 2. Significant accounting policies (continued)

##### 2.7 Financial assets (continued)

###### (a) Classification (continued)

###### (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 “reinsurance assets”, “loans and deposits”, “accrued investment income”, “insurance receivables”, “related party receivables”, “receivables from sale of investments”, “other receivables” and “cash and cash equivalents” on the balance sheet and the notes to the financial statements.

###### (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.

###### (b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Branch 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 Branch 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 2. Significant accounting policies (continued)

##### 2.7 Financial assets (continued)

###### (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.

###### (e) Impairment

The Branch 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 2. Significant accounting policies (continued)

##### 2.7 Financial assets (continued)

###### (e) Impairment (continued)

###### (i) Loans and receivables (continued)

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 2.7(e)(i), a significant or prolonged decline in the fair value of the equity 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 in investment experience for an equity security are not reversed through profit or loss in subsequent periods.

###### (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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## **2. Significant accounting policies (continued)**

### **2.8 Derivative financial instruments**

Derivative financial instruments principally include forward exchange contracts that derive their value mainly from underlying foreign exchange 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 Branch enters into derivative transactions to provide economic hedges under the Branch'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 IFRS 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.

### **2.9 Property and equipment**

#### *(a) Measurement*

##### *(i) Property and equipment*

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

##### *(ii) 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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## 2. Significant accounting policies (continued)

### 2.9 Property and equipment

#### (b) Depreciation

Depreciation on items of property and equipment is calculated using the straight line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives</u>
Property held for own use - Leasehold buildings	6 to 10 years
Furniture, fittings, fixtures and equipment	5 to 10 years
Computer equipment	3 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.

#### (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 Branch 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.

### 2.10 Provisions and contingencies

Provisions are recognised when the Branch 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 past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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## 2. Significant accounting policies (continued)

### 2.11 Employee compensation

#### (a) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Branch pays fixed contributions into separate entities such as the Tabung Amanah Pekerja on a mandatory, contractual or voluntary basis. The Branch has no further payment obligations once the contributions have been paid. The Branch'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) *Share-based compensation*

The ultimate holding company, AIA Group Limited ("AIAGL"), launched a number of share-based compensation plans, under which the Branch 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 AIAGL's share compensation plans offered to the Branch's employees and agents are predominantly equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the 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 Other Reserves.

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 Branch 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 Other Reserves. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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## 2. Significant accounting policies (continued)

### 2.11 Employee compensation (continued)

#### (c) Share-based compensation (continued)

The Branch 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.

### 2.12 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Branch 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. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Trade and other payables are derecognised upon settlement, or when discharged, cancelled or expired.

### 2.13 Leases

#### (a) When the Branch is the lessee

At the inception of the contract, the Branch 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.

#### (i) Right-of-use assets

The Branch recognises 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## 2. Significant accounting policies (continued)

### 2.13 Leases (continued)

#### (a) When the Branch is the lessee (continued)

##### (i) Right-of-use assets (continued)

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 are presented within “Property and equipment”.

##### (ii) 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 the Branch’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 interest expense on lease liabilities.

##### (iii) Short-term and low-value assets

The Branch 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.



## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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## 2. Significant accounting policies (continued)

### 2.14 Reinsurance

The Branch 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, claims reimbursed and corresponding commissions are presented on a gross basis in profit or loss. They are 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 Branch 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 Branch may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Branch will receive from the reinsurer can be reliably measured.

### 2.15 Insurance contracts

#### (a) *Classification*

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

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

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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## 2. Significant accounting policies (continued)

### 2.15 Insurance contracts (continued)

#### (a) Classification (continued)

Insurance 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 Branch; 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 Branch; or
  - profit or loss of the Branch or an insurance fund held by the Branch.

#### (b) Recognition and measurement

##### (i) Insurance contracts

##### (1) 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.

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

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## 2. Significant accounting policies (continued)

### 2.15 Insurance contracts (continued)

#### (b) Recognition and measurement (continued)

##### (i) Insurance contracts (continued)

##### (1) Traditional insurance contracts (life business) (continued)

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 Branch's balance sheet and as part of claims and benefits incurred in the profit or loss.

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

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

Fee income on investment type insurance contracts – Investment-linked 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 type insurance contracts – Investment-linked for services provided over time are recognised over the contract period. Service fees from additional services provided are recognised at the point when the services are provided to the customers.

Benefits are recorded as an expense when they are incurred.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## 2. Significant accounting policies (continued)

### 2.15 Insurance contracts (continued)

#### (b) Recognition and measurement (continued)

##### (ii) Valuation basis

##### (1) Traditional insurance contract (life business)

The valuation basis was made in compliance to the Insurance Order, 2006 of Brunei Darussalam.

The principles upon which the valuation was made are in accordance with internationally accepted accounting concepts, bases and policies, in accordance with the Insurance Order, 2006 and Insurance Regulation, 2006, including any subsequent amendments to the notice and regulations.

Following the letter (Reference: AMBD/RS/TIU/25) issued by Brunei Darussalam Central Bank (BDCB) on 8 January 2016, all individual life policies were valued using economic valuation approach.

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 valuation on the local statutory basis may include 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 present 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 PAD from expected experience, less expected future receipts arising from the policy.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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## 2. Significant accounting policies (continued)

### 2.15 Insurance contracts (continued)

#### (b) Recognition and measurement (continued)

##### (ii) Valuation basis

##### (1) Traditional insurance contract (life business) (continued)

##### Participating policy

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

- the present 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 present 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.

##### Life Insurance Participating Fund

The Life Insurance Participating Fund contains all the individual participating life insurance contracts and certain non-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 Branch.

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

- (a) the sum of the liability in respect of each policy of the fund determined in the manner described under “Participating policy” above; or
- (b) the Minimum Condition Liability of the fund whichever is the highest.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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## 2. Significant accounting policies (continued)

### 2.15 Insurance contracts (continued)

#### (b) Recognition and measurement (continued)

##### (ii) Valuation basis

#### (2) 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).

### 2.16 Related party transactions

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

### 2.17 Impairment of non-financial assets

#### *Property and equipment (including property held for own use – leasehold buildings)*

Property and equipment 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### **2. Significant accounting policies (continued)**

##### **2.17 Impairment of non-financial assets (continued)**

*Property and equipment (including property held for own use – leasehold buildings)(continued)*

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.

An impairment loss for an asset is reversed only if, there has been a change in the asset's estimated 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 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.

##### **2.18 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 PAD are added on to the best estimate valuation assumptions in the determination of the policy liabilities.

##### **2.19 Transfers to Head Office**

Transfers to Head Office are recognised when the transfers are approved for payment.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 3. Interpretations and amendments to published standards effective in 2022

The Branch has adopted all new, amendments and interpretations to existing standards which are mandatory for application for the financial year beginning on or after 1 January 2022. The adoption of these new standards or amendments to standards did not result in substantial changes to the accounting policies of the Branch and had no material effect on the amounts reported for the current or prior financial years.

##### Standards issued but not yet effective

The Branch 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:	1 January 2023
- IAS 1 Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)	
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (Disclosure of Accounting Policies)	
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Accounting Estimates)	
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	
- IFRS 17 Insurance Contracts	
- IFRS 17 Insurance Contracts	1 January 2023
Amendments to:	To be determined
- IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	

The new or amended accounting Standards and Interpretations listed above are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Branch. These are not expected to have a material impact on the Branch in the current or future reporting periods and on foreseeable future transactions except for IFRS 17 as disclosed in Note 2.2 (c) and IFRS 9 as disclosed in Note 2.2 (a).



## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 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.

This section summarises assumptions as at 31 December 2022. It also highlights certain changes in assumptions from 31 December 2021.

