IFRS 17 Update

PING AN
Expertise Creates Value

35th
1988-2023

July 2023

Cautionary Statements Regarding Forward-Looking Statements

To the extent any statements made in this Report contain information that is not historical, these statements are essentially forward-looking. These forward-looking statements include but are not limited to projections, targets, estimates and business plans that the Company expects or anticipates may or may not occur in the future. Words such as “potential”, “estimates”, “expects”, “anticipates”, “objective”, “intends”, “plans”, “believes”, “will”, “may”, “should”, variations of these words and similar expressions are intended to identify forward-looking statements.

These forward-looking statements are subject to known and unknown risks and uncertainties that may be general or specific. Readers should be cautioned that a variety of factors, many of which are beyond the Company’s control, affect the performance, operations and results of the Company, and could cause actual results to differ materially from the expectations expressed in any of the Company’s forward-looking statements. These factors include, but are not limited to, exchange rate fluctuations, market shares, competition, environmental risks, changes in legal, financial and regulatory frameworks, international economic and financial market conditions and other risks and factors beyond our control. These and other factors should be considered carefully and readers should not place undue reliance on the Company’s forward-looking statements. In addition, the Company undertakes no obligation to publicly update or revise any forward-looking statement that is contained in this Report as a result of new information, future events or otherwise. Neither the Company nor any of its employees or affiliates is responsible for, or is making, any representations concerning the future performance of the Company.

Contents

IFRS 17: No change to business nature and strategy

Mar. 2023

2022 Annual Report
- Key changes brought by IFRS 17 and its impacts

Apr. 2023

Q1 2023 Report
- The first financial statements under IFRS 17

Before Interim Report 2023

Interim voluntary announcements
- Key financial information under IFRS 17 for the same period in 2022

Aug. 2023

2023 Interim Report
- Interim financial statements with notes under IFRS 17

IFRS 17 will not change our business nature or business strategy

- Product strategy will not be impacted
- Solvency position will not be impacted
- No material change in the management of asset-liability matching

Impacts of IFRS 17 on key financial indicators

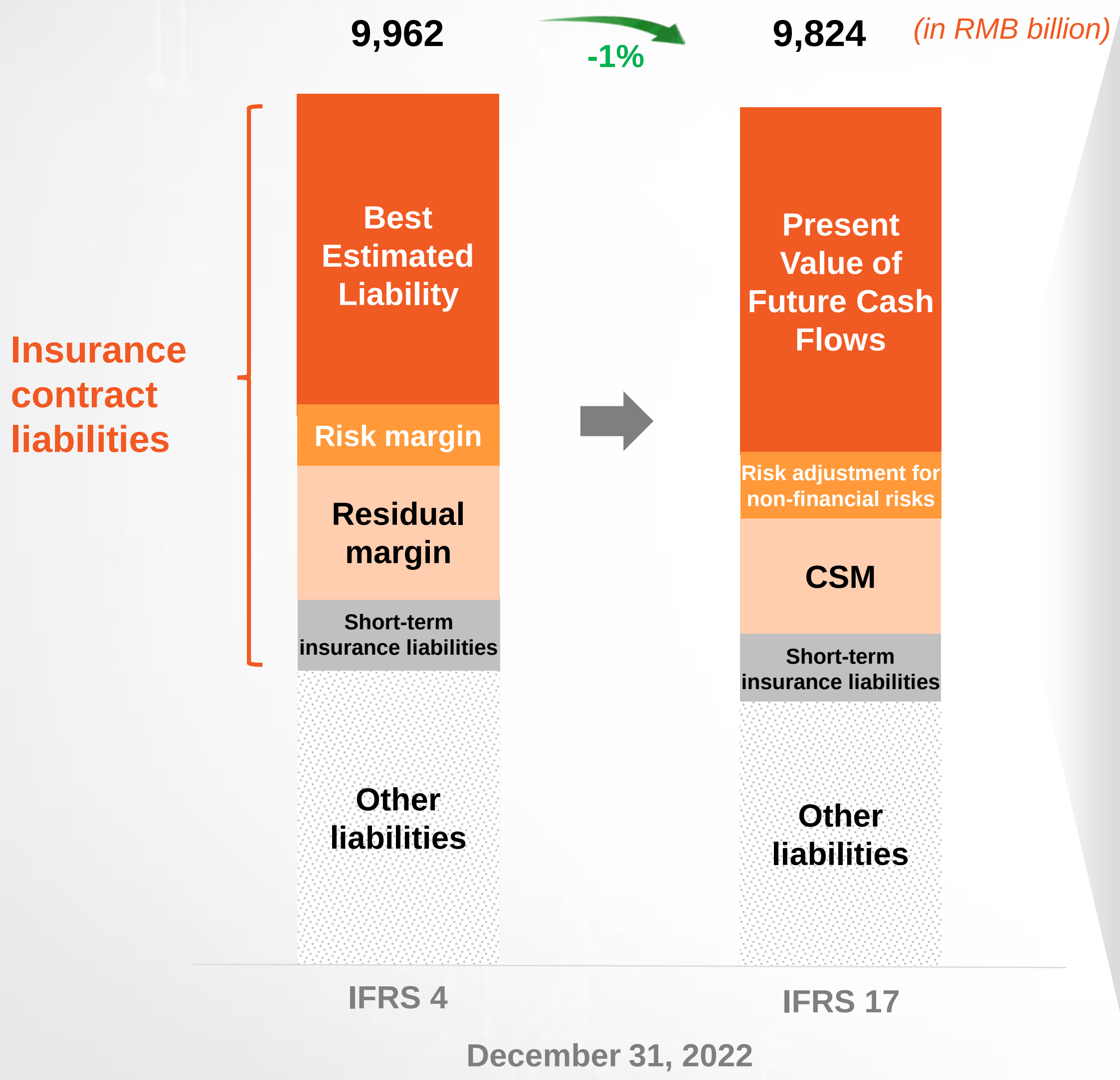
- Continue to disclose operating profit and operating ROE
- Disclose contractual service margin (CSM), which is similar to residual margin
- Disclose New Business CSM (which conceptually is similar to NBV) and calculate New Business CSM Margin = New Business CSM / Present Value of Expected Premiums
- EV/NBV will not be impacted

