This announcement is for information purposes only and does not constitute an invitation or offer by any person to acquire, purchase or subscribe for securities. This announcement is not, and is not intended to be, an offer of securities of the Company for sale in the United States. The securities of the Company have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements under the U.S. Securities Act. There is not, and is not intended to be, any public offering of the securities of the Company in the United States.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

AIA Group Limited

友 邦 保 險 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code: 1299

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

AIA REPORTS STRONG FINANCIAL RESULTS FOR 2020

VALUE OF NEW BUSINESS DOWN 33 PER CENT
OPERATING PROFIT UP 5 PER CENT; FINAL DIVIDEND UP 7.5 PER CENT
VALUE OF NEW BUSINESS UP 15 PER CENT IN THE FIRST TWO MONTHS OF 2021

The Board of AIA Group Limited (the "Company"; stock code: 1299) is pleased to announce the Group's financial results for the year ended 31 December 2020.

Growth rates are shown on a constant exchange rate basis below:

New business performance

- Value of new business (VONB) down 33 per cent to US$2,765 million
- Strong VONB momentum as COVID-19 restrictions eased
- Annualised new premiums (ANP) down 20 per cent to US$5,219 million
- VONB margin decreased by 10.4 pps to 52.6 per cent
- VONB up 15 per cent year-on-year in the first two months of 2021

Operating profit

- Operating profit after tax (OPAT) up by 5 per cent to US$5,942 million
- Embedded value (EV) operating profit of US$7,243 million

Cash flow and capital position

- Underlying free surplus generation of US$5,843 million, up 7 per cent
- Free surplus of US$13.5 billion
- EV Equity of US$67.2 billion, up US$3.3 billion
- Net remittances of US$2.7 billion
- Shareholders' allocated equity of US$48.0 billion, up 9 per cent
- Group Local Capital Summation Method (LCSM) cover ratio of 374 per cent(1)

Total dividend up 6.9 per cent

- 7.5 per cent growth in final dividend to 100.30 Hong Kong cents per share
- Total dividend of 135.30 Hong Kong cents per share, up 6.9 per cent

Lee Yuan Siong, AIA's Group Chief Executive and President, said:

"AIA has delivered another very strong performance despite unprecedented macroeconomic conditions and the operational challenges caused by the COVID-19 pandemic. While VONB was affected by social distancing measures, we achieved growth in all of our other key financial metrics. Sales momentum returned as restrictions were eased and we have delivered year-on-year VONB growth in the first two months of 2021. The Group's financial position remains very strong and we increased the final dividend.

"Our first priority is to ensure the safety of our employees and support all of our stakeholders. I would like to thank our employees for their tireless efforts as they provide uninterrupted service to our customers, agents and partners. We always look for every reason to pay a claim and, during the year, paid more than US$16 billion in benefits and claims, providing vital financial support for customers. We extended additional protection cover to our customers and the wider communities where we operate, helping provide peace of mind in uncertain times.

"Following the restrictions on movement and in-person meetings, we accelerated the development and adoption of online and remote capabilities across our markets. We introduced remote sales completion, moved recruitment, onboarding and training online for agents, and launched simpler streamlined service and claim processes for customers. These new capabilities have enabled our businesses to continue operating smoothly in rapidly changing conditions.

"As our businesses adapted and movement restrictions eased, sales momentum recovered and this has continued with 15 per cent growth in VONB in the first two months of 2021 compared with 2020. Our large and growing in-force portfolio with recurring, high-quality sources of earnings supported a 5 per cent increase in operating profit after tax and a 7 per cent increase in underlying free surplus generation. Persistency has remained very high at 95 per cent and renewal premiums received increased by 10 per cent. The Group's financial position remained very strong and robust, as demonstrated by the Group LCSM cover ratio of 374 per cent.

"The Board has recommended a 7.5 per cent increase in final dividend for 2020 to 100.30 Hong Kong cents per share. This follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

"We continue to invest in our Premier Agency, the core of our unrivalled distribution platform. While VONB declined in 2020, we saw a solid recovery in momentum as restrictions eased. Our proprietary model attracts and retains the best talent across our markets, supporting growth in agency capacity and productivity. Despite a turbulent year, we have achieved double-digit growth in new recruits and new agency leaders.

"While border restrictions severely impacted sales in the broker channel in Hong Kong, we delivered more resilient results from bancassurance, which contributed the majority of VONB from our partnerships.

"2020 was a landmark year for AIA China as it became the largest contributor to VONB for the Group. We converted our Shanghai branch into a subsidiary and AIA became the first foreign company with a wholly-owned life insurance subsidiary in Mainland China. We have also received regulatory approval to prepare our newest branch in Sichuan and we are at a very advanced stage. AIA has a unique opportunity in Mainland China with enormous growth potential in both our existing footprint and as we expand into new geographies.

"In Hong Kong, new business sales from Mainland Chinese visitors have effectively been on hold from February 2020 because of border restrictions. Macau resumed its Individual Visit Scheme from late September and sales to Mainland Chinese visitors contributed over one-third of ANP for our Macau branch in the fourth quarter. While overall VONB from our domestic customers in Hong Kong declined over the year, we saw encouraging sales despite disruptions from tightening social distancing measures.

"Collectively all our other markets saw very positive sales momentum in the second half as stringent movement restrictions were eased. Our businesses in Thailand, Singapore and Malaysia delivered excellent VONB growth in the second half compared to the first half and our business in Vietnam and Tata AIA Life in India both achieved double-digit VONB growth in 2020 compared with 2019.

"During the year, I worked closely with the senior leadership team to develop and implement a new strategy for AIA which builds on our existing strengths and embraces the transformation that we must make to best serve our customers into the future. Our strategy is centred on our Purpose to help people live Healthier, Longer, Better Lives and will enable us to fully leverage the powerful structural growth drivers in our markets.

"We have three key strategic priorities. First, delivering a leading customer experience that is based on the core principles of simplicity, timeliness and reliability. Second, further expanding the reach of our unparalleled distribution platform across our markets. Third, providing compelling propositions to our customers and helping them meet their protection and long-term savings needs.

"A step change in technology, digital and analytics enables transformed experiences for our customers, distributors, partners and employees. We are also changing AIA into a simpler, faster, more connected organisation that can support the delivery of our strategic ambitions. Our financial discipline continues to underpin everything that we do, supporting AIA's track record of delivering superior profitable growth. We started the transformation of AIA in the second half of 2020 and I am excited as the pace of change accelerates in 2021.

"While 2020 was an extraordinary and challenging year, it has made me more optimistic about the future for AIA. Now more than ever, Asian consumers are acutely aware of the need for financial security and the need to protect the well-being of their families, making our purpose and propositions even more relevant. I am confident that AIA is in the right business, in the right region and at the right time and we will continue to deliver long-term value for our shareholders."

About AIA

AIA Group Limited and its subsidiaries (collectively "AIA" or the "Group") comprise the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets – wholly-owned branches and subsidiaries in Mainland China, Hong Kong SAR[(2)], Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei, Macau SAR[(3)] and New Zealand, and a 49 per cent joint venture in India.

The business that is now AIA was first established in Shanghai more than a century ago in 1919. It is a market leader in Asia (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US$326 billion as of 31 December 2020.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia, AIA serves the holders of more than 38 million individual policies and over 16 million participating members of group insurance schemes.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code "1299" with American Depositary Receipts (Level 1) traded on the over-the-counter market (ticker symbol: "AAGIY").

Contacts

Investment Community		News Media	
Lance Burbidge	+852 2832 1398	Dudley White	+852 2832 1978
Evelyn Lam	+852 2832 1633	Emerald Ng	+852 2832 4720
Feon Lee	+852 2832 4704		
Rachel Poon	+852 2832 4792		

Notes:

(1) The Hong Kong Insurance Authority is introducing a group-wide capital framework for monitoring insurance groups under its supervision. The cover ratio of group available capital to group minimum capital requirement under the Local Capital Summation Method is based on our current understanding of the framework as it applies to the Group.

(2) Hong Kong SAR refers to Hong Kong Special Administrative Region.

(3) Macau SAR refers to Macau Special Administrative Region.

FINANCIAL SUMMARY

PERFORMANCE HIGHLIGHTS

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
New Business				
Value of new business (VONB)	**2,765**	4,154	**(33)%**	(33)%
VONB margin	**52.6%**	62.9%	**(10.4) pps**	(10.3) pps
Annualised new premiums (ANP)	**5,219**	6,585	**(20)%**	(21)%
EV Operating Profit				
Embedded value (EV) operating profit	**7,243**	8,685	**(17)%**	(17)%
Operating return on EV	**11.7%**	15.9%	**(4.1) pps**	(4.2) pps
Basic EV operating earnings per share (US cents)	**60.06**	72.12	**(17)%**	(17)%
IFRS Earnings				
Operating profit after tax (OPAT)*	**5,942**	5,689	**5%**	4%
Operating return on shareholders' allocated equity*	**13.0%**	14.0%	**(0.8) pps**	(1.0) pps
Total weighted premium income (TWPI)	**35,408**	34,002	**4%**	4%
Operating earnings per share (US cents)				
– Basic*	**49.27**	47.24	**4%**	4%
– Diluted*	**49.19**	47.13	**4%**	4%
Underlying Free Surplus Generation				
Underlying free surplus generation	**5,843**	5,501	**7%**	6%
Dividends				
Dividend per share (HK cents)				
– Final	**100.30**	93.30	**n/a**	7.5%
– Total	**135.30**	126.60	**n/a**	6.9%

US$ millions, unless otherwise stated	As at 31 Dec 2020	As at 31 Dec 2019	Change CER	Change AER
Embedded Value				
EV Equity	**67,185**	63,905	**3%**	5%
Embedded value	**65,247**	61,985	**3%**	5%
Free surplus	**13,473**	14,917	**(11)%**	(10)%
EV Equity per share (US cents)	**555.48**	528.62	**3%**	5%
Equity and Capital				
Shareholders' allocated equity*	**48,030**	43,278	**9%**	11%
AIA Co. HKIO solvency ratio	**489%**	362%	**n/a**	127 pps
Group LCSM cover ratio**	**374%**	366%	**n/a**	8 pps
Shareholders' allocated equity per share (US cents)*	**397.11**	357.99	**9%**	11%

* The comparative information for the previous period has been adjusted to conform to the current period presentation.
** Please refer to Note 9.

NEW BUSINESS PERFORMANCE BY SEGMENT

US$ millions, unless otherwise stated	2020			2019			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	**550**	**44.7%**	**1,138**	1,621	66.1%	2,393	**(66)%**	(66)%
Thailand	**469**	**71.0%**	**661**	494	67.7%	729	**(4)%**	(5)%
Singapore	**330**	**63.4%**	**520**	352	65.5%	538	**(5)%**	(6)%
Malaysia	**222**	**59.9%**	**369**	258	63.1%	406	**(13)%**	(14)%
Mainland China	**968**	**80.9%**	**1,197**	1,167	93.5%	1,248	**(17)%**	(17)%
Other Markets***	**514**	**38.4%**	**1,334**	535	41.9%	1,271	**(4)%**	(4)%
Subtotal	**3,053**	**57.7%**	**5,219**	4,427	66.6%	6,585	**(31)%**	(31)%
Adjustment to reflect consolidated reserving and capital requirements	**(103)**	**n/m**	**n/m**	(87)	n/m	n/m	**n/m**	n/m
After-tax value of unallocated Group Office expenses	**(161)**	**n/m**	**n/m**	(154)	n/m	n/m	**n/m**	n/m
Total before non-controlling interests	**2,789**	**52.6%**	**5,219**	4,186	62.9%	6,585	**(33)%**	(33)%
Non-controlling interests***	**(24)**	**n/m**	**n/m**	(32)	n/m	n/m	**n/m**	n/m
Total	**2,765**	**52.6%**	**5,219**	4,154	62.9%	6,585	**(33)%**	(33)%

*** Please refer to Note 4.

Notes:

(1) A presentation for analysts and investors, hosted by Lee Yuan Siong, Group Chief Executive and President, is scheduled at 9:30 a.m. Hong Kong time today via live webcast.

The webcast of the presentation and presentation slides will be available on AIA's website:

http://www.aia.com/en/investor-relations/results-presentations.html

(2) All figures are presented in actual reporting currency (US dollar) and based on actual exchange rates (AER) unless otherwise stated. Change on constant exchange rates (CER) is calculated using constant average exchange rates for 2020 and 2019, other than for balance sheet items that use CER as at 31 December 2020 and as at 31 December 2019.

(3) Change is shown on a year-on-year basis unless otherwise stated.

(4) VONB is calculated based on assumptions applicable at the point of sale.

VONB for the Group excludes VONB attributable to non-controlling interests.

ANP and VONB for Other Markets include the results from our 49 per cent shareholding in Tata AIA Life Insurance Company Limited (Tata AIA Life).

(5) VONB includes pension business. ANP and VONB margin exclude pension business and are reported before deduction of non-controlling interests.

(6) OPAT and operating earnings per share are shown after non-controlling interests unless otherwise stated.

(7) Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value. Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of AIA Group Limited, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.

(8) AIA's IFRS accounting treatment for the recognition and measurement of insurance contract liabilities of Hong Kong participating business has been refined to reflect expected changes to policyholder bonuses. Comparative information has also been adjusted for 2019.