##### (a) *Policy Liabilities*

The Branch calculates the policy liabilities of traditional life insurance by using an economic valuation method, where the liabilities represent the present value of future guaranteed and non-guaranteed benefits to policyholders less the present value of estimated future gross premiums to be collected from policyholders.

##### **Process used to determine valuation assumptions**

The process used to determine the valuation assumptions for the life 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.

##### Mortality and morbidity

Estimates are made as to the expected number of incidences for each of the years in which the Branch is exposed to risk. The Branch 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 Branch 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.

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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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

##### (a) Policy Liabilities (continued)

##### Process used to determine valuation assumptions (continued)

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

The risk-free discount rates follows that used in Singapore. These rates 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:

- 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.
- 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.
- 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% (2021: 3.8%) is calculated as the sum of expected real interest rate and expected inflation rate. For both SGD and USD denominated liabilities:
  - (a) The expected real interest rate is 1.8% (2021: 1.8%); and
  - (b) The expected inflation rate is 2.0% (2021: 2.0%).

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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

##### (a) Policy Liabilities (continued)

##### Process used to determine valuation assumptions (continued)

##### Discount rates (continued)

For other foreign-currency denominated liabilities, the discount rates used are as follows:

Currency	LLP	Convergence Period	UFR
AUD (Australian Dollar)	30	30	3.8%

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 Expense Analysis available.

The assumed expense inflation rates are based on expectations of long term consumer price and salary inflation.

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.

##### (b) Sensitivity analysis

The following tables show the sensitivity of the value of policy liabilities as at 31 December 2022 and 31 December 2021 to movements in the main variables used in the estimation of the policy liabilities.

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

##### *Insurance contracts*

<u>Variable</u>	<u>Change in 2022 policy liability</u>	
	<u>Change in variable</u>	<u>Change in liability in (B\$)</u>
Better mortality and morbidity	-10%	(4,679,919)
Worsening of mortality and morbidity	+10%	4,869,775
Increase in discount rate	+50bps	(25,451,524)
Lowering of discount rate	-50bps	31,038,248

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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

##### (b) Sensitivity analysis (continued)

###### *Insurance contracts (continued)*

<u>Variable</u>	<u>Change in 2021 policy liability</u>	
	<u>Change in variable</u>	<u>Change in liability in (B\$)</u>
Better mortality and morbidity	-10%	(5,215,168)
Worsening of mortality and morbidity	+10%	5,362,926
Increase in discount rate	+50bps	(29,137,421)
Lowering of discount rate	-50bps	36,895,463

##### (c) Changes in assumptions, methodology and basis

The Branch regularly reviews its assumptions to reflect the current best estimate assumptions. Changes in economic assumptions in 2022 resulted in a B\$27.4 million decrease (2021: B\$7.9 million decrease) in policy liabilities. There is no change in operating assumptions in 2022 (2021: B\$2.4 million increase in policy liabilities).

##### (d) Product classification

The Branch issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. The Branch exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Branch to pay significant additional benefits to its customers. In the event the Branch 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 contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in Note 2.15(a).

##### (e) Fair values of financial assets

The Branch 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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

##### (e) *Fair values of financial assets (continued)*

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 to back the Branch's unit-linked contracts result in a corresponding change in insurance 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 equity prices and interest rates are provided in Note 21(B)(e).

##### (f) *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 Branch 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.

##### (g) *Critical judgement over the lease terms*

As at 31 December 2022, the Branch's lease liabilities, which are measured with reference to an estimate of the lease term, amounted to B\$2,257,465 (2021: B\$2,575,572), of which B\$1,420,683 (2021: B\$1,420,683) 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 Branch typically includes the extension option in lease liabilities;
- Otherwise, the Branch considers other factors including its historical lease periods for similar assets, costs required to obtain replacement assets, and business disruptions.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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

##### *(g) Critical judgement over the lease terms (continued)*

The extension options for certain equipment have not been included in lease liabilities because the Branch 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 circumstances 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 2022, potential future (undiscounted) cash outflows of approximately B\$69,120 (2021: B\$69,120) have not been included in lease liabilities because it is not reasonably certain that the leases will be extended.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 5. Net premium and fee income

	2022 B\$	2021 B\$
<u>Gross premium revenue</u>		
Life insurance contracts	73,783,021	71,079,775
<u>Premiums ceded to reinsurers</u>		
Life insurance contracts	(1,076,901)	(1,053,667)
Fee income	4,738,368	4,886,382
	<b>77,444,488</b>	<b>74,912,490</b>

### 6. Investment return

	2022 B\$	2021 B\$
Interest income	15,279,628	15,590,594
Dividend income	1,728,322	1,603,992
<b>Investment income</b>	<b>17,007,950</b>	<b>17,194,586</b>
<i>Available for sale</i>		
Net realised (losses)/gains from debt securities	(676,195)	2,640,606
Net realised (losses)/gains from equity securities	(6,128,352)	21,182,204
Impairment of available for sale financial assets	(22,743,480)	-
<b>Net realised (losses)/gains on available for sale financial assets reflected in profit or loss</b>	<b>(29,548,027)</b>	<b>23,822,810</b>
<i>At fair value through profit or loss</i>		
Net losses from equity securities	(24,912,795)	(8,749,573)
Net fair value movement on derivatives	(63)	(5,557)
<b>Net losses on financial assets at fair value through profit or loss</b>	<b>(24,912,858)</b>	<b>(8,755,130)</b>
Net foreign exchange (losses)/gains	(857,728)	36,624
Other net realised gains	357,669	434,658
<b>Investment experience</b>	<b>(54,960,944)</b>	<b>15,538,962</b>
<b>Investment return</b>	<b>(37,952,994)</b>	<b>32,733,548</b>

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 7. Expenses

	2022 B\$	2021 B\$
Insurance contract benefits	(41,393,476)	(44,934,506)
Change in insurance contract liabilities	57,786,793	(1,579,017)
<b>Insurance contract benefits</b>	<b>16,393,317</b>	<b>(46,513,523)</b>
Insurance contract benefits ceded	617,103	1,654,562
<b>Net insurance contract benefits</b>	<b>17,010,420</b>	<b>(44,858,961)</b>
Commissions and other acquisition expenses	(11,335,427)	(11,621,476)
<b>Commission and other acquisition expenses</b>	<b>(11,335,427)</b>	<b>(11,621,476)</b>
Employee benefit expenses	(1,726,880)	(1,694,038)
Depreciation (Note 10)	(522,761)	(524,121)
Operating lease rentals	(3,840)	(850)
Service fees	(4,607,276)	(4,033,644)
Computer charges	(548,085)	(464,618)
Audit fees	(150,412)	(154,344)
Other operating expenses	(388,874)	(428,829)
<b>Operating expenses</b>	<b>(7,948,128)</b>	<b>(7,300,444)</b>
Investment management expenses	(2,346,113)	(2,811,300)
Interest expense on lease liabilities (Note 11(c))	(53,916)	(57,603)
<b>Total expenses</b>	<b>(4,673,164)</b>	<b>(66,649,784)</b>

Employee benefit expenses consist of:

	2022 B\$	2021 B\$
Wages and salaries	(1,487,240)	(1,515,374)
Employer's contribution to defined contribution plans including Tabung Amanah Pekerja	(96,465)	(66,204)
Other staff benefits	(84,164)	(70,205)
Share-based compensation	(59,011)	(42,255)
	<b>(1,726,880)</b>	<b>(1,694,038)</b>

Key management personnel compensation is as follows:

	2022 B\$	2021 B\$
Salaries and other short-term employee benefits	(265,747)	(280,426)
Share-based compensation	(34,295)	(25,170)
	<b>(300,042)</b>	<b>(305,596)</b>



# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 8. Income tax

#### Income tax (credit)/expense

	2022 B\$	2021 B\$
Tax (credit)/expense attributable to results is made up of:		
- Current income tax	-	4,471,747
- Deferred income tax (Note 9)	(4,840,481)	-
- Withholding tax	22,259	26,561
	(4,818,222)	4,498,308
(Over)/under provision in prior financial years		
- Current income tax	(342,409)	258,313
	(5,160,631)	4,756,621
Profit before tax	34,818,330	40,996,254
Tax calculated at a tax rate of 18.5% (2021: 18.5%)	6,441,391	7,584,307
Different basis of tax	(11,281,872)	(3,080,185)
(Over)/under provision in prior financial years		
- Current income tax	(342,409)	258,313
Statutory stepped income exemption	-	(32,375)
Withholding tax	22,259	26,561
Total income tax (credit)/expense	(5,160,631)	4,756,621

#### Movements in current income tax liabilities

	2022 B\$	2021 B\$
Beginning of financial year	12,472,382	11,370,820
Income tax paid	(3,921,976)	(3,655,059)
Tax payable on profit		
- Current financial year	-	4,471,747
- (Over)/under provision in prior financial years	(342,409)	258,313
- Withholding tax	22,259	26,561
At end of financial year	8,230,256	12,472,382

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 9. 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:

	2022 B\$	2021 B\$
Beginning of financial year	-	-
Credited to profit or loss (Note 8)	(4,840,481)	-
End of financial year	<u>(4,840,481)</u>	<u>-</u>

#### Deferred tax assets

	<u>Tax losses</u> B\$	<u>Total</u> B\$
<b>2022</b>		
Beginning of financial year	-	-
Credited to profit or loss (Note 8)	(4,840,481)	(4,840,481)
End of financial year	<u>(4,840,481)</u>	<u>(4,840,481)</u>

<b>2021</b>		
Beginning of financial year	-	-
Credited to profit or loss (Note 8)	-	-
End of financial year	<u>-</u>	<u>-</u>

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 Branch has unutilised tax losses of B\$26,164,762 (2021: nil) at the balance sheet date. The tax losses will expire on 31 December 2029.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 10. Property and equipment

	Note	Property held for own use – Leasehold buildings B\$	Furniture, fixtures and equipment B\$	Computer equipment B\$	Assets under construction B\$	Total B\$
<b>2022</b>						
<i>Cost</i>						
Beginning of financial year		3,364,668	1,690,505	162,789	226,790	5,444,752
Additions		-	22,656	9,180	4,338	36,174
Transfer to/(from)		-	225,539	-	(225,539)	-
Disposals		(65,413)	-	-	-	(65,413)
Write-off for the year		-	-	-	(1,625)	(1,625)
<b>End of financial year</b>		<b>3,299,255</b>	<b>1,938,700</b>	<b>171,969</b>	<b>3,964</b>	<b>5,413,888</b>
<i>Accumulated depreciation</i>						
Beginning of financial year		983,239	852,004	145,216	-	1,980,459
Depreciation charge	7	334,288	177,876	10,597	-	522,761
Disposals		(65,413)	-	-	-	(65,413)
<b>End of financial year</b>		<b>1,252,114</b>	<b>1,029,880</b>	<b>155,813</b>	<b>-</b>	<b>2,437,807</b>
<b>Net book value</b>						
<b>End of financial year</b>		<b>2,047,141</b>	<b>908,820</b>	<b>16,156</b>	<b>3,964</b>	<b>2,976,081</b>
<b>2021</b>						
<i>Cost</i>						
Beginning of financial year		3,263,992	1,690,505	151,333	-	5,105,830
Additions		110,120	-	11,456	226,790	348,366
Modification of lease liability (Note 10(a))		(9,444)	-	-	-	(9,444)
<b>End of financial year</b>		<b>3,364,668</b>	<b>1,690,505</b>	<b>162,789</b>	<b>226,790</b>	<b>5,444,752</b>
<i>Accumulated depreciation</i>						
Beginning of financial year		643,236	682,402	130,700	-	1,456,338
Depreciation charge	7	340,003	169,602	14,516	-	524,121
<b>End of financial year</b>		<b>983,239</b>	<b>852,004</b>	<b>145,216</b>	<b>-</b>	<b>1,980,459</b>
<b>Net book value</b>						
<b>End of financial year</b>		<b>2,381,429</b>	<b>838,501</b>	<b>17,573</b>	<b>226,790</b>	<b>3,464,293</b>

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 10. Property and equipment (continued)

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 11.

- (a) During the current year, there was no modification of lease contracts. In 2021, the Branch renegotiated and modified an existing lease contract for an office unit by extending the lease term by another 3 years at unchanged lease payments. The Branch also renegotiated and modified an existing lease contract for an office unit by reducing the extension option from 3 years to 3 months at unchanged lease payments. As the extensions are not part of the terms and conditions of the original lease contracts, it is accounted for as a lease modification to the right-of-use assets, classified under 'Property and equipment'. The corresponding remeasurement to lease liability is recorded under 'Other liabilities' (Note 19).

#### 11. Leases – The Branch as a lessee

##### Property held for own use – Leasehold buildings

The Branch leases office space for the purpose of back-office operations and providing sales and financial advisory services to customers.

There are no externally imposed covenants on these lease arrangements.

- (a) Carrying amounts

##### ROU assets classified within Property and equipment

	<b>2022</b> <b>B\$</b>	2021 B\$
Property held for own use - Leasehold buildings	<b>2,047,141</b>	2,381,429

During the financial year, there were no ROU assets written-off (2021: Nil).

- (b) Depreciation charge of ROU assets during the financial year

	<b>2022</b> <b>B\$</b>	2021 B\$
Property held for own use - Leasehold buildings	<b>334,288</b>	340,003

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 11. Leases – The Branch as a lessee (continued)

##### Property held for own use – Leasehold building (continued)

(c) Interest expense

	2022 B\$	2021 B\$
Interest expense on lease liabilities	<b>53,916</b>	57,603

(d) Total cash outflow for all leases in 2022 was B\$372,023 (2021: B\$370,103).

(e) Additions and modifications of ROU assets during financial year 2022 amounted to B\$nil (2021: B\$100,676).

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

(i) Extension option

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

#### 12. Reinsurance assets

	2022 B\$	2021 B\$
Ceded insurance contract liabilities	<b>3,183,892</b>	2,947,030
Ceded outstanding claims	<b>133,645</b>	247,876
<b>Total</b>	<b>3,317,537</b>	3,194,906

Ceded insurance contract liabilities and ceded outstanding claims are largely due more than 12 months after the financial year end.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 13. Loans and deposits

	2022 B\$	2021 B\$
Policy loans	4,573,053	4,170,791
Term deposits	9,000,000	9,000,000
<b>Total</b>	<b>13,573,053</b>	<b>13,170,791</b>

Policy loans are secured by the cash value of the life policy and bear interest at 5.75% (2021: 5.75%) per annum. Policy loans have no fixed terms of repayment.

Term deposits consist of fixed deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months or are subject to a more than insignificant change in value, including statutory deposits of B\$9.0 million (2021: B\$ 9.0 million) being maintained, of which only a minimum of B\$1.0 million is required by the Brunei Darussalam Central Bank. Deposits are stated at amortised cost using the effective interest method.