Contents

Key indicators of financial statements on effective date of initial application: smooth transition with minimal impacts

December 31, 2022 *(in RMB billion)*	IFRS 4	IFRS 17	Impacts
Total assets	11,137	11,010	-1%
Total liabilities	9,962	9,824	-1%
Net assets	1,175	1,186	+1%

Total liabilities: CSM represents a large stock of future profits



Similar components

- IFRS 4: Best estimated liability + risk margin + residual margin + short-term insurance liabilities
- IFRS 17: Present value of future cash flows + risk adjustment for non-financial risks + CSM + short-term insurance liabilities

Changes in measurement approaches

Discount rate

- IFRS 4: "750-day moving average yield on Chinese government bonds + comprehensive premium"
- IFRS 17: "current market interest rate + tax and liquidity premium"

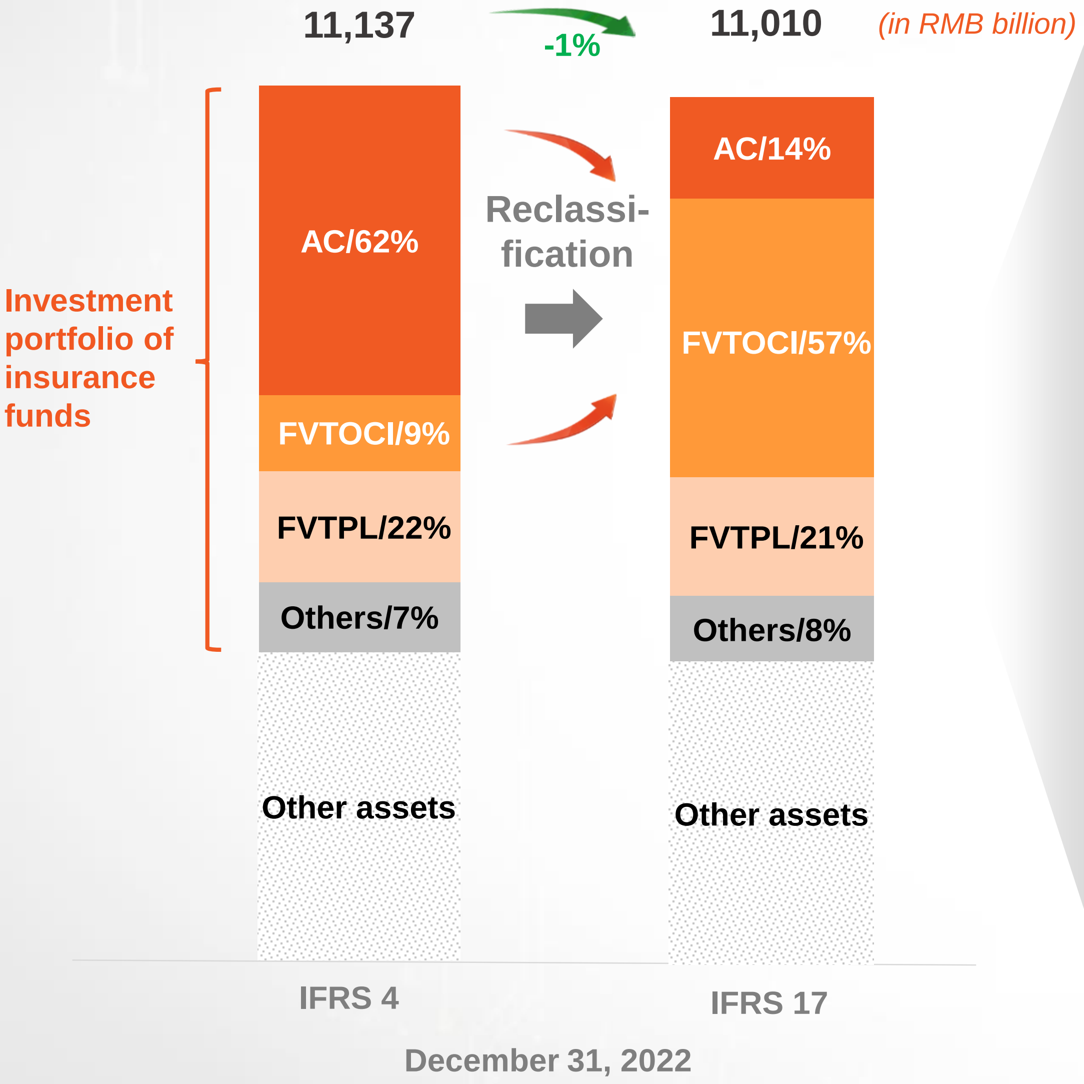
CSM

- IFRS 4: Residual margin amortization pattern locked at the time of policy issuance
- IFRS 17: CSM needs to be adjusted for changes in future services