(9) The Hong Kong Insurance Authority (HKIA) is introducing a group-wide capital framework for monitoring insurance groups under its supervision. The cover ratio of group available capital to group minimum capital requirement (MCR) under the Local Capital Summation Method (LCSM) is based on our current understanding of the framework as it applies to the Group.

(10) In the context of our reportable market segments, Hong Kong refers to operations in Hong Kong Special Administrative Region and Macau Special Administrative Region; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia (including New Zealand), Cambodia, India, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam.

(11) The results of Tata AIA Life are accounted for the twelve-month period ended 30 September 2020 and the twelve-month period ended 30 September 2019 in AIA's consolidated results for the year ended 31 December 2020 and the year ended 31 December 2019, respectively.

The IFRS results of Tata AIA Life are accounted for using the equity method. For clarity, TWPI does not include any contribution from Tata AIA Life.

(12) AIA's financial information in this Financial Summary is based on the audited consolidated financial statements and supplementary embedded value information for 2020, unless otherwise stated.

TABLE OF CONTENTS

	Page
Group Chief Executive and President's Report	2
Financial and Operating Review	6
Group Chief Financial Officer's Review	6
Business Review	30
Regulatory and International Developments	46
Financial Statements	48
Independent Auditor's Report	48
Consolidated Income Statement	55
Consolidated Statement of Comprehensive Income	56
Consolidated Statement of Financial Position	57
Consolidated Statement of Changes in Equity	59
Consolidated Statement of Cash Flows	61
Notes to the Consolidated Financial Statements and Significant Accounting Policies	63
Independent Auditor's Report on the Supplementary Embedded Value Information	188
Supplementary Embedded Value Information	192
Information for Shareholders	218
Review of Financial Statements	218
Compliance with Corporate Governance Code	218
Purchase, Sale or Redemption of the Company's Listed Securities	218
Events after the Reporting Period	218
Publication of Certain Financial and Other Data Pursuant to Local Regulatory Requirements	218
Final Dividend	218
Closure of Register of Members	218
Annual General Meeting	219
Forward-looking Statements	219
Glossary	221

GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

AIA has delivered another very strong performance reflecting the extraordinary efforts of our outstanding teams. I am extremely proud of how our people have responded in a rapidly changing operating environment. Thanks to their unwavering commitment, we helped our customers navigate uncertainty, while accelerating our strategic plans.

AIA is a trusted partner to our customers, providing peace of mind when they are concerned about the financial security and well-being of their families. While the impacts of the COVID-19 pandemic have been far-reaching, my deepest gratitude goes to our employees, agents and partners for their tremendous agility and dedication as they adapted to new working practices and ensured uninterrupted customer support.

Since the onset of the pandemic, our businesses have responded quickly and proactively to help alleviate the impact on our communities, while ensuring the safety of our people. I am immensely proud of the wide-ranging initiatives undertaken including financial support, provision of medical supplies, free protection cover, access to health resources, streamlined services and expedited claim payments. We always look for every reason to pay a claim and, over the year, we paid more than US$16 billion in benefits and claims, providing vital financial protection for our customers.

While value of new business (VONB) was affected by COVID-19 containment measures, reducing to US$2,765 million, we delivered positive sales momentum as movement restrictions eased and made a very strong start to 2021 with 15 per cent year-on-year VONB growth in the first two months. Our large and growing in-force portfolio with high-quality, recurring sources of earnings delivered a 5 per cent increase in operating profit after tax (OPAT) in 2020 and a 7 per cent increase in underlying free surplus generation (UFSG). EV Equity reached a new high of US$67.2 billion and the Group LCSM cover ratio was 374 per cent as at 31 December 2020, demonstrating our robust capital position and disciplined financial management.

The board of Directors (Board) has recommended a 7.5 per cent increase in the final dividend for 2020 to 100.30 Hong Kong cents per share. This follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

AIA has many significant advantages that differentiate us from our competitors. We have an unparalleled platform in Asia built up over many decades and hold leading positions in the majority of our markets. Our 100 per cent focus on Asia will not change and enables us to capture the full growth opportunities available in the world's most attractive region for life insurance. This focus, combined with the extensive experience of our leadership team in Asia and the quality of our people, has been an important driver of our success.

Our unrivalled distribution provides direct access to customers, delivering high-quality professional advice to help address the significant and growing long-term protection and savings needs of consumers in Asia. Now more than ever, people expect companies to respond in a way that is aligned with long-term sustainability. AIA has a market-leading brand that is underpinned by our Purpose of helping people live Healthier, Longer, Better Lives.

Our aim is to position AIA as a global leader in the use of technology, embracing greater connectivity, scale and efficiency. Deeper insights from data analytics enable distinctive and personalised customer experiences. Products and services that are relevant and reflect an individual's needs and lifestyle change the way life insurance is perceived and provide a strong basis for developing long-term relationships with our customers.

While 2020 was an unprecedented year, it has made me more optimistic than ever about the prospects for the life insurance industry in Asia and the future of AIA. We continue to challenge ourselves and develop our priorities to ensure that we remain highly relevant to our customers as their expectations and financial needs evolve. Our new corporate strategy builds on AIA's existing strengths and enables the transformation that we will make to best serve our customers well into the future.

2020 PERFORMANCE HIGHLIGHTS

AIA China became the largest contributor to the Group's VONB in 2020 and delivered a successful start to 2021 with very strong VONB growth in the first two months of the year compared with the same period in 2020. While VONB of US$968 million for 2020 was 17 per cent lower than 2019, this was mostly due to limited new sales during the initial outbreak of COVID-19 in the first quarter. OPAT increased by 14 per cent for the year, primarily driven by growth in our in-force portfolio and favourable claims experience.

In 2020, we successfully obtained regulatory approval and completed the conversion of our Shanghai branch to become the first wholly foreign owned life insurance subsidiary in Mainland China. We have also received approval from the China Banking and Insurance Regulatory Commission (CBIRC) to prepare our newest branch in Sichuan and we are at a very advanced stage. Sichuan is the sixth largest province by GDP in Mainland China and the fourth largest by population, representing a significant long-term growth opportunity for AIA.

In **Hong Kong**, the introduction of travel restrictions from early February 2020 effectively stopped new business sales from Mainland Chinese visitors, leading to a significant fall in VONB. Our agency distribution delivered double-digit sales growth from our domestic customers in the second half compared with the first half and remained the clear market leader. VONB for our partnership distribution channels was significantly lower than 2019 due to a higher historical mix of sales to Mainland Chinese visitors through the retail independent financial adviser (IFA) channel. OPAT increased by 10 per cent from strong growth in renewal premiums and favourable claims experience.

AIA Thailand delivered a very strong performance in the second half. While VONB declined by 4 per cent for the full year, we saw positive month-on-month momentum as movement restrictions eased and achieved 33 per cent growth in VONB in the second half compared with the first half of the year.

Our business in **Singapore** also achieved an excellent recovery in the second half, with VONB up by 56 per cent compared with the first half and a 12 per cent increase year-on-year. VONB reduced by 5 per cent for the full year as growth from our agency channel was offset by the impact of strict border controls on our offshore partnership business. OPAT increased by 8 per cent.

In **Malaysia**, VONB for the full year was down by 13 per cent, reflecting strict movement restrictions implemented in the first half in particular. VONB in the second half recovered with 72 per cent growth compared with the first half.

VONB from **Other Markets** increased by 10 per cent in the second half compared with the first half, with positive recoveries seen in South Korea and Indonesia. Overall, VONB for the full year was lower by 4 per cent mainly due to declines in New Zealand, the Philippines and Indonesia. The rest of the markets delivered positive VONB growth, with Vietnam, Taiwan (China) and India reporting double-digit increases in 2020 compared with 2019.

In our **Agency** channel, we delivered double-digit growth in both new recruits and agency leaders, supported by a shift to online recruitment, onboarding and training. Although VONB declined by 28 per cent as the pandemic limited face-to-face meetings, we saw a strong recovery in the second half as restrictions eased and our businesses adopted new digital tools. Positive momentum has continued into 2021 and agency has delivered very strong growth in VONB for the first two months compared with the same period in 2020.

The impact of travel restrictions on Mainland Chinese visitors to Hong Kong affected our retail IFA business, leading to a decline of 41 per cent in VONB from our **Partnership Business** in 2020. We delivered more resilient results from bancassurance, which contributed the majority of VONB for this channel. Our bancassurance partnerships with Bank Central Asia (BCA) in Indonesia, Bangkok Bank Public Company Limited (Bangkok Bank) in Thailand and Public Bank Berhad in Malaysia delivered positive VONB growth in 2020.

ENGAGEMENT WITH PEOPLE

AIA's 23,000 people are a key competitive advantage for the Group and integral to our sustained success. We promote an inclusive and collaborative learning culture that provides a platform for meaningful and rewarding careers with AIA. In response to social distancing measures and restrictions on travel, we moved our learning content online to the AIA Learning Hub. Our world-class facility in Bangkok, the AIA Leadership Centre (ALC), redesigned and delivered the Group's flagship leadership programmes through over 100 fully virtual learning modules. Participants' feedback for these virtual learning programmes has been very positive and in line with their face-to-face predecessors.

Our annual employee engagement survey is a key indicator of the collective efforts across our markets to better understand and support our people. 97 per cent of our people responded to the survey in 2020 and the Group's employee engagement scores increased to our highest ever, placing us in the 88th percentile of Gallup's global financial services and insurance industry benchmark. AIA was also recognised in the Forbes 'World's Best Employers 2020' list.

In October 2020, as part of the 10th anniversary celebrations of our listing on the Hong Kong Stock Exchange, we established the AIA Scholarships, pledging US$100 million to support 100 undergraduates a year to attend Hong Kong's universities over the next several decades and develop the next generation of business leaders.

The core components of our Organisation of the Future strategy are stronger and simpler organisational structures, the introduction of agile ways of working and enhanced capabilities frameworks. These strategic priorities will support our people as they develop their careers, further elevating AIA's status as an employer of choice.

We started our journey to shape a transformed organisation in the second half of 2020 with two pilot business units: AIA Singapore and AIA Vietnam. Early results have achieved simplified, more customer-centric operating models and we have launched agile working practices with multiple cross-functional specialist teams. Our plan is to test and learn within these pilot businesses before scaling the Organisation of the Future programme across our other businesses.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

For more than a century, AIA has made a positive, lasting impression on the lives of our customers in Asia. The complexity of ESG issues prevalent in our communities, including climate change, pollution and lifestyle-related diseases, has been heightened by the ongoing pandemic. As a lifelong partner to our customers and communities, we are committed to playing our part in the transition to a better, more sustainable future.

AIA participates in the Task Force on Climate-related Financial Disclosures (TCFD), a global initiative that seeks to develop voluntary and consistent disclosure of climate change impacts. We continued to reaffirm our commitment to the recommendations by engaging with more than 1,400 companies across our investment portfolio in 2020, as well as over 30 external investment managers, in seeking to influence how they manage climate change risks and address their climate impacts.

For the second consecutive year, the rating agency, Sustainalytics has ranked AIA second in the insurance industry for our management of ESG risks and, also in 2020, MSCI upgraded AIA's ESG rating to A, driven primarily by our integration of ESG considerations into our investment function.

We recognise that there is much more we can do in this important area and we have recently completed a review of our ESG strategy. I am confident that our five strategic focus areas of improving health and wellness, green operations, sustainable investment, people and culture, and effective governance will achieve our ambition to be a global industry leader in ESG.

OUTLOOK

The COVID-19 pandemic in 2020 was undoubtedly the largest public health emergency in living memory. Unprecedented fiscal and monetary support to businesses and households affected by the crisis helped reduce some of the extreme financial consequences of the pandemic shock and accelerate recovery, particularly in countries with robust health policies and infrastructure. However, there were considerable differences between countries with the Asia ex-Japan region delivering the strongest relative GDP performance globally in this difficult environment. The global economy is only now starting to emerge from a very deep recession and enter the very early stages of an upturn.

While the effects of the pandemic are far from over, we remain cautiously optimistic as 2021 becomes a year of transition. The hope is that the roll-out of vaccination programmes and new therapeutics reduce both the frequency and severity of the disease so that health systems are better able to cope and mortality rates improve. While we do not envisage a return to pre-pandemic levels of mobility or behaviour in the near term, as consumer confidence returns, we expect the recovery to extend from manufacturing-led sectors to consumption and services over time, particularly in countries with younger populations.

I have great confidence in the long-term future for AIA. Despite near-term uncertainty, the strong domestic drivers of demand and major demographic trends in Asia provide positive structural support for the long-term prospects of AIA's businesses. With rising incomes, low levels of private insurance penetration and limited social welfare coverage, the need for AIA's insurance products will continue to grow. We will build on our substantial competitive advantages and strong track record of growth to shape a more sustainable future for our communities and create shared value for all our stakeholders.

Lee Yuan Siong
Group Chief Executive and President
12 March 2021

Growth rates are shown on constant exchange rates as management believes this provides a clearer picture of the year-on-year performance of the underlying business.