#### 14. Financial investments

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

	2022 B\$	2021 B\$
Available for sale	537,215,251	620,567,410
Fair value through profit or loss		
- Designated at fair value on initial recognition	71,021,333	89,223,734
<b>Total</b>	<b>608,236,584</b>	<b>709,791,144</b>

##### Financial assets, available for sale

	2022 B\$	2021 B\$
Debt securities	411,613,315	466,898,771
Equity securities	125,601,936	153,668,639
<b>Total available for sale financial assets</b>	<b>537,215,251</b>	<b>620,567,410</b>

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 14. Financial investments (continued)

##### Financial investments, at fair value through profit or loss

	2022 B\$	2021 B\$
Equity securities	<b>71,021,333</b>	89,223,734
Total fair value through profit or loss	<b>71,021,333</b>	89,223,734

Equity securities are non-current in nature.

#### 15. Derivative financial instruments

<u>Description</u>	<u>Notional amount</u> B\$	<u>Fair values</u>	
		<u>Assets</u> B\$	<u>Liabilities</u> B\$
<b>2022</b>			
Forward exchange contracts	139,633	69	484
Total		<b>69</b>	<b>484</b>
<b>2021</b>			
Forward exchange contracts	63,300	-	266
Total		-	<b>266</b>

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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 16. Other assets

	2022 B\$	2021 B\$
Accrued investment income	4,645,996	4,700,189
Insurance receivables		
- Due from agents and brokers	1,146	1,110
- Due from insurance contract holders	2,518,603	2,238,152
Related party receivables	97,892	401,478
Receivables from sales of investments	19,593	-
Other receivables	588,927	463,579
Prepayments	48,334	27,940
	<u>7,920,491</u>	<u>7,832,448</u>

Amounts in other assets 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.

#### 17. Cash and cash equivalents

	2022 B\$	2021 B\$
Cash at bank and on hand	4,635,911	5,088,117
Short-term highly liquid investments	7,596,049	-
	<u>12,231,960</u>	<u>5,088,117</u>



## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 18. Insurance contracts

	2022 B\$	2021 B\$
Beginning of financial year	442,652,439	440,395,540
Valuation premiums and deposits	44,968,937	48,558,482
Liabilities released for policy termination or other policy benefits paid and related expenses	(21,311,422)	(27,459,238)
Fees from account balances	(4,733,033)	(4,874,218)
Change in net asset values attributable to policyholders	(26,155,274)	(9,011,613)
Foreign exchange movement	(1,371,075)	767,123
Other movements	(51,232,174)	(5,723,637)
End of the financial year	<u>382,818,398</u>	<u>442,652,439</u>

Amounts in other movements mainly consist of changes in assumptions on policy liabilities as mentioned in Note 4(c) as well as actual investment return affecting the bonus declaration for Participating Fund policies.

#### 19. Other liabilities

	2022 B\$	2021 B\$
Trade and other payables	14,347,460	13,832,436
Life insurance deposits	17,304,423	18,278,319
Policy dividend payable	28,888,476	25,939,014
Investment payables	119,978	66,805
Reinsurance payables	440,285	354,096
Payables to other related companies	161,400	1,204,839
Lease liabilities	2,257,465	2,575,572
	<u>63,519,487</u>	<u>62,251,081</u>

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.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 20. Reserves

	2022 B\$	2021 B\$
(a) <i>Composition:</i>		
Fair value reserve	(34,514,252)	31,973,251
Other reserves	114,584	67,822
	<u>(34,399,668)</u>	<u>32,041,073</u>
(b) <i>Movements</i>		
(i) <i>Fair value reserve</i>		
Beginning of financial year	31,973,251	81,920,544
Financial assets, available for sale		
- Fair value losses on available for sale financial assets	(96,043,949)	(26,124,483)
- Fair value losses/(gains) on available for sale financial assets transferred to profit or loss on disposal	6,812,966	(23,822,810)
- Impairment of available for sale financial assets	22,743,480	-
	<u>(66,487,503)</u>	<u>(49,947,293)</u>
End of financial year	<u>(34,514,252)</u>	<u>31,973,251</u>
(ii) <i>Other reserves</i>		
Beginning of financial year	67,822	57,414
Movement for the financial year	46,762	10,408
End of financial year	<u>114,584</u>	<u>67,822</u>

Other reserves represent share-based compensation reserves and are non-distributable.

## **AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2022*

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#### **21. Risk management**

The Branch issues contracts that involve insurance risk, financial risk or both. This section summarises these risks and the way the Branch and Head Office has been managing them.

Besides the local statutory regulations, the Branch adopts the overall policies, standards and procedures set up by the AIA 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.

##### **Lapse**

This is the risk that the rate of policies termination deviates from the Branch’s expectation.

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

The Branch 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 Branch 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 Branch’s very substantial experience within the markets in which the Branch operates.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### 21. Risk management (continued)

##### (A) Insurance risk (continued)

###### **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 Branch 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 Branch's actuarial team 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.

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 Branch seeks to anticipate and respond promptly to potential adverse experience impacts on its products.

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.

###### **Premium Risk**

Premiums and risk charges for certain term insurance policies, investment-linked policies and accident and health riders are not guaranteed. They may be changed after the 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 Branch's liabilities. The Branch is also exposed to geographical concentration of risk as most of the business is residing in Brunei.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### 21. Risk management (continued)

##### (A) Insurance risk (continued)

###### 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.

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.

###### 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 Branch mitigates and manages insurance risk by:

- Conducting regular experience studies, where there is sufficient credible experience, and considering the impact of these on product design, pricing and reinsurance needs.
- Operating within the underwriting and claims management policies 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### 21. Risk management (continued)

##### (A) Insurance risk (continued)

###### **Terms and conditions of major products**

###### Traditional insurance contracts with DPF (life business)

These insurance contracts include whole life insurance, and endowment insurance, 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.

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 Branch has the discretion to vary the amount or timing of the distribution of these bonuses. To manage policyholders' reasonable expectations, the Branch 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.

###### Traditional insurance contracts without DPF

These contracts are non-participating and are mainly protection based.

For protection based contracts, the Branch 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) – 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 Branch. 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 Branch bears little or no investment risk as the policyholders bear the investment risk.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (A) Insurance risk (continued)

##### Terms and conditions of major products (continued)

The tables below present the Branch's liabilities for major categories of insurance contracts.

Traditional insurance contracts (life business):

Product type	2022				2021			
	Before reinsurance		After reinsurance		Before reinsurance		After reinsurance	
	B\$	%	B\$	%	B\$	%	B\$	%
With DPF	284,404,487	90%	283,217,692	91%	324,602,225	91%	323,003,484	91%
Without DPF	31,568,883	10%	29,571,786	9%	33,687,744	9%	32,339,455	9%
Total	315,973,370	100%	312,789,478	100%	358,289,969	100%	355,342,939	100%

Investment-type insurance contracts (life business):

Product type	2022				2021			
	Before Reinsurance		After Reinsurance		Before reinsurance		After reinsurance	
	B\$	%	B\$	%	B\$	%	B\$	%
Investment-linked	66,845,028	100%	66,845,028	100%	84,362,470	100%	84,362,470	100%
Total	66,845,028	100%	66,845,028	100%	84,362,470	100%	84,362,470	100%
<b>Total insurance contracts-life</b>	<b>382,818,398</b>		<b>379,634,506</b>		<b>442,652,439</b>		<b>439,705,409</b>	

#### (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 and foreign exchange rate risk) and liquidity risk. The Branch 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 Branch'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 Branch 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 Branch does not have expertise or resources, it will outsource the management to a third-party manager and monitor the performance regularly.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### 21. Risk management (continued)

##### (B) Financial risk (continued)

##### (a) Liquidity risk

Liquidity risk is the risk that the Branch has insufficient cash or liquid assets available to meet its obligations when they become due. The Branch is exposed to liquidity risk in respect of insurance policies that permit surrender, withdrawal or other forms of early termination.