Changes in the measurement scope

- Assets including premiums receivable and policy loans under IFRS 4 are recognized as insurance contract liabilities under IFRS 17
- Account balances of non-insurance contracts including universal insurance contracts under IFRS 4 are included in insurance contract liabilities under IFRS 17

Total assets: investment asset reclassification for better asset-liability matching



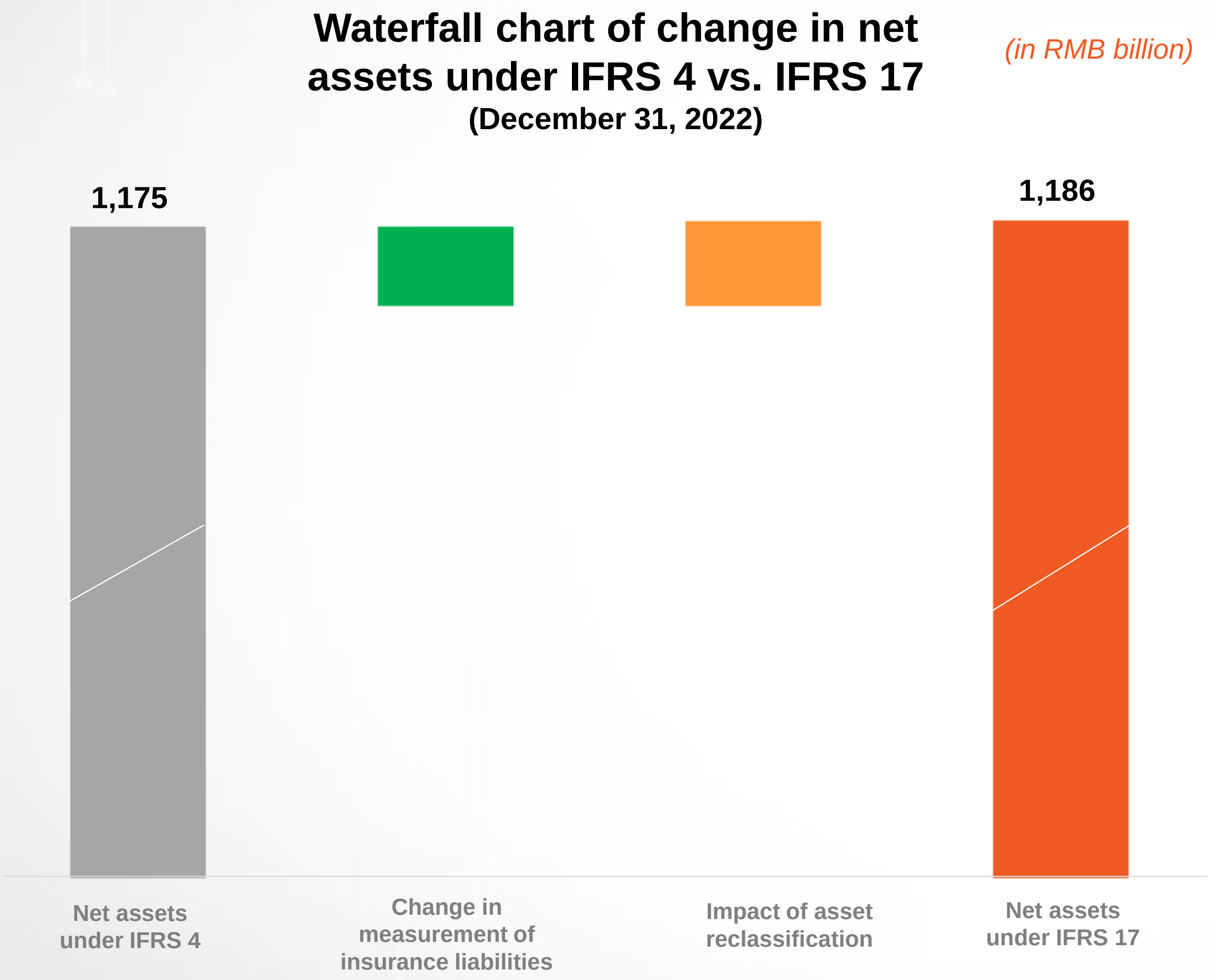
☐ Changes in measurement approaches

- More debt assets are measured at FVTOCI for asset-liability matching
- An increase in carrying value due to the shift from the amortized cost (AC) approach to the fair value approach

☐ Changes in the measurement scope

- Assets including premiums receivable and policy loans under IFRS 4 are recognized as insurance contract liabilities under IFRS 17

Net assets remain stable despite the transition



Net assets increased 1% on the effective date of initial application

- Net assets decreased due to change in the measurement of insurance liabilities
- Net assets increased due to asset reclassification

Contents

Profit for 2022: OPAT and net profit both higher under IFRS 17 vs IFRS 4

(in RMB billion)

	Operating profit		Net profit	
	IFRS 17	Impact of transition	IFRS 17	Impact of transition
Group	152	+3%	111	+33%
L&H	114	+2%	75	+54%
P&C	10	+14%	10	+14%

Note: Operating profit and net profit refer to the operating profit and net profit attributable to owners of the parent.