FINANCIAL AND OPERATING REVIEW

GROUP CHIEF FINANCIAL OFFICER'S REVIEW

AIA delivered a strong set of financial results in 2020 despite unprecedented business and macroeconomic conditions. While value of new business (VONB) was affected by movement restrictions due to the global pandemic, we achieved solid growth in operating profit after tax (OPAT), underlying free surplus generation (UFSG) and embedded value (EV) equity. Our financial position remains very strong, enabling us to continue to invest in the many growth opportunities available to us.

Growth rates and commentaries are provided on a constant exchange rate basis

SUMMARY AND KEY FINANCIAL HIGHLIGHTS

In 2020 AIA delivered a strong financial performance through the unprecedented business and macroeconomic conditions resulting from the global pandemic. While movement restrictions caused a reduction in VONB in 2020, we saw a recovery in sales momentum as our businesses adapted and restrictions were eased. This momentum has continued into 2021 with 15 per cent growth in VONB for the first two months compared to the same period in 2020. Our financial discipline and consistent strategic focus on high-quality business over many years is reflected in continued growth in OPAT and UFSG, our robust and resilient capital position and a further increase in dividend per share.

The main effect of the pandemic on our financial performance in 2020 was on new business sales, as containment measures in many of our markets limited in-person sales activity, particularly in the first half of 2020. While VONB of US$2,765 million in 2020 was lower by 33 per cent compared to 2019, our rapid adoption of new digital tools and the general easing of movement restrictions supported a recovery in sales momentum. AIA China became the largest contributor to the Group's VONB in 2020 and was the first of our reportable segments to show a recovery in sales momentum as the country emerged from the strict lockdowns in March 2020. VONB for the rest of the Group, excluding sales to Mainland Chinese visitors which remained minimal, recovered strongly in the second half with an increase of 23 per cent compared to the first half of the year. The Group's new business momentum has continued strongly into 2021 with VONB for the first two months 15 per cent higher than for the same period in 2020.

EV Equity reached a new high of US$67,185 million at 31 December 2020, increasing by US$5,277 million before payment of shareholder dividends of US$1,997 million as EV operating profit of US$7,243 million more than offset the effect of lower government bond yields. EV operating profit included US$549 million from positive operating variances as our overall experience has continued to be favourable compared with our EV assumptions.

Our high-quality, recurring sources of earnings and the proactive management of our in-force portfolio drove an increase in OPAT of 5 per cent to US$5,942 million and a stable operating margin of 16.9 per cent. Renewal premiums received increased by 10 per cent, and total recurring premiums accounted for over 90 per cent of premiums received in 2020. OPAT growth was supported by significant positive claims experience throughout the year, which offset the effect of lower yields on new fixed income investments and lower assumed long-term returns on equity investments. As anticipated, the exceptional positive medical claims experience highlighted in the first half was not repeated in the second half, however we continued to see a positive contribution to OPAT growth from this source. Persistency improved in the second half, supported by a normalisation of lapse experience for AIA Thailand, and has remained at 95 per cent for the Group.

UFSG of US$5,843 million increased by 7 per cent, driven by the continued growth and active management of our in-force portfolio, which more than offset the effect of lower expected investment returns. The Group remained financially very strong at 31 December 2020 with free surplus of US$13,473 million, after the payment of US$1,997 million of shareholder dividends.

The solvency ratio of our principal operating entity, AIA Company Limited (AIA Co.), remained very strong at 489 per cent at 31 December 2020. The Group Local Capital Summation Method (LCSM) cover ratio, under the new Group-wide Supervision (GWS) framework, was 374 per cent at 31 December 2020. In future, we will disclose the Group LCSM cover ratio as the principal measure of the Group's regulatory solvency.

The board of directors (Board) has recommended a 7.5 per cent increase in the final dividend to 100.30 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2020 to 135.30 Hong Kong cents per share, an increase of 6.9 per cent compared with the total dividend for 2019. This follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

We remain confident of the opportunities for AIA's businesses across Asia. We will continue to focus on investing capital to deliver profitable new business growth and leverage our competitive advantages, while maintaining our financial discipline and delivering long-term shareholder value.

NEW BUSINESS PERFORMANCE

VONB, ANP and Margin by Segment

	2020			2019			VONB Change	
US$ millions, unless otherwise stated	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	**550**	**44.7%**	**1,138**	1,621	66.1%	2,393	**(66)%**	(66)%
Thailand	**469**	**71.0%**	**661**	494	67.7%	729	**(4)%**	(5)%
Singapore	**330**	**63.4%**	**520**	352	65.5%	538	**(5)%**	(6)%
Malaysia	**222**	**59.9%**	**369**	258	63.1%	406	**(13)%**	(14)%
Mainland China	**968**	**80.9%**	**1,197**	1,167	93.5%	1,248	**(17)%**	(17)%
Other Markets	**514**	**38.4%**	**1,334**	535	41.9%	1,271	**(4)%**	(4)%
Subtotal	**3,053**	**57.7%**	**5,219**	4,427	66.6%	6,585	**(31)%**	(31)%
Adjustment to reflect consolidated reserving and capital requirements	**(103)**	**n/m**	**n/m**	(87)	n/m	n/m	**n/m**	n/m
After-tax value of unallocated Group Office expenses	**(161)**	**n/m**	**n/m**	(154)	n/m	n/m	**n/m**	n/m
Total before non-controlling interests	**2,789**	**52.6%**	**5,219**	4,186	62.9%	6,585	**(33)%**	(33)%
Non-controlling interests	**(24)**	**n/m**	**n/m**	(32)	n/m	n/m	**n/m**	n/m
Total	**2,765**	**52.6%**	**5,219**	4,154	62.9%	6,585	**(33)%**	(33)%

While VONB of US$2,765 million in 2020 was lower by 33 per cent compared to 2019, our rapid adoption of new digital tools and the general easing of movement restrictions supported a recovery in sales momentum. AIA China became the largest contributor to the Group's VONB in 2020 and was the first of our reportable segments to show a recovery in sales momentum as the country emerged from the strict lockdowns in March 2020. VONB for the rest of the Group, excluding sales to Mainland Chinese visitors which remained minimal, recovered strongly in the second half with an increase of 23 per cent compared to the first half of the year. The Group's new business momentum has continued strongly into 2021 with VONB for the first two months 15 per cent higher than for the same period in 2020.

AIA China has delivered a successful start to 2021, with very strong VONB growth in the first two months compared with the same period in 2020. While VONB of US$968 million for 2020 was 17 per cent lower than 2019, this was mostly driven by limited sales volumes during the initial outbreak of COVID-19 in the first quarter. As movement controls eased, new business momentum swiftly improved and resumed our usual seasonal pattern with VONB weighted towards the first half of the year. AIA China became the largest contributor to the Group's VONB in 2020.

AIA Hong Kong's VONB significantly declined as new business sales to Mainland Chinese visitors have effectively been on hold from early February 2020 following the introduction of travel restrictions. VONB margin reduced for the year, reflecting acquisition expense overruns following the fall in new business volumes, a shift in product mix and the impact of lower interest rates. Macau resumed its Individual Visit Scheme with Mainland China from late September 2020, which has supported a return of sales to Mainland Chinese visitors, that contributed over one-third of AIA Macau's total ANP in the fourth quarter.

AIA Thailand delivered an excellent performance in the second half, with 33 per cent growth in VONB compared with the first half of the year. While VONB decreased by 4 per cent for the full year, we saw positive month-on-month VONB growth as movement restrictions eased in the second half.

AIA Singapore achieved an excellent recovery in the second half, with VONB up by 56 per cent compared with the first half and a 12 per cent increase year-on-year. VONB reduced by 5 per cent for the full year, with growth in our agency channel offset by lower new business from our partnership distribution, as sales to the offshore customer segment were particularly affected by border controls. VONB margin recovered significantly in the second half due to an improvement in product mix and a reduction in acquisition expense overruns as new business volumes increased.

AIA Malaysia reported VONB growth in the second half of 72 per cent compared with the first half and we achieved double-digit VONB growth compared with the second half of 2019. VONB for the full year was down by 13 per cent, reflecting strict COVID-19 related movement restrictions imposed in the first half. A positive product mix shift and reduction in acquisition expense overruns led to a 16.6 pps recovery in VONB margin in the second half and an overall margin of 59.9 per cent for 2020.

In Other Markets, VONB increased by 10 per cent in the second half compared with the first half of the year, with good recoveries seen in South Korea and Indonesia. Overall, VONB for the full year was lower by 4 per cent following declines in New Zealand, the Philippines and Indonesia. Our remaining markets all delivered positive VONB growth with Vietnam, Taiwan (China) and India reporting double-digit increases in 2020 compared with 2019.

EV EQUITY

EV OPERATING PROFIT

EV operating profit was US$7,243 million in 2020, a reduction of 17 per cent compared with 2019, mainly driven by VONB, producing an operating return on EV (operating ROEV) of 11.7 per cent. Operating variances contributed US$549 million as our overall experience has continued to be favourable compared with our EV assumptions. Since our initial public offering (IPO) in 2010, operating variances have cumulatively added more than US$3.2 billion to EV Equity.

EV Operating Earnings Per Share – Basic

	2020	2019	YoY CER	YoY AER
EV operating profit (US$ millions)	**7,243**	8,685	**(17)%**	(17)%
Weighted average number of ordinary shares (millions)	**12,060**	12,042	**n/a**	n/a
Basic EV operating earnings per share (US cents)	**60.06**	72.12	**(17)%**	(17)%

EV Operating Earnings Per Share – Diluted

	2020	2019	YoY CER	YoY AER
EV operating profit (US$ millions)	**7,243**	8,685	**(17)%**	(17)%
Weighted average number of ordinary shares[1] (millions)	**12,080**	12,071	**n/a**	n/a
Diluted EV operating earnings per share[1] (US cents)	**59.96**	71.95	**(17)%**	(17)%

Note:
(1) Diluted EV operating earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units (RSPUs) and restricted stock subscription units (RSSUs) granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 40 to the consolidated financial statements.

EV MOVEMENT

EV grew by US$3,262 million, after the payment of shareholder dividends of US$1,997 million, to US$65,247 million at 31 December 2020. The increase in EV was mainly driven by EV operating profit of US$7,243 million and positive exchange rate movements of US$1,164 million, which more than offset negative investment return variances of US$1,868 million and the impact of reduced long-term economic assumptions of US$1,013 million, both reflecting the sharp reduction in government bond yields, most notably in the United States and Thailand. Other non-operating variances reduced the EV by US$330 million and comprised negative impacts from the application of withholding tax following the subsidiarisation of AIA China and provisions for uncertain tax positions, partially offset by positive impacts from the subsidiarisation of New Zealand, the implementation of Risk-Based Capital 2 in Singapore, and adjustments to capital requirements on consolidation.

An analysis of the movement in EV is shown as follows:

	2020		
US$ millions, unless otherwise stated	ANW	VIF	EV
Opening EV	**28,241**	**33,744**	**61,985**
Purchase price	**(18)**	**–**	**(18)**
Acquired EV	**–**	**–**	**–**
Effect of acquisition	**(18)**	**–**	**(18)**
Value of new business	**(726)**	**3,491**	**2,765**
Expected return on EV	**5,591**	**(1,415)**	**4,176**
Operating experience variances	**538**	**(5)**	**533**
Operating assumption changes	**(31)**	**47**	**16**
Finance costs	**(247)**	**–**	**(247)**
EV operating profit	**5,125**	**2,118**	**7,243**
Investment return variances	**(3,446)**	**1,578**	**(1,868)**
Effect of changes in economic assumptions	**35**	**(1,048)**	**(1,013)**
Other non-operating variances	**160**	**(490)**	**(330)**
Total EV profit	**1,874**	**2,158**	**4,032**
Dividends	**(1,997)**	**–**	**(1,997)**
Other capital movements	**81**	**–**	**81**
Effect of changes in exchange rates	**322**	**842**	**1,164**
Closing EV	**28,503**	**36,744**	**65,247**

	2019		
US$ millions, unless otherwise stated	ANW	VIF	EV
Opening EV	24,637	29,880	54,517
Purchase price	(1,454)	–	(1,454)
Acquired EV[(1)]	790	417	1,207
Effect of acquisition	(664)	417	(247)
Value of new business	(702)	4,856	4,154
Expected return on EV	5,072	(967)	4,105
Operating experience variances	394	206	600
Operating assumption changes	(18)	52	34
Finance costs	(208)	–	(208)
EV operating profit	4,538	4,147	8,685
Investment return variances	(942)	1,459	517
Effect of changes in economic assumptions	65	(319)	(254)
Other non-operating variances	2,491	(2,569)	(78)
Total EV profit	6,152	2,718	8,870
Dividends	(1,961)	–	(1,961)
Other capital movements	136	–	136
Effect of changes in exchange rates	(59)	729	670
Closing EV	28,241	33,744	61,985

Note:
(1) The acquired EV for The Colonial Mutual Life Assurance Society Limited (CMLA) was calculated as at 1 November 2019 net of the related reinsurance agreement.

EV Equity

US$ millions, unless otherwise stated	As at 31 December 2020	As at 31 December 2019
EV	**65,247**	61,985
Goodwill and other intangible assets[1]	**1,938**	1,920
EV Equity	**67,185**	63,905

Note:
(1) Based on the consolidated financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements, and including the impacts of management actions, are shown below. The interest rate sensitivities apply a 50 basis points movement in current government bond yields, our long-term investment return assumptions and risk discount rates.