The Branch's liquidity is primarily derived from the operating cash flows of its life insurance operations.

Sources of funds considered in meeting the objectives of the Branch's operations include sales of securities available for sale and cash provided from such operations.

Management believes that the Branch's liquid assets, its net cash provided by operations, and access to the capital markets will enable it to meet any foreseeable cash requirements.

The Branch seeks to manage liquidity risk by matching to the extent possible and appropriate the duration of the investment assets with the duration of the insurance policies.

The Branch relies on a broad range of liquidity sources to meet funding needs. The Branch funds the operations mainly through the receipt of written premiums and policy fees from policyholders and the related investment income.

The primary goal of the Branch's asset and liability management activities is to achieve an optimal return while maintaining adequate levels of liquidity and capital and limiting overall risk exposure. In particular, the Branch has implemented various measures to:

- Design insurance products with a view towards reducing the possibility of unexpected liquidity demands.
- Monitor the Branch's liquidity position in compliance with regulatory and internal requirements.
- Prepare regular maturity gap analyses to enable management to review and monitor liquidity positions on a timely basis.



# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

##### (a) Liquidity risk (continued)

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

	Due in 1 year or less B\$	Due after 1 year through 5 years B\$	Due after 5 years through 10 years B\$	Due after 10 years B\$	No maturity B\$	Total B\$
<b>2022</b>						
<b>Financial assets</b>						
Debt securities:						
- Available for sale	1,283,568	75,335,538	93,757,298	241,236,911	-	411,613,315
Equity securities:						
- Available for sale	-	-	-	-	125,601,936	125,601,936
- At fair value through profit or loss	-	-	-	-	71,021,333	71,021,333
Loans and deposits	9,000,000	-	-	-	4,573,053	13,573,053
Other assets (exclude prepayments)	7,817,770	54,387	-	-	-	7,872,157
Derivative financial instruments	69	-	-	-	-	69
Cash and cash equivalents	12,231,960	-	-	-	-	12,231,960
	<u>30,333,367</u>	<u>75,389,925</u>	<u>93,757,298</u>	<u>241,236,911</u>	<u>201,196,322</u>	<u>641,913,823</u>
<b>Financial liabilities</b>						
Derivative financial instruments	(484)	-	-	-	-	(484)
Outstanding claims	(745,597)	-	-	-	-	(745,597)
Other liabilities (exclude lease liabilities)	(61,262,022)	-	-	-	-	(61,262,022)
Undiscounted contractual lease liabilities	(370,103)	(1,458,251)	(586,077)	-	-	(2,414,431)
	<u>(62,378,206)</u>	<u>(1,458,251)</u>	<u>(586,077)</u>	<u>-</u>	<u>-</u>	<u>(64,422,534)</u>
	Due in 1 year or less B\$	Due after 1 year through 5 years B\$	Due after 5 years through 10 years B\$	Due after 10 years B\$	No maturity B\$	Total B\$
<b>2021</b>						
<b>Financial assets</b>						
Debt securities:						
- Available for sale	13,195,076	79,207,801	118,202,045	256,293,849	-	466,898,771
Equity securities:						
- Available for sale	-	-	-	-	153,668,639	153,668,639
- At fair value through profit or loss	-	-	-	-	89,223,734	89,223,734
Loans and deposits	9,000,000	-	-	-	4,170,791	13,170,791
Other assets (exclude prepayments)	7,754,311	50,197	-	-	-	7,804,508
Cash and cash equivalents	5,088,117	-	-	-	-	5,088,117
	<u>35,037,504</u>	<u>79,257,998</u>	<u>118,202,045</u>	<u>256,293,849</u>	<u>247,063,164</u>	<u>735,854,560</u>
<b>Financial liabilities</b>						
Derivative financial instruments	(266)	-	-	-	-	(266)
Outstanding claims	(921,717)	-	-	-	-	(921,717)
Other liabilities (exclude lease liabilities)	(59,675,509)	-	-	-	-	(59,675,509)
Undiscounted contractual lease liabilities	(372,023)	(1,484,731)	(929,700)	-	-	(2,786,454)
	<u>(60,969,515)</u>	<u>(1,484,731)</u>	<u>(929,700)</u>	<u>-</u>	<u>-</u>	<u>(63,383,946)</u>

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

##### (a) Liquidity risk (continued)

##### (ii) Undiscounted cash flow by insurance contracts

Insurance contract liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a certain nature. Insurance contract liabilities also include insurance benefits and claims 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 Branch 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 Branch's control.

The Branch has made significant assumptions to determine the estimated undiscounted cash flows of these insurance benefits and claims, 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 profile 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 B\$	Due after 1 year through 5 years B\$	Due after 5 years through 10 years B\$	Due after 10 years B\$	Total B\$
<b>2022</b>					
<b>Liabilities</b>					
Insurance contracts	11,813,600	35,228,066	(23,427,326)	(989,432,017)	(965,817,677)
<b>2021</b>					
<b>Liabilities</b>					
Insurance contracts	10,392,099	27,287,334	(21,731,370)	(997,555,942)	(981,607,879)

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### **21. 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 Financial Risk Committee approves all policies and metrics associated with the evaluation of market risk exposures.

##### **Equity price risk**

Equity price risk arises from changes in the market value of equity securities and equity funds. Investment in equity assets on a long-term basis is expected to provide diversification benefits and enhance returns.

The Branch is exposed to equity security price risk arising from the investments held by the Branch 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 in Singapore. For investment-linked contracts, the equity security price risk is borne by contract holders.

##### **Interest rate risk**

The Branch's exposure to interest rate risk predominantly arises from any difference between the tenor 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 Branch'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.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

##### (b) Market risk (continued)

##### Interest rate risk (continued)

Insurance contracts with guaranteed and fixed terms carry the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable. For other insurance contracts, the Branch is exposed to significantly less interest rate risk. This is in part because of the presence of non-guaranteed benefits (like dividends and bonuses) under participating contracts. For investment-linked contracts, the interest rate risk is borne by contract holders.

The Branch 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 the investment assets with the duration of insurance liabilities. For in-force policies, the Branch 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 interest rate risk associated with financial assets:

	Variable <u>rates</u> B\$	Fixed <u>rates</u> B\$	Non-interest <u>bearing</u> B\$	<u>Total</u> B\$
<b>At 31 December 2022</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	12,221,848	-	10,112	12,231,960
Debt securities	33,126,522	377,203,225	1,283,568	411,613,315
Equity securities	-	-	196,623,269	196,623,269
Loans and deposits	-	13,573,053	-	13,573,053
Derivative financial instruments	-	-	69	69
Other assets (exclude prepayments)	-	-	7,872,157	7,872,157
<b>Total financial assets</b>	<b>45,348,370</b>	<b>390,776,278</b>	<b>205,789,175</b>	<b>641,913,823</b>
<b>At 31 December 2021</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	5,088,016	-	101	5,088,117
Debt securities	35,529,482	431,369,289	-	466,898,771
Equity securities	-	-	242,892,373	242,892,373
Loans and deposits	-	13,170,791	-	13,170,791
Other assets (exclude prepayments)	-	-	7,804,508	7,804,508
<b>Total financial assets</b>	<b>40,617,498</b>	<b>444,540,080</b>	<b>250,696,982</b>	<b>735,854,560</b>

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

##### (b) Market risk (continued)

#### Interest rate risk (continued)

##### Effect of IBOR reform

Following the global financial crisis, the reform and replacement inter-bank offered rates ("IBOR") has become a priority for global regulators. The Branch's risk exposure that is directly affected by the IBOR reform predominantly comprises its variable rate debt securities that are linked to the Singapore Swap Offer Rate ("SOR") or the USD LIBOR.