Financial impacts of different measurement methods

	General Measurement Model	Variable Fee Approach	Financial impacts(1)
	>> Long-term traditional insurance	>> Long-term participating / universal insurance	
Non-economic assumptions including incidence rate, expense ratio and surrender rate	CSM	CSM	They are absorbed by CSM, with small impact on profit or loss for the current period
Interest rate changes	OCI(2)	CSM	They are recognized in OCI or absorbed by CSM, with small impact on profit or loss for the current period
Equity market volatility	P&L; OCI	CSM	Under GMM, they directly impact profit or loss for the current period or are recognized in OCI Under VFA, they are absorbed by CSM, with small impact on profit or loss for the current period
Insurance component and maintenance expenses experience variances	P&L	P&L	They directly impact profit or loss for the current period
Investment component experience variances	CSM	CSM	They are absorbed by CSM, with small impact on profit or loss for the current period

Notes: (1) Changes in the factors will directly impact profit or loss under PAA.
(2) All eligible amortized cost (AC) bonds have been reclassified as FVTOCI debt investments. Debt assets and insurance contract liabilities are measured at present value, and their changes are recognized in OCI.

L&H profit reconciliation: discount rate change not a reconciliation item under IFRS 17 as recognized in OCI

(in RMB million)

Item *(FY2022)*	IFRS 4	IFRS 17	Note
Operating profit attributable to owners of the parent	**111,235**	**113,800**	
Operating profit	**112,980**	**115,106**	
plus:			
Short-term investment variance	(46,791)	(39,601)	IFRS 17: Short-term investment variance is the variance between the actual investment return and the long-run investment return assumption, not applicable to business subject to VFA
Impact of discount rate change	(16,843)	-	IFRS 17: Impact of discount rate change is recognized in OCI, not impacting P&L
Impact of one-off material non-operating items and others	-	-	
Net profit	**49,346**	**75,505**	
Net profit attributable to owners of the parent	**48,488**	**74,501**	

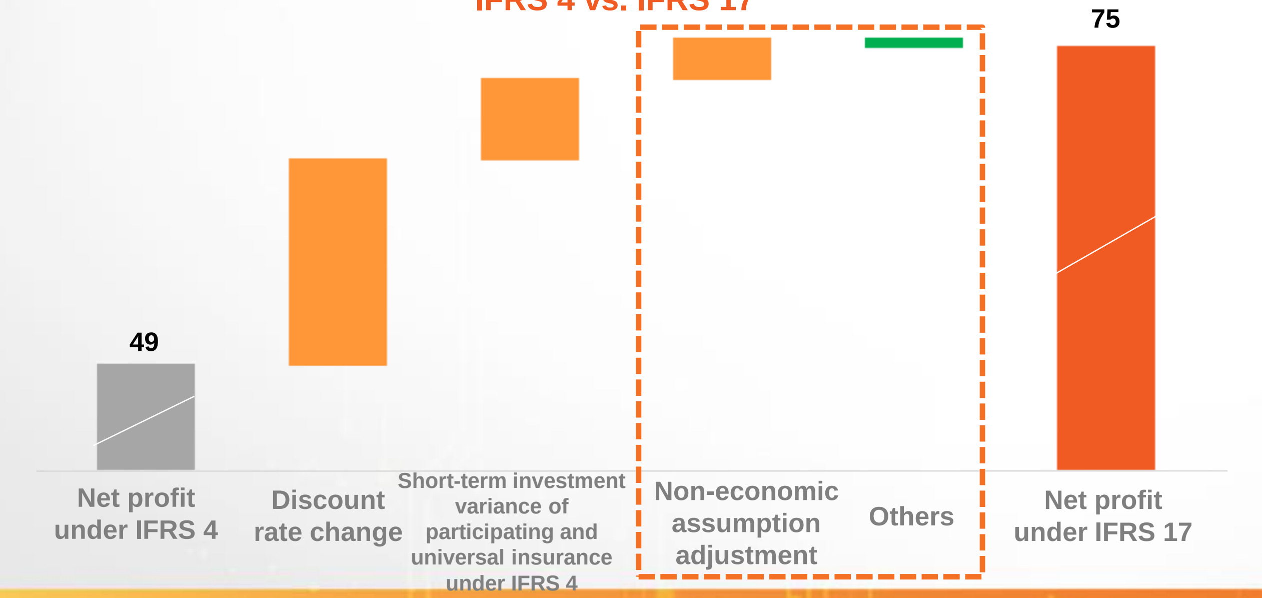
L&H business: OPAT and net profit for 2022 both higher under IFRS 17

FY2022 Waterfall chart of operating profit change:
IFRS 4 vs. IFRS 17

(in RMB billion)

FY2022 Waterfall chart of net profit change:
IFRS 4 vs. IFRS 17

(in RMB billion)



Operating profit

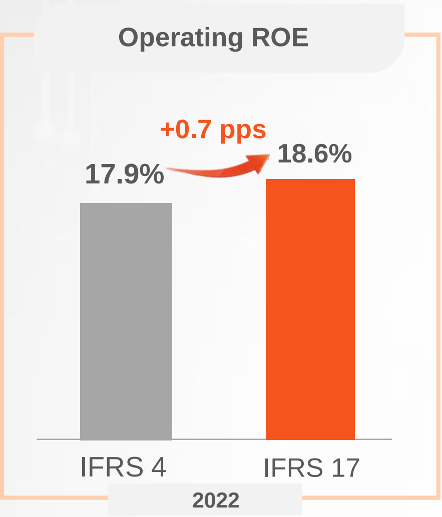
- Non-economic assumption adjustments are absorbed by CSM after the transition
- Others: including the impact of amortization differences, absorption of investment component experience variances, difference in the interest required on insurance contract liability between IFRS 4 and IFRS 17, and so on