US$ millions, unless otherwise stated	EV as at 31 December 2020	VONB 2020	EV as at 31 December 2019	VONB 2019
Central value	**65,247**	**2,765**	61,985	4,154
Impact of equity price changes				
10 per cent increase in equity prices	**1,099**	**n/a**	968	n/a
10 per cent decrease in equity prices	**(1,095)**	**n/a**	(967)	n/a
Impact of interest rate changes				
50 basis points increase in interest rates	**652**	**193**	719	151
50 basis points decrease in interest rates	**(1,294)**	**(298)**	(797)	(207)

Please refer to Section 3 of the Supplementary Embedded Value Information for additional information.

IFRS PROFIT

OPAT[1] by Segment

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
Hong Kong[2]	**2,059**	1,879	**10%**	10%
Thailand	**987**	1,064	**(7)%**	(7)%
Singapore	**621**	583	**8%**	7%
Malaysia	**326**	333	**(2)%**	(2)%
Mainland China	**1,220**	1,061	**14%**	15%
Other Markets[3]	**687**	772	**(11)%**	(11)%
Group Corporate Centre[3]	**42**	(3)	**n/m**	n/m
Total	**5,942**	5,689	**5%**	4%

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 48 to the consolidated financial statements for additional information.
(3) Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

Our high-quality, recurring sources of earnings and the proactive management of our in-force portfolio drove an increase in OPAT of 5 per cent to US$5,942 million and a stable operating margin of 16.9 per cent. Renewal premiums received increased by 10 per cent, and total recurring premiums accounted for over 90 per cent of premiums received in 2020. OPAT growth was supported by significant positive claims experience throughout the year, which offset the effect of lower yields on new fixed income investments and lower assumed long-term returns on equity investments. As anticipated, the exceptional positive medical claims experience highlighted in the first half was not repeated in the second half, however we continued to see a positive contribution to OPAT growth from this source. Persistency improved in the second half, supported by a normalisation of lapse experience for AIA Thailand, and has remained at 95 per cent for the Group.

Mainland China delivered strong growth with a 14 per cent increase in OPAT for the full year, primarily from our growing in-force portfolio and favourable claims experience. Overall claims experience remained positive throughout the year even as significant positive experience in the first half normalised in the second half.

Hong Kong's OPAT increased by 10 per cent, as underlying business growth and favourable claims experience more than offset reduced investment income from lower bond yields and the negative impact from the reduction in long-term investment return assumptions since the end of 2019.

Thailand reported a 7 per cent reduction in OPAT for the full year. Although lapse experience significantly improved in the second half, a falling Thai equity market combined with reduced long-term equity return assumptions more than offset positive operating experience and underlying business growth.

OPAT in Singapore increased by 8 per cent, driven by the combination of the growth in our in-force portfolio and improved operating experience across persistency, expenses and claims.

Malaysia's OPAT remained broadly stable as underlying growth and positive claims experience were offset by a one-off provision ahead of an industry-wide initiative to identify and pay accumulated unreported death claims as previously highlighted. Excluding this provision, Malaysia's OPAT grew by 8 per cent.

OPAT in Other Markets declined by 11 per cent, with Australia's OPAT US$68 million below the level in 2019 primarily due to lower profitability from disability insurance policies. Growth in Taiwan (China) and Vietnam broadly offset reduced OPAT from Indonesia, the Philippines and South Korea.

Average shareholders' allocated equity grew by 11 per cent to US$45.7 billion, while operating return on shareholders' allocated equity (operating ROE) was 13.0 per cent.

TWPI by Segment

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
Hong Kong	**13,042**	13,107	**–**	–
Thailand	**4,462**	4,352	**3%**	3%
Singapore	**3,088**	2,916	**7%**	6%
Malaysia	**2,216**	2,142	**5%**	3%
Mainland China	**5,622**	4,804	**17%**	17%
Other Markets	**6,978**	6,681	**5%**	4%
Total	**35,408**	34,002	**4%**	4%

TWPI increased by 4 per cent to US$35,408 million compared with 2019. Renewal premiums received increased by 10 per cent, and total recurring premiums accounted for over 90 per cent of premiums received in 2020.

IFRS Operating Profit Investment Return

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
Interest income	**7,051**	6,624	**7%**	6%
Expected long-term investment return for equities and real estate	**2,347**	2,275	**4%**	3%
Total	**9,398**	8,899	**6%**	6%

International Financial Reporting Standards (IFRS) operating profit investment return increased by 6 per cent to US$9,398 million compared with 2019. The growth was primarily driven by the increase in the size of our investment portfolio, partly offset by reduced yields on new fixed income investments and lower expected long-term equity returns.

Operating Expenses

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
Operating expenses	**2,695**	2,468	**9%**	9%

The expense ratio was 7.6 per cent compared with 7.3 per cent in 2019 as a result of lower new business volumes and the inclusion of the business acquired in Australia in the second half of 2019.

Net Profit[(1)(3)]

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
OPAT[(3)]	**5,942**	5,689	**5%**	4%
Short-term fluctuations in investment return related to equities and real estate, net of tax[(2)(3)]	**(406)**	305	**n/m**	n/m
Reclassification of revaluation losses/(gains) for property held for own use, net of tax[(2)(3)]	**52**	(153)	**n/m**	n/m
Corporate transaction related costs, net of tax	**(56)**	(85)	**n/m**	n/m
Implementation costs of new accounting standards, net of tax	**(30)**	(39)	**n/m**	n/m
Other non-operating investment return and other items, net of tax[(3)]	**277**	262	**n/m**	n/m
Total	**5,779**	5,979	**(3)%**	(3)%

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) Short-term fluctuations in investment return include the revaluation gains and losses for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
(3) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 48 to the consolidated financial statements for additional information.

IFRS NON-OPERATING MOVEMENT

IFRS net profit was US$5,779 million in 2020, compared with US$5,979 million in 2019. AIA's net profit definition includes mark-to-market movements from our equity and investment property portfolios. The result in 2020 included negative short-term fluctuations from our long-term assumptions for equities and real estate of US$406 million, compared with positive movements of US$305 million in 2019. Since our IPO in 2010, short-term fluctuations in investment return have accumulated to a small negative of US$0.3 billion out of a cumulative net profit of US$39.4 billion. Other non-operating items in 2020 included corporate transaction related costs of US$56 million, implementation costs of new accounting standards of US$30 million and other non-operating items of US$277 million, mainly driven by realised gains from our available for sale debt securities, offset by a change in provisions for uncertain tax positions.

Movement in Shareholders' Allocated Equity[1]

US$ millions, unless otherwise stated	2020	2019
Opening shareholders' allocated equity	**42,845**	37,277
Retrospective adjustments for change in accounting policies	**433**	1,130
Opening shareholders' allocated equity, as adjusted	**43,278**	38,407
Net profit	**5,779**	5,979
Purchase of shares held by employee share-based trusts	**(16)**	(21)
Dividends	**(1,997)**	(1,961)
Revaluation (losses)/gains on property held for own use	**(46)**	154
Foreign currency translation adjustments	**931**	603
Other capital movements	**101**	117
Total movement in shareholders' allocated equity	**4,752**	4,871
Closing shareholders' allocated equity	**48,030**	43,278
Average shareholders' allocated equity	**45,654**	40,638

Note:
(1) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 48 to the consolidated financial statements for additional information.

The movement in shareholders' allocated equity is shown before fair value reserve movements. We believe this provides a clearer reflection of the underlying movement in shareholders' equity over the year, before the IFRS accounting treatment of market value movements in available for sale bonds.

Shareholders' allocated equity increased by 9 per cent to US$48,030 million as a result of net profit of US$5,779 million and the impact of appreciation of local currencies against our US dollar reporting currency of US$931 million, partly offset by the payment of shareholder dividends of US$1,997 million.

Average shareholders' allocated equity grew by 11 per cent compared with last year.

Sensitivities to foreign exchange rate, interest rate and equity price movements are included in note 38 to the consolidated financial statements.

IFRS EARNINGS PER SHARE (EPS)

Basic EPS based on OPAT attributable to shareholders increased by 4 per cent to 49.27 US cents in 2020.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, decreased by 3 per cent to 47.92 US cents in 2020.

IFRS EPS – Basic

	Net Profit(1)(3)		OPAT(1)(3)	
	2020	2019	**2020**	2019
Profit (US$ millions)	**5,779**	5,979	**5,942**	5,689
Weighted average number of ordinary shares (millions)	**12,060**	12,042	**12,060**	12,042
Basic earnings per share (US cents)	**47.92**	49.65	**49.27**	47.24

IFRS EPS – Diluted

	Net Profit(1)(3)		OPAT(1)(3)	
	2020	2019	**2020**	2019
Profit (US$ millions)	**5,779**	5,979	**5,942**	5,689
Weighted average number of ordinary shares(2) (millions)	**12,080**	12,071	**12,080**	12,071
Diluted earnings per share(2) (US cents)	**47.84**	49.53	**49.19**	47.13

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 40 to the consolidated financial statements.
(3) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 48 to the consolidated financial statements for additional information.

CAPITAL

FREE SURPLUS GENERATION

The Group's free surplus is the excess of adjusted net worth over required capital including consolidated reserving and capital requirements. The Group holds free surplus to enable it to invest in new business, take advantage of inorganic opportunities, and absorb the effects of capital market stress conditions.

UFSG is an operating metric that measures the expected amount of free surplus generated from in-force business over the period before investment in new business, unallocated Group Office expenses, finance costs, investment return variances and other non-operating items.

UFSG of US$5,843 million increased by 7 per cent, driven by the continued growth and active management of our in-force portfolio, which more than offset the effect of lower expected investment returns. UFSG in the second half also reflected the mid-year reduction in long-term economic assumptions.

Free surplus invested in writing new business was US$1,428 million, 2 per cent less than the previous year, as reduced new business volumes were offset by associated acquisition expense overruns and a product mix shift away from participating products in Hong Kong.

The Group remained financially very strong at 31 December 2020 with free surplus of US$13,473 million, after the payment of US$1,997 million of shareholder dividends. Negative investment variances in 2020 reflected the effect on regulatory reserves of a sharp reduction in government bond yields, most notably in the United States and Thailand, and the significant decline of equity markets in Thailand.

The following table summarises the change in free surplus:

US$ millions, unless otherwise stated	2020	2019
Opening free surplus	**14,917**	14,751
Effect of acquisition[1]	**(18)**	(1,045)
Underlying free surplus generation	**5,843**	5,501
Free surplus used to fund new business	**(1,428)**	(1,477)
Unallocated Group Office expenses	**(173)**	(192)
Finance costs and other capital movements	**(166)**	(72)
Free surplus before investment variances and dividends	**18,975**	17,466
Investment return variances and other items	**(3,505)**	(588)
Free surplus before dividends	**15,470**	16,878
Dividends	**(1,997)**	(1,961)
Closing free surplus	**13,473**	14,917

Note:
(1) The effect of acquisition for CMLA in 2019 was calculated after taking into account the effect of reinsurance.

WORKING CAPITAL AND NET REMITTANCES TO GROUP CORPORATE CENTRE

Working capital increased by US$3,698 million to US$17,169 million at 31 December 2020 after the payment of shareholder dividends of US$1,997 million.

Remittances from business units to the Group Corporate Centre are planned each year based on local earnings, new business growth and local solvency requirements. Actual net remittances are determined taking into consideration the liquidity held at the holding companies, and cashflow requirements including Group Office expenses, interest payments on borrowings and shareholder dividends.

Our local businesses remitted US$2,676 million to the Group Corporate Centre in 2020, compared with US$3,730 million in 2019. Positive remittances from Other Markets were offset by capital contributions to Australia that resulted from the industry-wide impact of the COVID-19 pandemic on disability claims and increased local regulatory capital requirements. As previously highlighted, net remittances of US$3,730 million in 2019 included a remittance from Thailand deferred from 2018 due to the timing of required regulatory approvals.

We raised US$2,792 million from issuances under our Global Medium-term Note (GMTN) and Securities Programme and we made payments of US$839 million for the acquisition of CMLA.