The following table contains details of all the financial instruments that the Branch holds at 31 December 2022 which have not yet transitioned to new benchmark rates.

	Carrying amount	Of which: not yet transitioned to an alternative benchmark rate
	B\$	B\$
Non-derivative financial assets	641,913,754	40,892,777
Non-derivative financial liabilities	(62,007,619)	-
Derivative financial assets	69	-
Derivative financial liabilities	(484)	-
	<u>579,905,720</u>	<u>40,892,777</u>

The following table contains details of all the financial instruments that the Branch holds at 31 December 2021 which have not yet transitioned to new benchmark rates.

	Carrying amount	Of which: not yet transitioned to an alternative benchmark rate
	B\$	B\$
Non-derivative financial assets	735,854,560	51,069,648
Non-derivative financial liabilities	(60,597,226)	-
Derivative financial liabilities	(266)	-
	<u>675,257,068</u>	<u>51,069,648</u>

The Branch's investment function is managing the Branch's transition plan. There is currently uncertainty around the timing and precise nature of these changes. The Branch monitors the exposure to instruments subject to such reform and is in the process of implementing changes to systems, processes, risk management procedures and valuation models that may arise as a consequence of the reform. Such reform has no impact on the Branch's risk management strategy. Risks arising from instruments that are subject to such transition are not considered significant.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. 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 Branch invests in non-government securities in a number of its portfolios. Because these securities are mostly held to maturity, credit spread risk is only taken to the extent that the Branch may be forced to sell those securities before they mature.

The Branch 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 Branch is exposed to foreign exchange rate risk due to changes in and volatility of foreign currency exchange rates. The Branch's non-monetary assets and liabilities are denominated in Singapore and Brunei Dollars.

Based on the currency interchangeability agreement, Brunei and Singapore adopted a system of free interchangeability of their respective currencies, which took effect from 12 June 1967. Under the agreement, each country undertakes to accept the currency issued by the other and to exchange them, at par and without charge, into their own currency.

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

	<u>BND</u> B\$	<u>SGD</u> B\$	<u>AUD</u> B\$	<u>USD</u> B\$	<u>Others</u>	<u>Total</u> B\$
<b>At 31 December 2022</b>						
<b>Assets</b>						
Property and equipment	2,976,081	-	-	-	-	2,976,081
Reinsurance assets	167,624	3,149,913	-	-	-	3,317,537
Loans and deposits	12,081,571	75,887	-	1,415,595	-	13,573,053
Debt and equity securities	109,000	503,616,714	19,011,750	85,258,759	240,361	608,236,584
Derivative financial instruments	-	-	-	69	-	69
Deferred tax assets	4,840,481	-	-	-	-	4,840,481
Other assets	1,953,949	4,033,583	281,760	1,650,839	360	7,920,491
Cash and cash equivalents	1,645,864	9,694,809	314,332	576,038	917	12,231,960
Total assets	23,774,570	520,570,906	19,607,842	88,901,300	241,638	653,096,256
<b>Liabilities</b>						
Insurance contracts	218,799,978	76,573,461	18,224,209	69,220,750	-	382,818,398
Outstanding claims	676,003	-	-	69,594	-	745,597
Derivative financial instruments	-	-	-	484	-	484
Current tax liabilities	8,230,256	-	-	-	-	8,230,256
Other liabilities (exclude lease liabilities)	37,737,046	-	154,992	23,369,529	455	61,262,022
Lease liabilities	2,257,465	-	-	-	-	2,257,465
Total liabilities	267,700,748	76,573,461	18,379,201	92,660,357	455	455,314,222
Net exposure	(243,926,178)	443,997,445	1,228,641	(3,759,057)	241,183	197,782,034

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

##### (b) Market risk (continued)

#### Foreign exchange rate risk (continued)

	BND B\$	SGD B\$	AUD B\$	USD B\$	Total B\$
<b>At 31 December 2021</b>					
<b>Assets</b>					
Property and equipment	3,464,293	-	-	-	3,464,293
Reinsurance assets	275,830	2,919,076	-	-	3,194,906
Loans and deposits	11,805,865	35,989	-	1,328,937	13,170,791
Debt and equity securities	109,000	592,746,574	24,725,903	92,209,667	709,791,144
Other assets	1,594,968	4,161,311	290,205	1,785,964	7,832,448
Cash and cash equivalents	2,996,409	1,342,344	221,010	528,354	5,088,117
Total assets	20,246,365	601,205,294	25,237,118	95,852,922	742,541,699
<b>Liabilities</b>					
Insurance contracts	255,028,641	80,922,531	23,663,546	83,037,721	442,652,439
Outstanding claims	816,624	-	-	105,093	921,717
Derivative financial instruments	-	-	-	266	266
Current tax liabilities	12,472,382	-	-	-	12,472,382
Other liabilities (exclude lease liabilities)	37,839,709	-	108,077	21,727,723	59,675,509
Lease liabilities	2,575,572	-	-	-	2,575,572
Total liabilities	308,732,928	80,922,531	23,771,623	104,870,803	518,297,885
Net exposure	(288,486,563)	520,282,763	1,465,495	(9,017,881)	224,243,814

	Increase/(decrease)		
	Profit before tax B\$	Other comprehensive income B\$	Total equity B\$
<b>2022</b>			
AUD/BND - strengthened 10%	122,864	-	122,864
AUD/BND - weakened 10%	(122,864)	-	(122,864)
USD/BND - strengthened 10%	(1,704,046)	1,328,140	(375,906)
USD/BND - weakened 10%	1,704,046	(1,328,140)	375,906
<b>2021</b>			
AUD/BND - strengthened 10%	146,550	-	146,550
AUD/BND - weakened 10%	(146,550)	-	(146,550)
USD/BND - strengthened 10%	(1,802,905)	901,117	(901,788)
USD/BND - weakened 10%	1,802,905	(901,117)	901,788

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 21. Risk management (continued)

##### (B) Financial risk (continued)

##### (c) Credit risk

Credit risk is the risk that third parties fail to meet their obligations to the Branch when they fall due. Although the primary source of credit risk is the Branch's investment portfolio, such risk can also arise through reinsurance, procurement and treasury activities.

The Branch primarily manages the levels of credit risk it accepts on investments by investing only in securities with a minimum credit quality and placing limits on its exposure to securities of the same issuer, or in the same industry sector or geographical area.

To help manage this risk, the Branch adopts the overall policies, standards and procedures set up by AIA 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.

	2022 B\$	2021 B\$
Cash and cash equivalents	12,231,960	5,088,117
Other assets (exclude prepayments)	7,872,157	7,804,508
Debt securities:		
- Available for sale	411,613,315	466,898,771
Loans and deposits	13,573,053	13,170,791
Derivative financial instruments	69	-
<b>Total assets bearing credit risk</b>	<b>445,290,554</b>	<b>492,962,187</b>



## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 21. 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 Branch when no information is available from Standard & Poors):

	Available for sale B\$
<b>31 December 2022</b>	
Debt securities:	
AAA	235,671,875
AA	6,034,169
A	76,268,535
BBB	93,638,736
Below BBB or not rated	-
<b>Total debt securities</b>	<b>411,613,315</b>
<b>31 December 2021</b>	
Debt securities:	
AAA	265,557,723
AA	5,578,029
A	88,404,620
BBB	106,112,214
Below BBB or not rated	1,246,185
<b>Total debt securities</b>	<b>466,898,771</b>

#### *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 due from companies with good collection track record with the Branch.

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

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 21. Risk management (continued)

##### (B) Financial risk (continued)

##### (c) Credit risk (continued)

###### *Financial assets that are past due*

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

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

	2022 B\$	2021 B\$
Past due < 12 months	168,932	28,895
Past due over 12 months	54,387	50,197
	<u>223,319</u>	<u>79,092</u>

##### (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 Branch may enter into derivative transactions as an end user. The more significant types of derivative arrangements in which the Branch transacts are forward contracts.