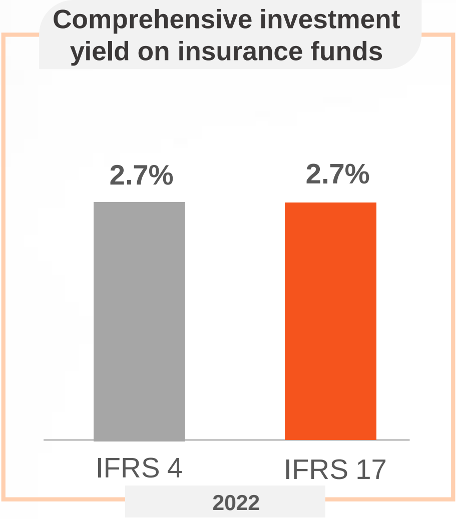
Net profit

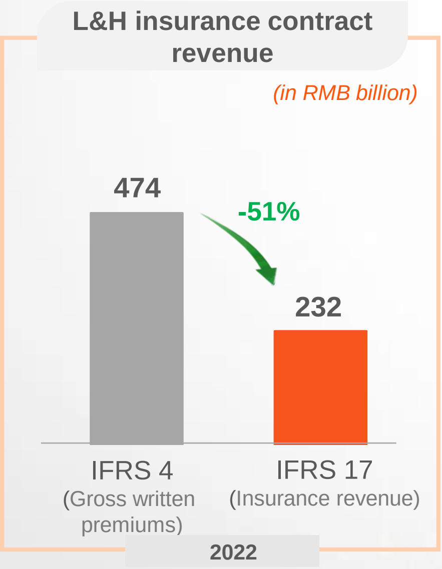
- The impact of discount rate change under GMM is recognized in OCI after the transition(1)
- Short-term investment variance under VFA is absorbed by CSM after the transition

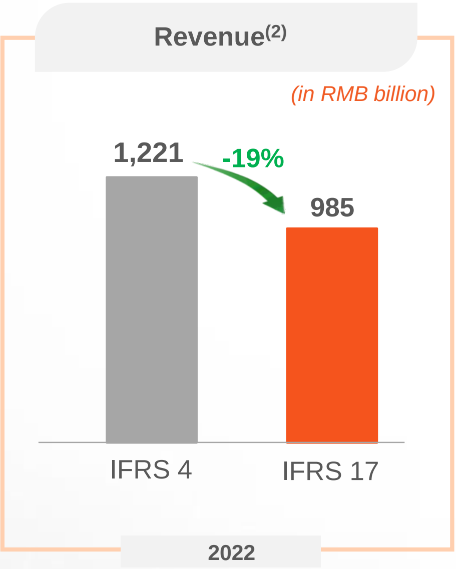
Note: (1) For insurance contracts subject to GMM, we choose to use locked-in discount rates to recognize P&L. Differences between locked-in rates and current market interest rates are recognized in OCI.

Other indicators: IFRS 4 vs. IFRS 17









Operating ROE is not impacted by short-term variances in interest rates

- Numerator: operating profit attributable to shareholders of the parent company (RMB152 billion for 2022, 2.6% higher than under IFRS 4)
- Denominator: operating equity attributable to shareholders of the parent company[1] (RMB819 billion on a weighted average basis for 2022, 1.5% lower than under IFRS 4)
  - For FVTOCI debt investments, their amortized costs are used in the calculation
  - Insurance contract liabilities exclude the impact of discount rate change

Comprehensive investment yield on insurance funds: future performance will not be impacted by reclassification

- Numerator and denominator: For FVTOCI debt investments, their amortized costs are used in the calculation

Insurance contract revenue: A slump in L&H due to changes in measurement methods

- IFRS 4: Recognize revenue based on the premium received, reflecting the scale and trend of insurance business
- IFRS 17: Insurance revenue will be recognized over the coverage period and the investment component is excluded

Revenue：Impacted by policy loans in addition to insurance contract revenue

- The decrease in revenue is mainly due to changes in the measurement methods of insurance contract revenue
- Other impacts: Interest on policy loans is recognized in interest revenue under IFRS 4. Under IFRS 17, policy loans are recognized in insurance contract liabilities, and interest accreted on insurance contract liabilities is recognized in operating expenses

Notes: (1) Only the relevant assets and liabilities of L&H business are adjusted, excluding those subject to VFA.
(2) Revenue is from consolidated financial statements prepared under International Financial Reporting Standards.