The movements in working capital are summarised as follows:

US$ millions, unless otherwise stated	2020	2019
Opening working capital	**13,471**	10,296
Group Corporate Centre operating results(1)	**42**	(3)
Net remittances from business units		
Hong Kong	**643**	986
Thailand	**394**	1,037
Singapore	**332**	295
Malaysia	**97**	176
Mainland China	**1,139**	1,022
Other Markets	**71**	214
Net remittances to Group Corporate Centre	**2,676**	3,730
Payment for acquisition of CMLA	**(839)**	(344)
Increase in borrowings	**2,792**	797
Purchase of shares held by employee share-based trusts	**(16)**	(21)
Payment of dividends	**(1,997)**	(1,961)
Mark-to-market movements in debt securities and others(1)	**1,040**	977
Closing working capital	**17,169**	13,471

Note:
(1) Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

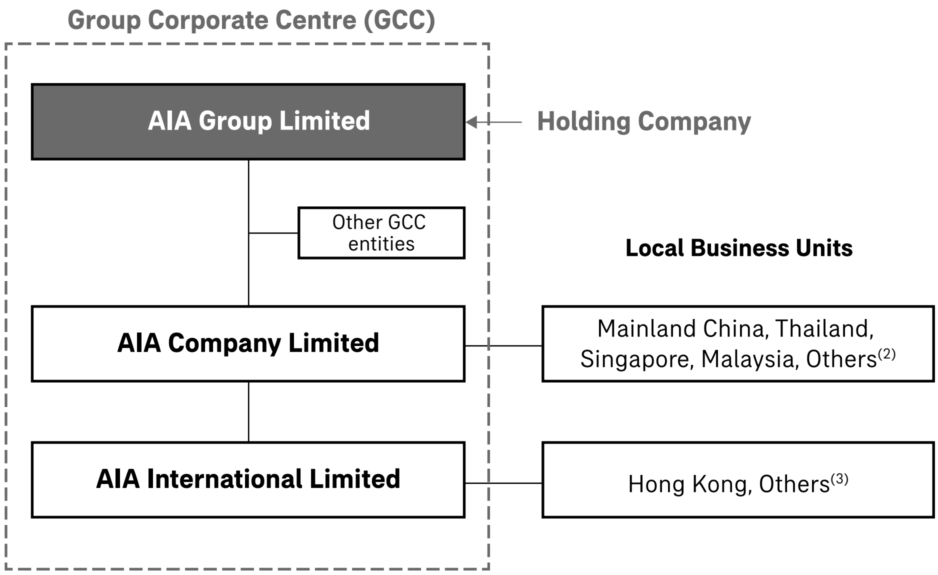
HOLDING COMPANY FINANCIAL RESOURCES

Holding company financial resources is a new disclosure that will replace working capital from the financial year beginning 1 January 2021 to provide better insight into the financial resources that are directly available for paying shareholder dividends, servicing the interest on our borrowings, and providing both financial support and investment into our businesses.

These financial resources represent the debt and equity securities, deposits, cash and cash equivalents, and dividends paid but not settled by subsidiaries, net of obligations under repurchase agreements, at the Group's listed holding company, AIA Group Limited (the Company).

Holding company financial resources is a subset of working capital held at the Group Corporate Centre. The holding company forms part of Group Corporate Centre as represented graphically below:

Simplified AIA Corporate Structure(1)



(1) The chart is for illustration purpose only and is not intended to depict all individual entities within the Group
(2) Australia, Brunei, Myanmar, the Philippines, Sri Lanka
(3) Cambodia, Indonesia, India, South Korea, Macau, New Zealand, Taiwan (China), Vietnam

At 31 December 2020, holding company financial resources were US$12,388 million compared with US$8,630 million at 31 December 2019. The increase of US$3,758 million was mainly driven by capital flows to the holding company from subsidiaries of US$2,354 million and net proceeds of the issuances of borrowings totalling US$2,792 million during the year, offset by the payment of shareholder dividends of US$1,997 million. The majority of the capital flows from subsidiaries for 2020 and 2019 were contributed by AIA Co., our principal operating company.

The movements in holding company financial resources are summarised as follows:

US$ millions, unless otherwise stated	2020	2019
Opening holding company financial resources	**8,630**	8,339
Capital flows from subsidiaries	**2,354**	2,603
Corporate activity including acquisitions	**–**	(1,450)
Net capital flows to holding company	**2,354**	1,153
Increase in borrowings[1]	**2,792**	797
Interest payments on borrowings[1]	**(245)**	(228)
Investment income, mark-to-market movements in debt securities and others	**854**	530
Closing holding company financial resources before dividends	**14,385**	10,591
Dividends paid	**(1,997)**	(1,961)
Closing holding company financial resources	**12,388**	8,630

Assets recoverable and liabilities repayable within 12 months as follows:

US$ millions, unless otherwise stated	As at 31 December 2020	As at 31 December 2019
Loans to/amounts due from subsidiaries[2]	**90**	84
Medium-term notes and securities[3]	**(1,002)**	–
Net other assets and other liabilities	**(14)**	(3)

Notes:

(1) Borrowings principally include medium-term notes and securities, other intercompany loans, and outstandings, if any, from the Company's US$2,290 million unsecured committed credit facilities.

(2) As at 31 December 2020, loans to/amounts due from subsidiaries was US$1,904 million (2019: US$1,918 million). US$90 million was recoverable within the 12 months after the year ended 31 December 2020 (2019: US$84 million).

(3) As at 31 December 2020, medium-term notes and securities placed to the market was US$8,559 million (2019: US$5,757 million). US$1,002 million was repayable within the 12 months after the year ended 31 December 2020 (2019: nil). Details of the medium-term notes and securities placed to the market are included in note 30 to the consolidated financial statements.

Reconciliation between Working Capital and Holding Company Financial Resources

US$ millions, unless otherwise stated	2020	2019
Working capital at 31 December	**17,169**	13,471
AIA Co. working capital excluding branch assets	**(1,897)**	(2,741)
AIA International working capital excluding branch assets	**(1,935)**	(1,428)
Other Group Corporate Centre entities	**(949)**	(672)
Holding company financial resources at 31 December	**12,388**	8,630

IFRS BALANCE SHEET

Consolidated Statement of Financial Position[1]

US$ millions, unless otherwise stated	As at 31 December 2020	As at 31 December 2019	Change AER
Assets			
Financial investments	**271,467**	233,363	16%
Investment property	**4,639**	4,834	(4)%
Cash and cash equivalents	**5,619**	3,941	43%
Deferred acquisition and origination costs	**27,915**	26,328	6%
Other assets	**16,481**	15,666	5%
Total assets	**326,121**	284,132	15%
Liabilities			
Insurance and investment contract liabilities	**235,952**	204,454	15%
Borrowings	**8,559**	5,757	49%
Other liabilities	**17,942**	18,526	(3)%
Less total liabilities	**262,453**	228,737	15%
Equity			
Total equity	**63,668**	55,395	15%
Less non-controlling interests	**468**	448	4%
Total equity attributable to shareholders of AIA Group Limited	**63,200**	54,947	15%
Shareholders' allocated equity	**48,030**	43,278	11%

Movement in Shareholders' Equity[1]

US$ millions, unless otherwise stated	2020	2019
Opening shareholders' equity	**57,508**	39,488
Retrospective adjustment for change in accounting policies	**(2,561)**	1,377
Opening shareholders' equity, as adjusted	**54,947**	40,865
Net profit	**5,779**	5,979
Fair value gains on assets	**3,501**	9,211
Purchase of shares held by employee share-based trusts	**(16)**	(21)
Dividends	**(1,997)**	(1,961)
Revaluation (losses)/gains on property held for own use	**(46)**	154
Foreign currency translation adjustments	**931**	603
Other capital movements	**101**	117
Total movement in shareholders' equity	**8,253**	14,082
Closing shareholders' equity	**63,200**	54,947

Note:
(1) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 48 to the consolidated financial statements for additional information.

Total Investments

US$ millions, unless otherwise stated	As at 31 December 2020	Percentage of total	As at 31 December 2019	Percentage of total
Total policyholder and shareholder	**247,408**	**87%**	212,742	87%
Total unit-linked contracts and consolidated investment funds	**36,302**	**13%**	31,456	13%
Total investments	**283,710**	**100%**	244,198	100%

The investment mix remained stable during the year as set out below:

Unit-Linked Contracts and Consolidated Investment Funds

US$ millions, unless otherwise stated	As at 31 December 2020	Percentage of total	As at 31 December 2019	Percentage of total
Unit-linked contracts and consolidated investment funds				
Debt securities	**6,403**	**18%**	5,866	19%
Loans and deposits	**395**	**1%**	703	2%
Equities	**28,232**	**78%**	24,101	77%
Cash and cash equivalents	**1,219**	**3%**	752	2%
Derivatives	**53**	**–**	34	–
Total unit-linked contracts and consolidated investment funds	**36,302**	**100%**	31,456	100%

Policyholder and Shareholder Investments

US$ millions, unless otherwise stated	As at 31 December 2020	Percentage of total	As at 31 December 2019	Percentage of total
Participating funds and Other participating business with distinct portfolios				
Government bonds	**9,324**	**4%**	7,751	4%
Other government and government agency bonds	**11,701**	**5%**	9,974	5%
Corporate bonds and structured securities	**54,947**	**22%**	40,842	19%
Loans and deposits	**2,519**	**1%**	2,523	1%
Subtotal – Fixed income investments	**78,491**	**32%**	61,090	29%
Equities	**23,892**	**10%**	18,739	8%
Investment property and property held for own use	**1,054**	**–**	1,065	1%
Cash and cash equivalents	**565**	**–**	481	–
Derivatives	**335**	**–**	231	–
Subtotal Participating funds and Other participating business with distinct portfolios	**104,337**	**42%**	81,606	38%
Other policyholder and shareholder				
Government bonds	**46,939**	**19%**	43,345	21%
Other government and government agency bonds	**18,918**	**7%**	16,727	8%
Corporate bonds and structured securities	**53,649**	**22%**	47,479	22%
Loans and deposits	**6,421**	**3%**	6,860	3%
Subtotal – Fixed income investments	**125,927**	**51%**	114,411	54%
Equities	**7,058**	**3%**	7,482	4%
Investment property and property held for own use	**5,570**	**2%**	5,829	3%
Cash and cash equivalents	**3,835**	**2%**	2,708	1%
Derivatives	**681**	**–**	706	–
Subtotal other policyholder and shareholder	**143,071**	**58%**	131,136	62%
Total policyholder and shareholder	**247,408**	**100%**	212,742	100%

ASSETS

Participating business is written in a segregated statutory fund, with regulations governing the division of surplus between policyholders and shareholders. "Other participating business with distinct portfolios", which represents the Hong Kong participating business as previously highlighted, is supported by segregated investment assets, and explicit provisions for future surplus distribution though the division of surplus between policyholders and shareholders is not defined in regulations.

Total assets increased by US$41,989 million to US$326,121 million at 31 December 2020, compared with US$284,132 million at 31 December 2019 due to positive net revenues and mark-to-market gains on our debt securities.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US$39,512 million to US$283,710 million at 31 December 2020, compared with US$244,198 million at 31 December 2019.

Of the total US$283,710 million investments at 31 December 2020, US$247,408 million were held in respect of policyholders and shareholders and the remaining US$36,302 million were backing unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US$204,418 million at 31 December 2020 compared with US$175,501 million at 31 December 2019.

Government bonds and other government and government agency bonds represented 43 per cent of fixed income investments at 31 December 2020, compared with 44 per cent at 31 December 2019. Corporate bonds and structured securities accounted for 53 per cent of fixed income investments at 31 December 2020, compared with 50 per cent at 31 December 2019. The average credit rating of our fixed income portfolio excluding government bonds remained stable at A- compared to the position at 31 December 2019. Our corporate bond portfolio is well diversified with over 1,500 issuers with an average holding size of US$67 million. At 31 December 2020, we held US$3.7 billion of bonds rated below investment grade or not rated, representing 2 per cent of our total bond portfolio. Less than US$600 million of our bonds, representing 0.3 per cent of our total bond portfolio, were downgraded to below investment grade and we did not experience any impairments in 2020, reflecting the overall quality of our investment portfolio.

Equity securities held in respect of policyholders and shareholders totalled US$30,950 million at 31 December 2020, compared with US$26,221 million at 31 December 2019. The US$4,729 million increase in carrying value was mainly attributable to new purchases driven by underlying business growth. Within this figure, equity securities of US$23,892 million were held in participating funds and other participating business with distinct portfolios.

Cash and cash equivalents increased by US$1,678 million to US$5,619 million at 31 December 2020 compared to US$3,941 million at 31 December 2019. The increase largely reflected portfolio rebalancing and optimising term deposits into more liquid investments.

Investment property and property held for own use in respect of policyholders and shareholders totalled US$6,624 million at 31 December 2020 compared with US$6,894 million at 31 December 2019.

Deferred acquisition and origination costs increased to US$27,915 million at 31 December 2020 compared with US$26,328 million at 31 December 2019, the increase being largely due to new sales.

Other assets increased to US$16,481 million at 31 December 2020 compared with US$15,666 million at 31 December 2019, mainly reflecting an increase in reinsurance recoveries.

LIABILITIES

Total liabilities increased to US$262,453 million at 31 December 2020 from US$228,737 million at 31 December 2019.

Insurance and investment contract liabilities grew to US$235,952 million at 31 December 2020 compared with US$204,454 million at 31 December 2019, reflecting the underlying growth of the in-force portfolio and positive foreign exchange translation.

Borrowings increased to US$8,559 million at 31 December 2020, due to the net proceeds from the issuances of medium-term notes and securities totalling US$2,792 million during the year. The leverage ratio, which is defined as borrowings expressed as a percentage of total borrowings and equity, was 11.9 per cent, compared with 9.4 per cent at 31 December 2019.

Other liabilities were US$17,942 million at 31 December 2020, compared with US$18,526 million at 31 December 2019, reflecting the partial settlement of the acquisition of CMLA of US$839 million, offset by an increase in deferred tax liabilities.

Details of commitments and contingencies are included in note 43 to the consolidated financial statements.

REGULATORY CAPITAL

Our Group supervisor is the HKIA. The Group is in compliance with the solvency and capital adequacy requirements applied by the HKIA. The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer, which is required by the HKIA to meet the solvency margin requirements of the HKIO.