##### (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 Branch'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% (2021: 10%) and interest rate for debt securities had changed by 50 basis points (2021: 50 basis points) with all other variables including tax rate being held constant, the effects on profit before tax and other comprehensive income and total equity would have been:

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

#### (e) Sensitivity analysis (continued)

	2022 Increase/(decrease)		
	Profit before tax	Other comprehensive income	Total equity
	B\$	B\$	B\$
10% rise in equity price	-	12,560,194	12,560,194
10% fall in equity price	-	(12,560,194)	(12,560,194)
50 basis point rise in interest rates	-	(21,898,196)	(21,898,196)
50 basis point fall in interest rates	-	21,898,196	21,898,196

	2021 Increase/(decrease)		
	Profit before tax	Other comprehensive income	Total equity
	B\$	B\$	B\$
10% rise in equity price	-	15,366,864	15,366,864
10% fall in equity price	-	(15,366,864)	(15,366,864)
50 basis point rise in interest rates	-	(25,394,252)	(25,394,252)
50 basis point fall in interest rates	-	25,394,252	25,394,252

#### (f) Fair value measurements

##### (i) Financial instruments by category

The Branch classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

#### (f) Fair value measurements (continued)

##### (i) Financial instruments by category (continued)

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

B\$	Note	Fair value				Total carrying value	Total fair value
		Designated at fair value through profit and loss	Held-for-trading	Available for sale	Loans and receivables		
<b>31 December 2022</b>							
Loans and deposits	13	-	-	-	13,573,053	13,573,053	
Financial investments:							
- Debt securities	14	-	-	411,613,315	-	411,613,315	411,613,315
- Equity securities	14	71,021,333	-	125,601,936	-	196,623,269	196,623,269
Derivative financial instruments	15	-	69	-	-	69	69
Other assets (exclude prepayments)	16	-	-	-	7,872,157	7,872,157	
Cash and cash equivalents	17	-	-	-	12,231,960	12,231,960	
<b>Financial assets</b>		<b>71,021,333</b>	<b>69</b>	<b>537,215,251</b>	<b>33,677,170</b>	<b>641,913,823</b>	

B\$	Note	Fair value through profit or loss	Held-for-trading	Financial liabilities at amortised cost	Total carrying value	Total fair value
<b>31 December 2022</b>						
Financial liabilities:						
Derivative financial instruments	15	-	484	-	484	484
Outstanding claims		-	-	745,597	745,597	
Other liabilities (exclude lease liabilities)	19	-	-	61,262,022	61,262,022	
<b>Financial liabilities</b>		<b>-</b>	<b>484</b>	<b>62,007,619</b>	<b>62,008,103</b>	

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

#### (f) Fair value measurements (continued)

##### (i) Financial instruments by category (continued)

	Note	Fair value			Total carrying value	Total fair value
		Designated at fair value through profit and loss	Available for sale	Loans and receivables		
B\$						
<b>31 December 2021</b>						
Loans and deposits	13	-	-	13,170,791	13,170,791	
Financial investments:						
- Debt securities	14	-	466,898,771	-	466,898,771	466,898,771
- Equity securities	14	89,223,734	153,668,639	-	242,892,373	242,892,373
Other assets (exclude prepayments)	16	-	-	7,804,508	7,804,508	
Cash and cash equivalents	17	-	-	5,088,117	5,088,117	
<b>Financial assets</b>		<b>89,223,734</b>	<b>620,567,410</b>	<b>26,063,416</b>	<b>735,854,560</b>	

	Note	Fair value through profit or loss	Held-for-trading	Financial liabilities at amortised cost	Total carrying value	Total fair value
B\$						
<b>31 December 2021</b>						
Financial liabilities:						
Derivative financial instruments	15	-	266	-	266	266
Outstanding claims		-	-	921,717	921,717	
Other liabilities (exclude lease liabilities)	19	-	-	59,675,509	59,675,509	
<b>Financial liabilities</b>		<b>-</b>	<b>266</b>	<b>60,597,226</b>	<b>60,597,492</b>	

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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### 21. Risk management (continued)

##### (B) Financial risk (continued)

##### (f) Fair value measurements (continued)

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

The Branch measures at fair value financial instruments classified at fair value through profit or loss, available for sale securities portfolios and derivatives 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 following methods and assumptions were used by the Branch to estimate the fair value of financial instruments.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 21. Risk management (continued)

##### (B) Financial risk (continued)

##### (f) Fair value measurements (continued)

##### (iii) Determination of fair value measurement on a recurring basis

###### *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.

###### *Derivative financial instruments*

The Branch 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 Branch 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, 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.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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**21. Risk management** (continued)

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

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

**(iii) Determination of fair value measurement on a recurring basis**  
(continued)

*Derivative financial instruments* (continued)

When the Branch holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Branch 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 require the exchange of collateral on the basis of each party's net credit risk exposure). The Branch 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 the relevant counterparty 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 receivables*

The carrying amount of receivable from reinsurers is not considered materially different to their fair value due to its short term nature.

*Policy loans*

The carrying amount of policy loans approximate their fair value.

*Other assets*

The carrying amount of other assets is not materially different to their fair values. 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.

*Other liabilities*

The fair values of other unquoted liabilities is 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.



## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 21. Risk management (continued)

##### (B) Financial risk (continued)

##### (f) Fair value measurements (continued)

##### (iv) 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 Branch has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Branch 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 Branch considers that government debt securities issued by G7 countries (United States, Canada, France, Germany, Italy, Japan, and 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.
- 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, and direct private equity investments.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 21. Risk management (continued)

#### (B) Financial risk (continued)

#### (f) Fair value measurements (continued)

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

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 Branch's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Branch considers factors specific to the asset or liability.

The following table presents the Branch's assets and liabilities measured at fair value at 31 December 2022.

	Level 1 B\$	Level 2 B\$	Level 3 B\$	Total B\$
<b>31 December 2022</b>				
<b>Recurring fair value measurements</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities	71,021,333	-	-	71,021,333
Available for sale financial assets				
- Equity securities	103,115,458	22,486,478	-	125,601,936
- Debt securities	-	411,613,315	-	411,613,315
Derivative financial instruments	-	69	-	69
<b>Total assets on a recurring fair value measurement basis</b>	<b>174,136,791</b>	<b>434,099,862</b>	<b>-</b>	<b>608,236,653</b>
<b>Liabilities</b>				
Derivative financial instruments	-	(484)	-	(484)
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>-</b>	<b>(484)</b>	<b>-</b>	<b>(484)</b>
	Level 1 B\$	Level 2 B\$	Level 3 B\$	Total B\$
<b>31 December 2021</b>				
<b>Recurring fair value measurements</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Equity securities	89,223,734	-	-	89,223,734
Available for sale financial assets				
- Equity securities	135,325,149	18,343,490	-	153,668,639
- Debt securities	-	466,898,771	-	466,898,771
Derivative financial instruments	-	-	-	-
<b>Total assets on a recurring fair value measurement basis</b>	<b>224,548,883</b>	<b>485,242,261</b>	<b>-</b>	<b>709,791,144</b>
<b>Liabilities</b>				
Derivative financial instruments	-	(266)	-	(266)
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>-</b>	<b>(266)</b>	<b>-</b>	<b>(266)</b>

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 21. Risk management (continued)

##### (B) Financial risk (continued)

##### (f) Fair value measurements (continued)

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

The Branch applies the policy to recognise the transfers into and transfer out of the levels of fair value hierarchy as of the end of the quarter during which the event or change in circumstances has caused the transfer.