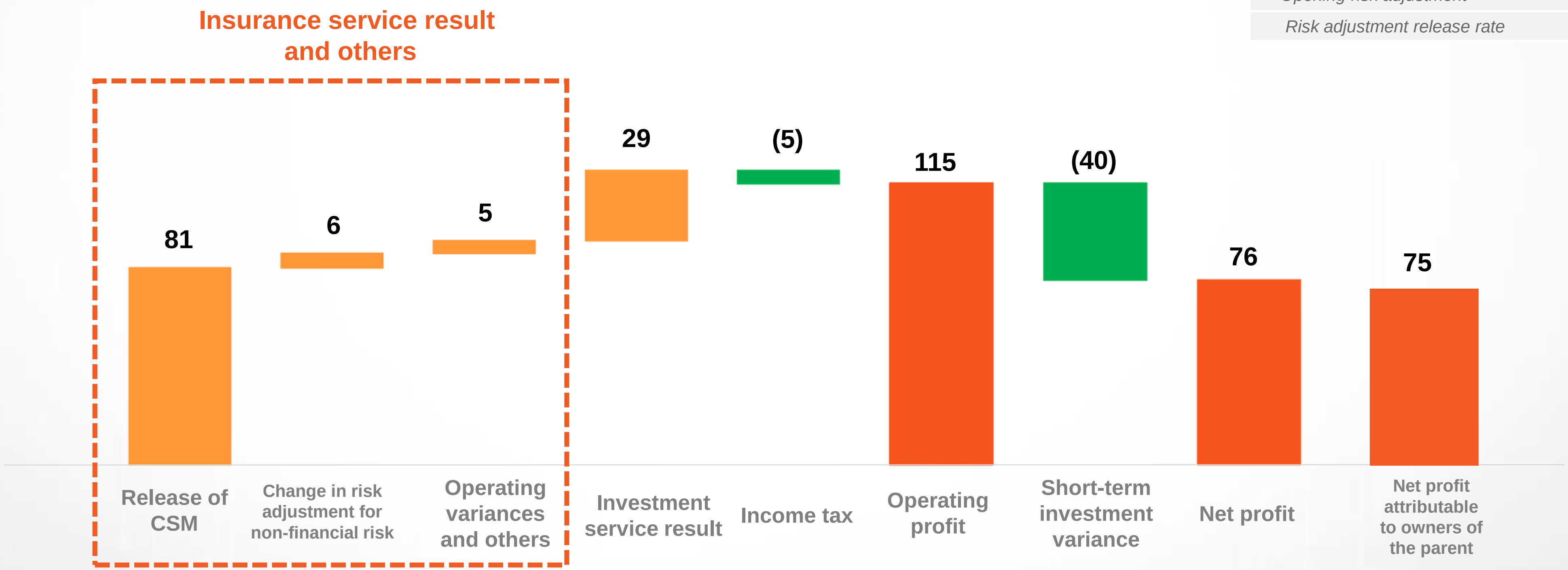
Contents

L&H: Release of CSM is core source of profit

FY2022 operating profit sources of L&H

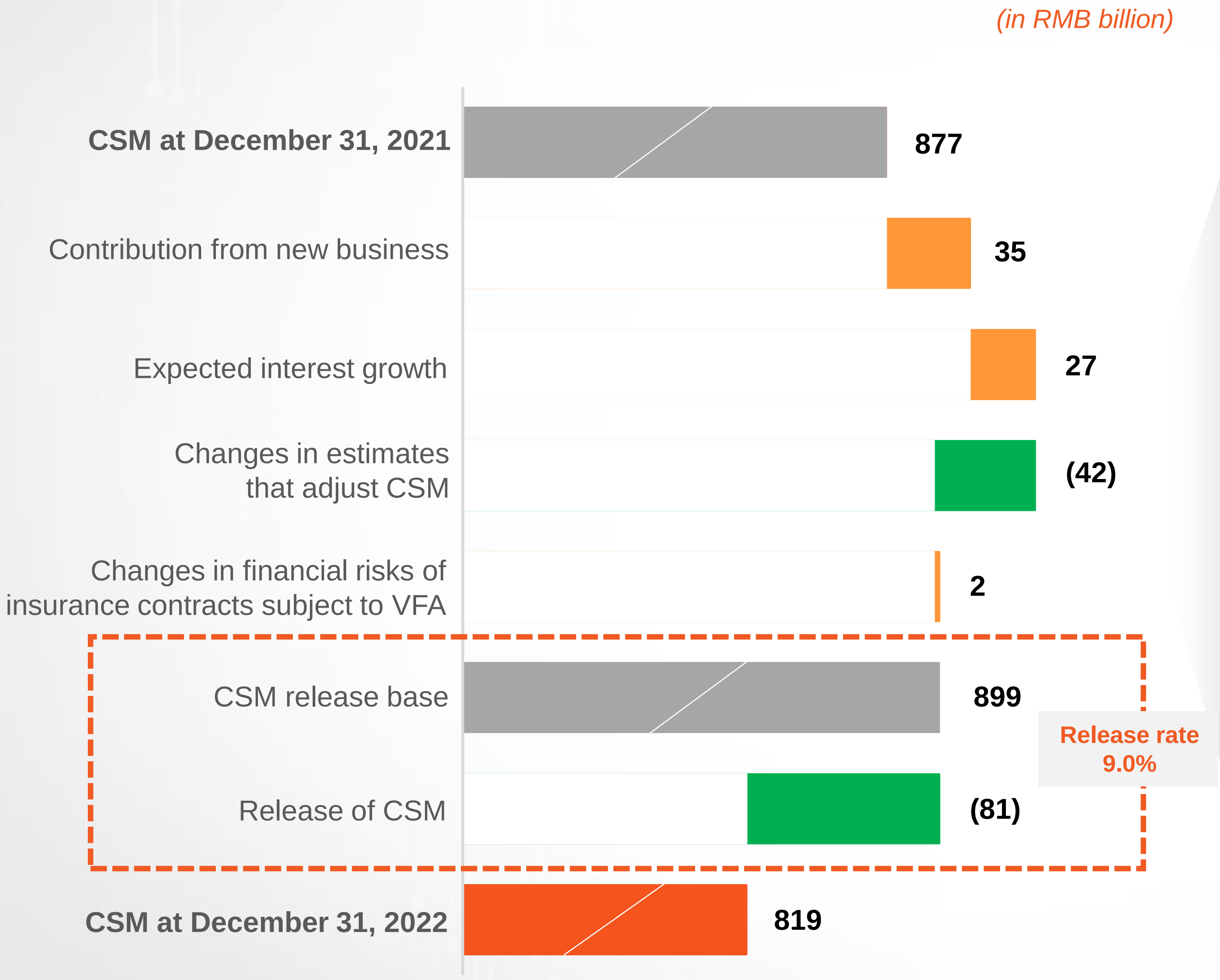
(in RMB billion)