In addition to the local HKIO requirements for AIA Co., the HKIA is introducing a GWS framework which includes an assessment of the capital position of the Group, referred to as the LCSM. Legislation setting out the GWS framework was enacted on 17 July 2020. On 31 December 2020, the Government gazetted the commencement date of the legislation to be on 29 March 2021. In addition, the Insurance (Group Capital) Rules (Group Capital Rules) were tabled before the Legislative Council on 6 January 2021 and will come into operation on 29 March 2021.

Although the Group Capital Rules will commence from 29 March 2021, the exact application of these rules is still under discussion with the HKIA and will only become finalised when the Group is formally designated as being subject to them. As a consequence, the Group has opted to retain the same basis of disclosure in our Annual Report 2020 as for our Interim Report 2020, which reflects our current understanding of how the Group Capital Rules will apply to the Group.

Once formally designated, the Group will disclose the regulatory capital position according to the GWS regulations as applied to the Group by the HKIA and will discontinue disclosure of the solvency ratio for AIA Co. in the Group's results announcement. AIA Co. will continue to report its solvency ratio in its financial statements, and will submit annual filings to the HKIA of its solvency margin position based on its annual audited financial statements.

The capital positions for AIA Co. and the Group are as follows:

AIA CO. SOLVENCY POSITION

As at 31 December 2020, the total available capital for AIA Co. increased to US$9,780 million and the solvency ratio remained very strong at 489 per cent as measured under the HKIO basis. The increase in solvency ratio of 127 pps compared to 31 December 2019 is mainly driven by the subsidiarisation of AIA China, as the solvency position of AIA Co. no longer includes the available or required capital for our business in Mainland China, partially offset by the effect of lower government bond yields.

A summary of the total available capital and solvency ratios of AIA Co. is as follows:

US$ millions, unless otherwise stated	**As at 31 December 2020**	As at 31 December 2019
Total available capital	**9,780**	11,856
Regulatory minimum capital (100%)	**2,000**	3,272
AIA Co. Solvency ratio (%)	**489%**	362%

GROUP LCSM SOLVENCY POSITION

As per our Interim Report 2020, AIA's published group-level total available capital and minimum capital requirement are calculated as the sum of the available and required capital according to the regulatory requirements for each relevant regulated entity within the Group. The Group LCSM surplus is the difference between the Group available capital and the Group minimum capital requirement. The Group LCSM cover ratio is the ratio of the Group available capital to the Group minimum capital requirement.

On this basis, at 31 December 2020 the Group LCSM surplus was US$43,817 million, with a Group LCSM cover ratio of 374 per cent. The Group LCSM surplus, as calculated, includes US$1,735 million of subordinated securities issued in September 2020 under the GMTN and Securities Programme that we expect to become eligible Tier 2 debt capital.

The following table summarises the position based on our current understanding of the application of the GWS framework to the Group:

US$ millions, unless otherwise stated	**As at 31 December 2020**	As at 31 December 2019
Group available capital	**59,830**	51,751
Group minimum capital requirement	**16,013**	14,139
Group LCSM surplus	**43,817**	37,612
Group LCSM cover ratio	**374%**	366%

GROUP LCSM SURPLUS SENSITIVITIES

Sensitivities to the Group LCSM surplus arising from changes to the central assumptions from equity price and interest rate movements are shown below. The interest rate sensitivities apply a 50 basis points movement in current government bond yields and the corresponding impact on the liability discount rates.

US$ millions, unless otherwise stated	**Group LCSM cover ratio as at 31 December 2020**
Central value	**374%**
Impact of equity price changes	
10 per cent increase in equity prices	**1 pps**
10 per cent decrease in equity prices	**(2) pps**
Impact of interest rate changes	
50 basis points increase in interest rates	**13 pps**
50 basis points decrease in interest rates	**(18) pps**

RECONCILIATION BETWEEN GROUP LCSM SURPLUS AND FREE SURPLUS

We believe that the free surplus on a consolidated basis provides a more representative view of the capital position from a shareholder perspective. The table below shows a reconciliation between the Group LCSM surplus and free surplus.

US$ millions, unless otherwise stated	As at 31 December 2020	As at 31 December 2019
Group LCSM surplus	**43,817**	37,612
Adjustments for:		
Eligible Tier 2 debt capital	**(1,735)**	–
Different capital requirements under EV for AIA China[1]	**(7,675)**	(5,928)
Reflecting shareholders' view of capital[2]	**(10,314)**	(7,161)
Free surplus on business unit basis	**24,093**	24,523
Adjustment to reflect consolidated reserving and capital requirements	**(10,620)**	(9,606)
Free surplus on consolidated basis	**13,473**	14,917

Notes:
(1) Adjustment from C-ROSS solvency basis to China Association of Actuaries (CAA) EV basis in line with local requirements.
(2) Reflects change from Group minimum capital requirement to EV required capital and the removal of participating fund surplus.

LOCAL SOLVENCY REQUIREMENTS

The Group's individual branches and subsidiaries are also subject to supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 31 December 2020.

ACCOUNTING STANDARDS DEVELOPMENTS

On 25 June 2020, the effective date of IFRS 17 was deferred to 1 January 2023 and the temporary exemption applying IFRS 9 for insurers using IFRS standards was extended to 1 January 2023.

GLOBAL MEDIUM-TERM NOTE AND SECURITIES PROGRAMME

In August 2020, we increased our GMTN and Securities Programme from US$8 billion to US$10 billion.

Under the programme, on 7 April 2020, the Company issued US dollar-denominated fixed rate medium-term notes that are listed on The Stock Exchange of Hong Kong Limited. The offering comprised US$1,000 million of 10-year notes at an annual rate of 3.375 per cent. On 24 June 2020, the Company issued unlisted Australian dollar-denominated fixed rate medium-term notes, which consisted of AUD90 million of 10-year notes at an annual rate of 2.95 per cent. The US dollar equivalent issued is approximately US$62 million. On 16 September 2020, the Company issued US dollar-denominated fixed rate subordinated dated securities that are listed on The Stock Exchange of Hong Kong Limited. The offering comprised US$1,750 million of 20-year subordinated dated securities at an annual rate of 3.2 per cent.

At 31 December 2020, the aggregate carrying amount of the debt issued to the market under the GMTN and Securities Programme was US$8,559 million.

CREDIT RATINGS

At 31 December 2020, AIA Co. had financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from Standard & Poor's.

At 31 December 2020, AIA Group Limited had issuer credit ratings of A2 (Low Credit Risk) with a stable outlook from Moody's; AA- (Very High Credit Quality) with a stable outlook from Fitch; and A (Strong) with a positive outlook from Standard & Poor's.

DIVIDENDS

The Board has recommended a 7.5 per cent increase in the final dividend to 100.30 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2020 to 135.30 Hong Kong cents per share, an increase of 6.9 per cent compared with the total dividend for 2019. This follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

BUSINESS REVIEW

SUMMARY AND KEY BUSINESS HIGHLIGHTS

In 2020, we successfully navigated our businesses through the challenges presented by the COVID-19 pandemic. Our immediate priority was to ensure the safety of our staff while providing uninterrupted service to our customers, agents and partners. We have seen good momentum return to our businesses and we achieved 15 per cent VONB growth for the Group in the first two months of 2021 against the same period in 2020. As a result of containment measures limiting face-to-face sales, we accelerated the development and adoption of online and remote sales capabilities. We now have the capability to sell our products remotely in all our agency and bancassurance businesses. These tools supported the recovery in sales momentum across our markets as movement restrictions eased.

DISTRIBUTION

In our **agency** channel, we continued to grow the capacity of our Premier Agency and delivered double-digit growth in both new recruits and agency leaders, supported by a shift to online recruitment, onboarding and training. VONB declined by 28 per cent in 2020 as the pandemic restricted in-person meetings. We saw sales momentum recover as restrictions eased and our businesses adopted new digital tools. Momentum has continued into 2021 with very strong year-on-year VONB growth in the first two months.

Our **partnership** channels saw a 41 per cent decline in VONB in 2020, reflecting the impact of travel restrictions that effectively put on hold sales to Mainland Chinese visitors in Hong Kong from February 2020. Excluding sales to Mainland Chinese visitors, VONB from our partnerships grew by 5 per cent half-on-half in the second half. We achieved robust results from our bancassurance partnerships, including year-on-year VONB growth in 2020 from Bangkok Bank Public Company Limited (Bangkok Bank) in Thailand, Bank Central Asia (BCA) in Indonesia and Public Bank Berhad in Malaysia.

GEOGRAPHICAL MARKETS

AIA China has delivered a successful start to 2021, with very strong VONB growth in the first two months compared with the same period in 2020. While VONB of US$968 million for 2020 was 17 per cent lower than 2019, this was mostly driven by limited sales volumes during the initial outbreak of COVID-19 in the first quarter. As movement controls eased, new business momentum swiftly improved and resumed our usual seasonal pattern with VONB weighted towards the first half of the year. AIA China became the largest contributor to the Group's VONB in 2020.

AIA Hong Kong's VONB significantly declined as new business sales to Mainland Chinese visitors have effectively been on hold from early February 2020 following the introduction of travel restrictions. VONB margin reduced for the year, reflecting acquisition expense overruns following the fall in new business volumes, a shift in product mix and the impact of lower interest rates. OPAT increased by 10 per cent. Macau resumed its Individual Visit Scheme with Mainland China from late September 2020, which has supported a return of sales to Mainland Chinese visitors that contributed over one-third of AIA Macau's total ANP in the fourth quarter.

AIA Thailand delivered an excellent performance in the second half, with 33 per cent growth in VONB compared with the first half of the year. While VONB decreased by 4 per cent for the full year, we saw positive month-on-month VONB growth as movement restrictions eased in the second half.

AIA Singapore achieved an excellent recovery in the second half, with VONB up by 56 per cent compared with the first half and a 12 per cent increase year-on-year. VONB reduced by 5 per cent for the full year, with growth in our agency channel offset by lower new business from our partnership distribution, as sales to the offshore customer segment were particularly affected by border controls. VONB margin recovered significantly in the second half due to an improvement in product mix and a reduction in acquisition expense overruns as new business volumes increased.

AIA Malaysia reported VONB growth in the second half of 72 per cent compared with the first half, and we achieved double-digit VONB growth compared with the second half of 2019. VONB for the full year was down by 13 per cent, reflecting strict COVID-19 related movement restrictions imposed in the first half. A positive product mix shift and reduction in acquisition expense overruns led to a 16.6 pps recovery in VONB margin in the second half and an overall margin of 59.9 per cent for 2020.

In **Other Markets**, VONB increased by 10 per cent in the second half compared with the first half of the year, with good recoveries seen in South Korea and Indonesia. Overall, VONB for the full year was lower by 4 per cent following declines in New Zealand, the Philippines and Indonesia. Our remaining markets all delivered positive VONB growth with Vietnam, Taiwan (China) and India reporting double-digit increases in 2020 compared with 2019.

CORPORATE STRATEGY

AIA has an unparalleled platform in Asia built up over our long history in the region and we hold leading positions in the majority of our markets. Our focus on Asia and our corporate structure allow us to capture the full economics of growth for our shareholders in the world's most attractive region for life insurance. In 2020, we launched our new corporate strategy founded on AIA's Purpose of helping people live Healthier, Longer, Better Lives, as represented graphically below.

Our Purpose: Helping People Live Healthier, Longer, Better Lives

STRATEGIC PRIORITIES

Leading Customer Experience	Unrivalled Distribution	Compelling Propositions
Seamless omnichannel customer experience with best-in-class engagement	Scale capacity and productivity through digitalisation and advice-centric models	Be the leading provider of personalised advice and innovative solutions

Step Change in Technology, Digital and Analytics

World-class technology	Customised and digitally-enabled journeys	Data and analytics powering everything we do

Organisation of the Future
Simpler, faster, more connected

Financial Discipline
Sustainable long-term shareholder value driven by clear KPIs

STRUCTURAL GROWTH DRIVERS IN ASIA

Unprecedented wealth creation	Significant need for private protection	Rapidly shifting consumer mindset	Pervasiveness of new technologies	Embracing purpose, sustainability and resilience

STRUCTURAL GROWTH DRIVERS

Our updated strategic priorities are built on five long-term structural drivers of growth in Asia:

Asia's unprecedented wealth creation

Compounding wealth creation will support a near-doubling of Asia's middle-class population by 2030, an increase of 1.4 billion at a rate faster than the rest of the world combined.

Significant need for private protection

There is an enormous shortfall between Asia's need for financial protection and current provision, driving increased demand for life and health insurance and long-term savings. These protection gaps continue to grow, accelerated by the increasing prevalence of avoidable lifestyle-related diseases, ageing populations, increasing longevity and rapid inflation in healthcare costs.

Rapidly shifting consumer mindset

Wellness, healthcare and higher expectations of quality of life into old age are increasingly front of mind for consumers. With so many product options and uncertainty over how much cover is needed, consumers increasingly rely on personal recommendations and choose companies that provide trusted advice with relevant, timely and personalised services.

Pervasiveness of new technologies
Advances in technology and digital capabilities have opened up increasing opportunities for greater connectivity, scale and efficiency, driven by deeper customer insights and analytics.

Embracing purpose, sustainability and resilience
Resilience is paramount in a world of increasingly frequent, but hard-to-predict shocks. All stakeholders expect companies to respond in the right way to all eventualities with purpose, and in a way that is aligned with long-term sustainability.