The Branch'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. 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.

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.

There are no transfers into or out of fair value hierarchy levels for the financial year ended 31 December 2022.

#### Valuation processes

The Branch 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 Branch 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. The 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 Pricing Committee ("GPC") which is part of the Branch's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The Branch 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 Branch uses the proxy pricing method based on internally developed valuation inputs.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 22. Employee compensation

During the financial year ended 31 December 2022, the AIA Group made further awards of share options and restricted share units (“RSUs”) to certain directors, officers and employees of the Branch under the 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”).

##### (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 awards 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 the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares.

	2022 Number of shares	2021 Number of shares
<b>Restricted Share Units</b>		
Outstanding at beginning of financial year	10,872	12,304
Granted	4,738	3,100
Vested	(2,075)	(2,508)
Forfeited	(1,655)	(2,024)
Outstanding at end of financial year	11,880	10,872

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 22. Employee compensation (continued)

##### (ii) ESPP

Under the plan, eligible employees of the Branch 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% (2021: 10%) of the annual basic salary subject to a maximum of HK\$150,000 (2021: HK\$150,000) per annum. The awarded matching restricted stock purchase units are expected to be settled in equity. For the financial year ended 31 December 2022, eligible employees paid B\$79,962 (2021: B\$69,246) to purchase 5,821 (2021: 4,338) ordinary shares of AIAGL.

##### (iii) 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 Branch 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 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 level of qualified agent contribution is subject to a maximum of HK\$150,000 (2021: HK\$150,000) per annum. For the financial year ended 31 December 2022, eligible agents paid B\$143,598 (2021: B\$125,790) to purchase 10,614 (2021: 7,936) ordinary shares of AIAGL.

# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 22. Employee compensation (continued)

#### (iv) Valuation methodology

The Branch 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 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 Branch's employees. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date. An allowance for forfeiture prior to vesting is not included in the valuation of the awards.

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 2022		
	<u>Restricted share units</u>	<u>ESPP Restricted stock purchase units</u>	<u>ASPP Restricted stock subscription units</u>
<b>Assumptions</b>			
Risk-free interest rate	1.57%	3.83%	2.12%
Volatility	26%	NA	NA
Dividend yield	1.7%	1.6%	1.7%
Weighted average fair value per option/unit at measurement date (HK\$)	63.74	73.56	58.32

	Year ended 31 December 2021		
	<u>Restricted share units</u>	<u>ESPP Restricted stock purchase units</u>	<u>ASPP Restricted stock subscription units</u>
<b>Assumptions</b>			
Risk-free interest rate	0.27%*	0.29%-0.45%	0.37%
Volatility	26%	NA	NA
Dividend yield	1.6%	1.6%-1.7%	1.6%
Weighted average fair value per option/unit at measurement date (HK\$)	64.63	72.06	71.35

\* Applicable to RSU with market conditions.

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 22. Employee compensation (continued)

##### (v) *Recognised compensation cost*

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme, ESPP & ASPP by the Branch for the financial year ended 31 December 2022 is B\$146,240 (2021: B\$90,675).

#### 23. Related party transactions

In the normal course of its business, the Branch carries out transactions with related parties, principally with its head office, and with branches and subsidiaries of its Head Office.

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

	2022 B\$	2021 B\$
Reinsurance premiums paid to related company	201,023	215,906
Reinsurance claims recovered from related company	31,298	4,374
Reinsurance commission received from related company	1,499	2,066
Service fee and other expenses paid to Head Office	5,504,144	3,931,539
Service fee and other expenses paid to related companies	1,691,384	1,802,523
Service fee and other expenses paid to ultimate holding company	152,060	100,166
Payment made on behalf by Head Office	159,039	187,909
Payment made on behalf by ultimate holding company	228,648	191,560
Payment made on behalf by related companies	-	637
Net collection of premium on behalf by Head Office	1,729,383	1,630,346

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2022*

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#### **23. Related party transactions (continued)**

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

Outstanding balances at 31 December 2022, arising from the services, are unsecured and payable within 12 months from balance sheet date and are disclosed in Note 19.

Remuneration of key management personnel is disclosed in Note 7.

#### **24. Capital management**

##### Objectives, policies and processes for managing capital

The primary capital management objectives of the Branch are to maintain a strong capital base to support the development of its business and to satisfy regulatory capital requirements at all times.

The Branch recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a conservative balance. The Branch has in place a Capital Management Policy.

##### Externally imposed capital requirements

Regulatory capital requirements arise from the Branch's insurance operations. The Branch is in compliance with the solvency and capital adequacy requirements of its regulators. The primary insurance regulator of the Branch is the Brunei Darussalam Central Bank.

The solvency status of the Branch is reported to executive management on a frequent basis to facilitate pre-emptive actions when necessary.

The Branch is required to comply with the regulatory capital requirement prescribed in the Insurance Order, 2006 and Insurance Regulations, 2006:

- Excess of Assets over Liabilities: Section 8, Insurance Regulation 2006
- Premium Test: Section 10, Insurance Regulation 2006
- Fund Margin of Solvency: Section 21(4), Insurance Order 2006 and Section 8, Insurance Regulation 2006

The Branch has a Fund Margin of Solvency of 143% for the financial year ended 31 December 2022 (2021: 143%).

The Branch's Fund Margin of Solvency will be 151% (2021: 152%) if unit reserves of investment-linked plan are exempted in the application of clause 10 of Insurance Regulation 2006.



# AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

### 25. Disclosure on temporary exemption from IFRS 9

According to IFRS 4 Amendments, the Branch made the assessment based on the carrying amounts as at the annual reporting date that immediately precedes 1 April 2016. The Branch concluded that the carrying amount of the Branch's liabilities arising from contracts within the scope of IFRS 4 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 Branch since then that requires reassessment. Therefore, the Branch's activities are predominantly connected with insurance, meeting the criteria to apply temporary exemption from IFRS 9.

- (a) The table below presents the fair value of the following groups of financial assets under IFRS 9 as at 31 December 2022 and fair value changes for the year ended 31 December 2022:

	Fair value as at 31 December 2022 B\$	Fair value (losses) for the year ended 31 December 2022 B\$
Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	435,620,953	(64,158,432)
Others	206,292,870	(47,577,593)
	<b>641,913,823</b>	<b>(111,736,025)</b>
	Fair value as at 31 December 2021 B\$	Fair value (losses) for the year ended 31 December 2021 B\$
Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	484,156,094	(29,092,870)
Others	251,698,466	(35,355,549)
	<b>735,854,560</b>	<b>(64,448,419)</b>

## AIA SINGAPORE PRIVATE LIMITED – BRUNEI DARUSSALAM BRANCH

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

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#### 25. Disclosure on temporary exemption from IFRS 9 (continued)

- (b) The table below presents the credit risk exposure for aforementioned financial assets with contractual terms with cash flows that are solely principal and interest payments:

	Carrying amount as at 31 December 2022 B\$
AAA	245,687,779
AA	14,112,380
A	75,054,584
BBB	92,817,707
Below BBB or not rated	7,948,503
	<u>435,620,953</u>
	Carrying amount as at 31 December 2021 B\$
AAA	267,912,786
AA	13,632,169
A	83,149,146
BBB	110,742,439
Below BBB or not rated	8,719,554
	<u>484,156,094</u>

As at reporting date, fair value of financial assets that do not have low credit risk (i.e. below investment grade as defined by Moody's) is B\$7.9 million (2021: B\$8.7 million).

#### 26. Authorisation of financial statements

These financial statements were authorised for issue by the Board of Directors of AIA Singapore Private Limited on 30 March 2023.