Release of CSM	**81**
CSM release base	*899*
CSM release rate	*9.0%*
Change in risk adjustment for non-financial risk	**6**
Opening risk adjustment	*138*
Risk adjustment release rate	*4.3%*



Note: Figures may not match the calculation due to rounding.

L&H: Changes in CSM under IFRS 17



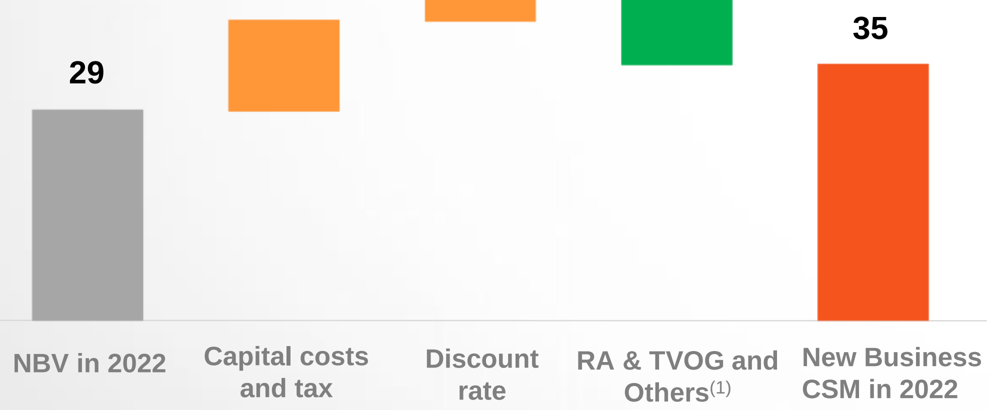
- **Contribution from new business**
  Conceptually similar to NBV, reflecting the unearned profit of new business
- **Expected interest growth**
  Impact of interest from CSM; the discount rate is the risk-free interest rate plus the tax and liquidity premium
- **Changes in estimates that adjust CSM**
  Including changes in non-economic assumptions for future cash flows and some experience variances
- **Changes in financial risks of insurance contracts subject to VFA**
  The insurer’s share of the investment variance for business subject to VFA
- **Release of CSM**
  Unearned profit will be released through release of CSM over the coverage period in which the services are provided

Note: Figures may not match the calculation due to rounding.

Differences between NBV and CSM mainly lie in measurement methods and assumptions

NBV vs New Business CSM

(in RMB billion)



Impacting factors

	Capital costs	Income tax	Discount rate	Non-financial risk adjustment	Others
NBV	√	√	**High (11%)** Risk-free interest rate + risk premium	X	…
NB CSM	X	X	**Low** Risk-free interest rate + tax and liquidity premium	√	…

Note:(1) RA refers to non-financial risk adjustment; TVOG (Time Value of Option and Guarantee) refers to the time value of option and guarantee in the participating life insurance and universal policies; others mainly include differences in business scope and other measurement assumptions.

P&C: COR is still a key profitability metric due to similar measurement methods

(in RMB million)

Profit sources of P&C under IFRS 17	Formula	FY2022
Insurance revenue	[A]	294,222
Insurance service expenses	[B]	(284,978)
Net expense from reinsurance contracts held	[C]	(3,423)
Net insurance financial result and others(1)	[D]	(4,739)
Underwriting profit	**[E]=[A]+[B]+[C]+[D]**	**1,082**
Underwriting COR (%)	[F]=-([B]+[C]+[D])/[A]	99.6
Total investment income	**[G]**	**10,014**
Other net revenue and expenses	[H]	(1,218)
Profit before tax	**[I]=[E]+[G]+[H]**	**9,878**
Income tax	[J]	234
Net profit	**[K]=[I]+[J]**	**10,112**

Measurement methods are similar

- Generally, P&C business is still subject to PAA under IFRS 17

COR is still a key profitability metric

- **Reinsurance contracts held:** All the net impact on reinsurance contracts held is reflected in the numerator under IFRS 17, different with separate impacts to numerator and denominator under IFRS 4
- **Interest accretion:** Unwind of reserve discount are presented separately in net insurance finance expenses for insurance contracts issued and insurance revenue increases due to reflecting interest accretion. Net insurance finance expenses for insurance contracts issued are considered as underwriting cost and used as the numerator in COR

Note: (1) Net insurance financial result and others include net insurance finance expenses for insurance contracts issued, net reinsurance finance income for reinsurance contracts held, and premium reserve set aside.