By identifying and addressing these opportunities, we are confident that AIA will continue to build on our substantial competitive advantages and strong track record of growth to shape a more sustainable future for our communities and create long-term value for all of our stakeholders.

TECHNOLOGY, DIGITAL AND ANALYTICS

A step change in technology, digital and analytics is at the heart of our strategy. The foundation of our transformation is upgrading our technology to world-class modern architecture and systems to support the efficient and rapid scaling of our strategic initiatives, achieving greater growth and efficiency.

Our targeted investments across these three areas will transform the experience of our customers, distributors, partners and employees and enable our businesses to meet the increasing expectations for efficient and seamless experiences anytime and anywhere.

Embedding data analytics into our business processes will deliver superior personalised experiences and greater engagement, as well as ensuring the privacy and security of customer data. We will also benefit from increased operational efficiency, enhanced risk assessment, and faster and more comprehensive management information. Our goal is to position AIA as industry-leading in the use of technology globally.

WORLD-CLASS TECHNOLOGY

We accelerated the adoption of cloud technology with more than 35 per cent of our servers public cloud-based by December 2020, close to doubling the utilisation level in the first quarter of 2020. As we progress towards our ambitious goal of 90 per cent cloud adoption, we are already far ahead of the global financial services and insurance industry average of 16 per cent. Our objective is to drive significant improvements in scalability, stability and security while reducing operating costs. For example, AIA China's high level of adoption of cloud-based solutions across its operations supports our rapid business expansion and has delivered cost savings of 30 per cent compared with our traditional physical infrastructure.

We have increased end-to-end straight-through processing of our buy, service and claim journeys through greater digitalisation, process simplification, automation and adoption of artificial intelligence (AI). As at December 2020, 47 per cent of all buy, service and claim operations for the Group were automated fully end-to-end, close to a 50 per cent increase from 2019. Some of our local businesses have achieved impressive levels of automation. For example, 75 per cent of new business in the Philippines, 50 per cent of claims in Malaysia and more than 80 per cent of service operations for AIA China are fully processed with no human involvement.

DIGITAL ENABLEMENT

During the early stages of the pandemic, we rapidly developed and deployed new agency digital tools to conduct sales remotely and securely for all of our markets. These capabilities have been widely adopted by our agents. For example, in Singapore we were the first insurer to provide customers with enhanced user verification capabilities using "Sign with SingPass", part of Singapore's Smart Nation project. We also put in place digital tools for online agent recruitment, management and training, enabling the continuation of these activities during social distancing and movement restrictions.

In our bancassurance partnerships, our move to a digitally-led approach enables better targeting of in-branch customers and provides broader access to previously untapped online banking and credit card customers. For example, we introduced new online sales capabilities in Hong Kong and Singapore and enhanced leads management capabilities in the Philippines and Indonesia. We have new tools for online sales such as product configurators, data driven underwriting and personalised offer engines ready for deployment with our partners in 2021.

We adopt a digitally-enabled approach to working with our non-traditional platform partners, allowing us to access millions of potential customers in new ways. For example, our partnership with ZA Tech Global Limited (ZA Tech) will help AIA seamlessly connect with new and existing digital partners in all of AIA's markets outside Mainland China, supporting our ambition to engage new customer segments with innovative and personalised products. We launched our first such collaborative product in Malaysia through Shopee using ZA Tech's proven software and its expertise in offer design. In 2021, we will launch in other markets with both our existing and new digital partners.

Our progress in digital enablement has supported a significant increase in digital submissions from our customers and distributors and this, in turn, helps drive increased end-to-end automation of our operations. In 2020, 72 per cent of all buy, service and claim operations across the Group were submitted digitally, with new business submissions reaching 95 per cent. We have enhanced communications with our customers, with over 90 per cent of outbound notifications and responses to customers now provided digitally.

ANALYTICS POWERING EVERYTHING WE DO

Our use of analytics delivers greater personalisation, improved customer experience, better decision-making and increased operational efficiency. We do this by identifying and testing high-impact use cases in one of our markets and then industrialising across the Group to quickly replicate success.

In the Philippines, we implemented an AI-based underwriting solution which has delivered 99.9 per cent underwriting accuracy and supported end-to-end customer onboarding in just 20 minutes. We have also implemented an AI-based claims solution in Thailand which has delivered a straight-through processing rate of more than 70 per cent for outpatient medical claims.

In Mainland China, we have developed our first AI-enabled outbound call robot, Xiao Bang, which covers a variety of service needs including renewal premium collection. Xiao Bang is part of our award-winning integrated service platform. It can handle over 600 different customer interaction scenarios and has made nearly half a million outbound calls to customers since its launch. As AIA China has continued to grow rapidly, this platform has supported enhanced customer experiences and improved financial performance with no additional service headcount in 2020.

UNRIVALLED DISTRIBUTION

AGENCY

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**2,333**	3,242	**(28)%**	(28)%
VONB margin	**67.5%**	75.3%	**(7.8) pps**	(7.8) pps
ANP	**3,455**	4,306	**(19)%**	(20)%

Our unparalleled, proprietary Premier Agency platform with market-leading positions across Asia is an important competitive advantage for AIA. Our Premier Agency provides high-quality new recruits with best-in-class training to help them develop a full-time professional and productive career with AIA. We offer clear career progression for our agents and next-generation leaders, supported by new technology and digital tools. AIA has been the number one Million Dollar Round Table (MDRT) company globally for the last six years, demonstrating the effectiveness of our Premier Agency strategy.

In 2020, our agency businesses saw a 28 per cent decline in VONB as movement controls restricted in-person meetings. We saw a strong recovery as restrictions eased and our businesses adopted new digital tools. This momentum has continued into 2021 with very strong year-on-year VONB growth for the first two months. VONB margin remained strong at 67.5 per cent despite a year-on-year decline from a shift in product mix and acquisition expense overruns. Overall, agency accounted for 78 per cent of the Group's total VONB in 2020.

We continue to invest in digital tools that enable our agency force to provide a best-in-class customer experience. In the first half, we rapidly developed and deployed new technology across the Group, enabling the sales process to be completed remotely without an in-person meeting. Even as social distancing restrictions were relaxed in most of our markets, our agents have embedded many of our new tools in their daily activities, supporting improved productivity in the second half of the year as the number of new cases per active agent recovered to pre-pandemic levels seen in 2019.

Our next-generation agency leaders are critical in ensuring the sustained success of our agency businesses and we grew our number of new leaders by close to 30 per cent in 2020. We provide our leaders with powerful digital tools to enhance their effectiveness and we upgraded real-time agency performance tracking in Mainland China, India and Malaysia in 2020, enabling timely intervention, coaching and feedback for our agents. With our new online capabilities for agent recruitment and training, we held over 20,000 online recruitment seminars, which supported excellent growth in new agent recruits and increased agency capacity at the end of 2020 compared with 2019.

PARTNERSHIPS

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**676**	1,143	**(41)%**	(41)%
VONB margin	**38.4%**	50.1%	**(11.9) pps**	(11.8) pps
ANP	**1,764**	2,279	**(22)%**	(23)%

Our long-term distribution partnerships with market-leading financial institutions and other corporate partners provide AIA with the opportunity to engage with and meet the protection and long-term savings needs of over 100 million potential customers in Asia.

Our bancassurance strategy uses a digitally-led approach that targets in-branch customers with customised solutions and provides broader access to previously untapped online banking and credit card customers. For non-traditional and digital platform partners, we adopt an agile approach as we test and learn how best to attract new customers to AIA. These offer a new way of accessing millions of people typically outside the reach of our other distribution channels and usual demographics. Our omnichannel sales model is a competitive advantage for AIA and increases conversion rates as we provide customers with the choice of how to purchase: from fully online through to face-to-face advice.

Travel restrictions, which were imposed in the first half of 2020 and remain largely in place, effectively put on hold industry sales to Mainland Chinese visitors in Hong Kong and drove a 41 per cent decline in partnership distribution VONB. Excluding sales to Mainland Chinese visitors, VONB from our partnerships grew by 5 per cent in the second half compared with the first half, as movement restrictions eased. The decline in VONB margin to 38.4 per cent in 2020 primarily reflected a geographical mix shift with lower sales in Hong Kong along with acquisition expense overruns.

Bancassurance

Our long-term exclusive and strategic partnerships with banks, which are a key competitive advantage for AIA, delivered a robust performance in 2020 with a low double-digit decline in VONB. In particular, Bangkok Bank, BCA and Public Bank Berhad all delivered VONB growth for the year. Commonwealth Bank of Australia (CBA) also generated a significant one-off contribution to VONB in February 2020 with their purchase of mortality cover on behalf of their existing home loan customers. In the second half, our bancassurance channel delivered 5 per cent half-on-half growth in VONB.

During 2020, we continued to transform our business model through deeper systems integration with our partners. We also worked closely with our partners across the region to strengthen our digital capabilities as mobility and travel restrictions impacted our ability to conduct face-to-face sales in a number of our markets, particularly in the first half. We launched an online live chat for insurance sales with Citibank, N.A. in Hong Kong during the year as an alternative platform for the bank's relationship managers to engage with customers. These initiatives to transform and digitalise our partnership business models continue to position us well for future delivery of sustainable growth.

Digital Platforms

We adopt a digitally-led and agile approach to working with our strategic non-traditional partners, enabling faster iteration cycles when building and delivering compelling solutions. For example, we launched an omnichannel distribution model in South Korea with SK Telecom, SK holdings C&C and Samsung Card in November. In December, we announced the formation of a new regional digital technology partnership with ZA Tech, with the first initiative launched in Malaysia through Shopee. We aim to attract customers with an online purchase of a simple AIA product, then use analytics to identify suitable customers to refer for more comprehensive propositions and advice through our agency.

COMPELLING PROPOSITIONS

In 2020, we decided to connect AIA's Purpose and our longstanding brand promise of "helping people live Healthier, Longer, Better Lives". We now have one statement that demonstrates how AIA wants to be perceived by all our stakeholders and underpins everything that we do.

HEALTH AND WELLNESS ECOSYSTEM

Our strategy is to focus on next-generation life and health protection products, fully integrated with AIA's Health and Wellness Ecosystem to address the growing protection gap in Asia.

AIA's Health and Wellness Ecosystem has four components: i) AIA Vitality and our wellness programme in Mainland China; ii) our network of telemedicine and healthcare providers; iii) the AIA Regional Health Passport; and iv) expert personal medical case management. Through these pillars our goal is to deliver improved health outcomes for our customers from prediction and prevention through to diagnosis, treatment and recovery.

AIA Vitality extends our leadership position in health and wellness through an integrated shared-value proposition that promotes improved health outcomes for our customers, while also benefiting customers through lower costs of insurance. AIA Vitality is actively helping our customers counter the increasing prevalence of non-communicable diseases across Asia and we made significant enhancements to the platform in 2020 to improve services, customer reach and engagement. For example, our exclusive regional partnership with Holmusk, a global data science and healthcare technology company, supports the development of AI-enabled nutrition coaching services within AIA Vitality's nutrition programme. Mental health has also been a top priority, particularly as a result of the pandemic. We increased our support for mental well-being with new features in AIA Vitality and saw nearly one million new assessments completed in 2020.

The pandemic has driven a surge in telemedicine usage, providing medical support in the face of social distancing and supplementing the capacity of traditional medical providers. **AIA Telemedicine** services are already operational in six of our markets and their use increased significantly during the year. We also launched new services in Malaysia, Thailand, Hong Kong and Macau in 2020 with plans for six additional markets in 2021.

The **AIA Regional Health Passport** leverages our pan-Asian presence to offer customers access to our network of leading international hospitals, providing the convenience of a region-wide referral and appointment service, as well as cross-border cashless payments regardless of where the policy was issued. The passport is operational in five of our markets: Hong Kong, Macau, Singapore, Thailand and Malaysia, and we plan to extend it to another seven markets in 2021. Our customers can also access a network of hospitals in the United States and several European countries.

We offer **Personal Medical Case Management** in eight markets. A core component of this capability is our exclusive regional partnership with Medix, ensuring AIA customers receive the best diagnostic and treatment consultation in the event of a serious or complex diagnosis. This year we extended Medix services to Australia, India and Vietnam and the benefits for our customers are clear. In 2020, 23 per cent of our customers using Medix received a refined diagnosis and 62 per cent of initial treatment plans were amended based on the global best clinical advice provided. 27 per cent of customers avoided treatment altogether and customer satisfaction reached 93 per cent.

Next-generation products integrated with the Health and Wellness Ecosystem include AIA One Absolute – Full Protection in Hong Kong and You Ru Yi in Mainland China. The Hong Kong proposition is the first in the market to make claim payments for all conditions based on the severity of a customer's medical condition. You Ru Yi is an innovative first in market critical illness product with modular coverage options, providing tailored coverage.

REGIONAL FUNDS PLATFORM

In addition to a growing need for protection, Asia has the world's fastest-growing retirement population and our objective is to help people save more effectively through our long-term savings propositions. Our Regional Funds Platform leverages our scale and distribution power to build relationships with leading external fund managers across the world, providing our customers with tailored investment strategies exclusive to AIA that are integrated into our innovative savings products. AIA's experienced team provides peace of mind to customers through its professional stewardship, which encompasses our proven manager selection process and ongoing performance monitoring.