IFRS 17 will not impact the Company's business nature or strategy

Upgrade the insurance product portfolio to create differential advantages under the "insurance + service" framework

Continue to disclose EV
Continue to strengthen operations management: expenses, incidence rates, and persistency ratios

Sound solvency management by the C-ROSS Phase II rules

Attach importance to shareholder returns by maintaining continuity and stability

Retain a prudent risk appetite, and continue to optimize the asset-liability matching of insurance funds

Contents

Appendix: IFRS 17 mainly changes insurance revenue recognition and insurance contract liability measurement

Changes in standards	Financial impacts
Adjusting the recognition principle for insurance revenue and insurance service expenses • Exclude the investment component in insurance contracts • Insurance revenue will be recognized over the coverage period	• **Significant decrease in revenue from long-term life insurance contracts whereas premium income as a business scale indicator will not be impacted**
Revising measurement models for insurance contract liabilities • 3 methods: general measurement model, variable fee approach, and premium allocation approach **Revising measurement of deferred profit liability** • CSM will reflect changes in fulfillment cash flows that relate to future service • Under the variable fee approach, CSM will reflect the insurer's share of the change in the fair value of the underlying items and changes in other financial risks **Revising the method for determining the discount rate of insurance contract liabilities** • Discount rate will be based on observable current market interest rates reflecting insurance contracts' characteristics • General measurement model: choose to include the impact of discount rate change in other comprehensive income (OCI)	• **CSM will be more volatile than residual margin** • **The timing of profit/loss recognition will change, but the ultimate profitability of insurance contracts will not be impacted**
Optimizing accounting match between assets and liabilities • Reclassify financial assets held for activities related to insurance contracts at the effective date of initial application • Ping An Life reclassifies all relative eligible amortized cost (AC) bonds as fair value through other comprehensive income (FVTOCI)	• **Despite more volatile liabilities, volatility of shareholders' equity will not necessarily be greater as assets and liabilities accounting match can be optimized**

Appendix: Increased relevance between L&H's income statement and analysis of profit sources

Income statement under IFRS 17

(in RMB million)

Item	FY2022
Insurance revenue	**232,194**
Release of CSM	80,590
Change in risk adjustment for non-financial risks	5,884
Expected insurance service expenses and insurance revenue under PAA	145,720
Interest income	**93,368**
Investment income	**(14,946)**
Share of profits and losses of associates and joint ventures	4,344
Other revenues and other gains/(losses)	24,229
Total revenue	**339,189**
Insurance service expenses	**(137,256)**
Net expenses for ceded reinsurance contracts	**(1,296)**
Net insurance finance expenses for insurance contracts issued	**(94,786)**
Net reinsurance finance income for reinsurance contracts held	**81**
Impairment losses	(628)
Foreign exchange losses	(447)
Administrative expenses	(12,631)
Interest expenses	(4,448)
Other expenses	(20,023)
Operating expenses	**(271,434)**
Profit before tax	**67,755**
Income tax	7,750
Net profit	**75,505**
Net profit attributable to owners of the parent	**74,501**

Profit analysis under IFRS 17

(in RMB million)

Item	FY2022	Formula	Note
Insurance service result and others	**91,710**		
Release of CSM*	80,590	[A]=[B]*[C]	Unearned profit is gradually released over the coverage period
CSM release base	*899,273*	*[B]*	
CSM release rate	*9.0%*	*[C]*	
Change in risk adjustment for non-financial risk	5,884	[D]=[E]*[F]	
Opening risk adjustment	*138,165*	*E*	
Risk adjustment release rate	*4.3%*	*F*	Recognized in profit gradually with the release of risk buffer
Operating variances and others	5,236		Including differences between expected and actual claim payouts and expenses, profit under PAA, and the like
Investment service result*	**28,846**		Investment return exceeding the interest required on insurance contract liability
Operating profit before tax	**120,556**		
Income tax	(5,450)		
Operating profit	**115,106**		
Plus:			
Short-term investment variance	(39,601)		Short-term investment variance is the variance between the actual investment return and the long-run investment return assumption, not applicable to business subject to VFA
Impact of one-off material non-operating items and others			
Net profit	**75,505**		
Net profit attributable to owners of the parent	**74,501**		

Appendix: Glossary

Contractual Service Margin	**CSM**	An insurance liability representing the future (unearned) profits of the groups of insurance contracts to be recognized over the coverage period
General Measurement Model	**GMM**	A default measurement approach for insurance contracts without direct participation features
Premium Allocation Approach	**PAA**	A simplified measurement approach for contracts with short-term duration, or contracts tested as eligible according with a non-significant variability in the fulfilment cash flows during coverage
Variable Fee Approach	**VFA**	A measurement approach for insurance contracts with direct participation features
Investment Component		An amount that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs
Present Value of Future Cash Flows	**PVFCF**	A discounted and probability-weighted estimate of future cash flows
Present Value of Expected Premiums	**PVEP**	An explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of the future premiums that will arise as the entity fulfils insurance contracts from newly issued contracts over the coverage period
Risk Adjustment	**RA**	An insurance liability component to reflect the compensation for bearing the uncertainty on the amount and timing of the cash flows that arises from non-financial risk
Underlying Items	**UI**	Items that determine some of the amounts payable to a policyholder. Underlying items can comprise any items; for example, a reference portfolio of assets, the net assets of the entity, or a specified subset of the net assets of the entity
Other Comprehensive Income	**OCI**	Gains and losses that are not recognized in profit or loss for the current period in accordance with relevant accounting standards

Thanks!