We aim to deliver long-term outperformance for our customers as we address their long-term savings needs. We have achieved top-quartile performance in the AIA Elite fund series on the platform. In 2020, we broadened our range of propositions using these funds across several of our markets. In Singapore, we added a new retirement-focused product, and we also launched our first propositions in Thailand and Malaysia.

LEADING CUSTOMER EXPERIENCE

Our ambition is for AIA's customers to have a best-in-class experience delivered through the three key principles of simplicity, timeliness and reliability. To achieve this, a number of fundamental shifts are necessary including reorienting the organisation around customer journeys rather than functions, and embedding data and analytics in everything we do.

The step change in technology, digital and analytics across AIA is central to delivering best-in-class experience across the learn, buy, service and claim customer journeys. We have made significant progress in 2020 in automation and straight-through processing and this will accelerate in 2021 as we increase the use of analytics across many of our operations.

During 2020 we undertook an extensive assessment of our customer and distributor end-to-end journeys, identifying focus areas for enhancing user experience and improving customer satisfaction.

Our new customer experience design principles are founded on digitalisation and personalisation and are benchmarked to global best practices. Our experience shows that enhanced customer experience can support significant improvements in customer satisfaction and retention, increased sales leads, cross-sales and conversion, as well as productivity gains.

We have developed an enhanced measurement framework building on our existing periodic customer surveys. Real-time feedback, linked to the operational performance of our service delivery, provides a holistic understanding of the customer experience and how demands are changing. We have adopted this approach in Mainland China, Malaysia, India, Australia and New Zealand and we plan to embed it in all our markets.

For example, Tata AIA Life in India captures real-time experience feedback across 13 touchpoints along the buy, service and claim customer journeys. This has helped guide our digital transformation process, which includes service automation, adoption of WhatsApp Enterprise Solution for customer communications, and AI-enabled chatbots. Over the year, we have seen an industry-leading self-service ratio of 86 per cent and a 14-point improvement in Net Promoter Score for Tata AIA Life.

ORGANISATION OF THE FUTURE

Our people strategy is designed to leverage AIA's distinct culture of local empowerment with accountability to support the delivery of our strategic ambitions. The core components of Organisation of the Future are simpler organisational structures, the introduction of agile ways of working and enhanced people and capabilities frameworks.

We started our journey to shape a transformed organisation in the second half of 2020 with two pilot business units: AIA Singapore and AIA Vietnam. Our plan is to test and learn within these pilot businesses before scaling the Organisation of the Future programme across our other businesses.

Early results from our pilot markets have achieved simplified, more customer-centric operating models and we have launched agile working practices with multiple cross-functional specialist teams. These teams have the autonomy to work independently on crucial business challenges to accelerate results and improve outcomes.

We have designed new capability building programmes for our pilot markets to further equip our people for organisational change. In 2020, we launched modules on organisation transformation, execution excellence, and agile ways of working, and plan to launch programmes on technology, digital and analytics.

GEOGRAPHICAL MARKET HIGHLIGHTS

MAINLAND CHINA

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**968**	1,167	**(17)%**	(17)%
VONB margin	**80.9%**	93.5%	**(12.7) pps**	(12.6) pps
ANP	**1,197**	1,248	**(4)%**	(4)%
TWPI	**5,622**	4,804	**17%**	17%
OPAT	**1,220**	1,061	**14%**	15%

AIA China became the largest contributor to the Group's VONB in 2020, and our differentiated Premier Agency achieved double-digit growth in agency leaders and new recruits, while maintaining our stringent selection standards. This supported very strong VONB growth in the first two months of 2021 compared with the same period in 2020.

VONB of US$968 million for 2020 was 17 per cent lower than 2019, primarily due to limited sales volumes during the initial outbreak of COVID-19 in the first quarter. As movement controls began to ease in March, new business momentum swiftly improved and our usual seasonal pattern resumed with VONB weighted towards the first half of the year. A decline in VONB margin was driven by a product mix shift towards long-term participating savings products as a result of successful cross-sales to existing customers and the application of 5 per cent withholding tax from July 2020, as previously disclosed.

OPAT increased by 14 per cent for the year, primarily driven by growth in our in-force portfolio and favourable claims experience.

In 2020, AIA China successfully obtained regulatory approval and completed the conversion of our Shanghai branch to become the first wholly foreign-owned life insurance subsidiary in Mainland China. We have received regulatory approval to prepare our newest branch in Sichuan and we are at a very advanced stage. Sichuan is Mainland China's sixth largest province by GDP and fourth largest by population, representing a significant long-term growth opportunity for AIA China.

HONG KONG

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**550**	1,621	**(66)%**	(66)%
VONB margin	**44.7%**	66.1%	**(21.4) pps**	(21.4) pps
ANP	**1,138**	2,393	**(52)%**	(52)%
TWPI	**13,042**	13,107	**0%**	0%
OPAT	**2,059**	1,879	**10%**	10%

VONB declined by 66 per cent as sales to Mainland Chinese visitors have effectively been on hold from early February 2020 following the introduction of mandatory quarantine requirements and the suspension of the Individual Visit Scheme. While these restrictions remained in force for Hong Kong throughout the year, Macau resumed its Individual Visit Scheme with Mainland China in late September 2020. This supported a return of sales to Mainland Chinese visitors for our Macau branch, which contributed to over one-third of its total ANP in the fourth quarter.

Our Premier Agency remained the clear market leader in agency distribution in Hong Kong and delivered double-digit ANP growth for the domestic customer segment in the second half compared with the first half, despite disruptions from tightening social distancing measures as COVID-19 infections increased. We delivered a double-digit half-on-half increase in new recruits and improved agent case productivity in the second half. VONB for our partnership distribution channels was significantly lower than 2019 due to a higher historical mix of sales to Mainland Chinese visitors by retail IFAs. VONB margin declined by 21.4 pps, reflecting acquisition expense overruns following the fall in new business volumes, a shift in product mix and the impact of lower interest rates.

OPAT increased by 10 per cent, driven by underlying growth in our high-quality in-force portfolio with renewal premiums up 11 per cent. This was supported by favourable claims experience that more than offset reduced investment income from lower bond yields and the negative impact from the reduction in long-term investment return assumptions since the end of 2019.

THAILAND

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**469**	494	**(4)%**	(5)%
VONB margin	**71.0%**	67.7%	**3.2 pps**	3.3 pps
ANP	**661**	729	**(9)%**	(9)%
TWPI	**4,462**	4,352	**3%**	3%
OPAT	**987**	1,064	**(7)%**	(7)%

AIA Thailand delivered an excellent performance in the second half with 33 per cent growth in VONB compared with the first half of the year. Although VONB decreased by 4 per cent for the full year, we saw positive month-on-month VONB growth as movement restrictions eased and business activities began to normalise in the second half.

In our agency business, we more than doubled the number of new recruits in the second half compared with the first half, supported by our continued focus on the execution of our differentiated Financial Adviser programme. Our strategic bancassurance partner, Bangkok Bank, delivered positive VONB growth for the year.

VONB margin increased to 71.0 per cent, driven by a substantial shift in product mix towards long-term protection products and medical riders as a result of greater customer awareness of individual protection needs due to the pandemic. OPAT reduced by 7 per cent as in-force growth for the year and positive operating experience in the second half were more than offset by lower equity market returns, as previously disclosed.

SINGAPORE

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**330**	352	**(5)%**	(6)%
VONB margin	**63.4%**	65.5%	**(2.2) pps**	(2.1) pps
ANP	**520**	538	**(2)%**	(3)%
TWPI	**3,088**	2,916	**7%**	6%
OPAT	**621**	583	**8%**	7%

AIA Singapore achieved an excellent recovery in the second half with VONB up by 56 per cent compared with the first half and a 12 per cent increase year-on-year. VONB declined by 5 per cent for the year overall, with growth in our agency business offset by a reduction in our partnership distribution channel, as sales to the offshore customer segment were particularly affected by COVID-19 related border controls.

Agency productivity increased in 2020, supported by widespread adoption of our new digital sales capabilities that enabled our agents to sell remotely even during the strictest lockdown. As containment measures eased, a significant proportion of sales continued to be completed without an in-person meeting.

VONB margin reduced by 2.2 pps for the year as the reduction in the first half was mostly offset by a 7.0 pps half-on-half increase in the second half, reflecting a shift in product mix and a reduction in acquisition expense overruns as new business volumes increased. OPAT increased by 8 per cent, driven by growth in our in-force portfolio and supported by positive operating experience.

MALAYSIA

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**222**	258	**(13)%**	(14)%
VONB margin	**59.9%**	63.1%	**(3.1) pps**	(3.2) pps
ANP	**369**	406	**(8)%**	(9)%
TWPI	**2,216**	2,142	**5%**	3%
OPAT	**326**	333	**(2)%**	(2)%

AIA Malaysia delivered an excellent recovery from the early impact of COVID-19 movement restrictions with double-digit year-on-year VONB growth in the second half, although VONB for the full year was 13 per cent lower than 2019.

In agency, our continued focus on quality recruitment helped deliver double-digit growth in the number of new recruits. In the second half, the number of active agents and case productivity exceeded 2019 levels and the widespread adoption of our new mobile-enabled digital tools, introduced in the first half, supported performance. In partnership distribution, we worked with our exclusive bancassurance partner, Public Bank Berhad, to enhance and streamline the in-branch activity management process, which helped to nearly double the VONB in the second half compared with the first half of the year.

A positive product mix shift and a reduction in acquisition expense overruns supported a 16.6 pps recovery in VONB margin in the second half and an overall margin of 59.9 per cent for 2020. OPAT declined by 2 per cent, mostly due to a one-off provision for an industry-wide initiative to identify and pay accumulated unreported death claims, as previously highlighted. Excluding this provision, OPAT increased by 8 per cent.

OTHER MARKETS

US$ millions, unless otherwise stated	2020	2019	YoY CER	YoY AER
VONB	**514**	535	**(4)%**	(4)%
VONB margin	**38.4%**	41.9%	**(3.7) pps**	(3.5) pps
ANP	**1,334**	1,271	**5%**	5%
TWPI	**6,978**	6,681	**5%**	4%
OPAT	**687**	772	**(11)%**	(11)%

AIA's Other Markets are Australia (including New Zealand), Cambodia, India, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam. The VONB and ANP results for 2020 and 2019 include our 49 per cent shareholding of Tata AIA Life. IFRS results for Tata AIA Life continue to be accounted for using the equity method.

Overview

VONB increased by 10 per cent in the second half compared with the first half of the year, with good recoveries seen in South Korea and Indonesia. Overall, VONB for the full year was lower by 4 per cent following declines in New Zealand, the Philippines and Indonesia. Our remaining markets all delivered positive year-on-year growth in VONB with Vietnam, Taiwan (China) and India reporting double-digit increases in 2020 compared with 2019. OPAT declined by 11 per cent, as AIA Australia's OPAT reduced by US$68 million from the level in 2019, primarily due to lower profitability from disability insurance policies, while growth in Taiwan (China) and Vietnam broadly offset lower OPAT from Indonesia, the Philippines and South Korea.

Geographical Market Highlights

Australia & New Zealand: Our Australia and New Zealand business delivered positive growth in ANP for the year. VONB margin remained low in the second half due to a higher mix of group insurance business, with the onboarding of a new large group insurance scheme as well as several successful renewals. Our long-term bancassurance partnerships with CBA and ASB Bank Limited (ASB) generated a significant one-off contribution to VONB as both CBA and ASB purchased mortality cover on behalf of their existing home loan customers in the first half of 2020.

Cambodia: AIA Cambodia continued to expand its distribution reach through geographical expansion outside of Phnom Penh, opening multiple new agency offices and adding new branches with our strategic partners. Sales momentum recovered in the second half with excellent ANP growth compared with the first half.

India: Tata AIA Life delivered strong VONB growth through its differentiated multi-channel distribution platform and protection focus. Our highly-digitalised model was crucial in enabling business continuity and driving growth through the pandemic. Tata AIA Life maintained its leading position in the pure retail protection market and our high-quality Premier Agency continued to be a leader in the industry in terms of agent productivity. We renewed our distribution agreement with Indusind Bank Ltd. and announced a long-term strategic partnership with Practo Pte. Ltd. (Practo). Through this partnership, Tata AIA Life will become the exclusive provider of life insurance solutions to Practo's digital healthcare platform, which has 175 million unique users. Tata AIA Life's customers will gain preferred access to Practo's leading digital healthcare platform.

Indonesia: Our bancassurance business in Indonesia delivered double-digit VONB growth in 2020, driven by our strategic partnership with BCA. This was more than offset by decline in agency VONB for the year, despite an improvement in the second half that was supported by higher activity and productivity of new agents.

Myanmar: Following the official launch of our Myanmar business at the end of November 2019, our focus in 2020 was on building a solid foundation for our multi-channel distribution platforms and awareness of the AIA brand. In addition, AIA Myanmar launched its first long-term bancassurance partnership.

Philippines: Our operations in the Philippines reported a double-digit decline in VONB, following the nationwide lockdown implemented since mid-March 2020. Community quarantine restrictions of varying levels remain in force across the country, which has created sustained headwinds to both our agency and bancassurance businesses.

South Korea: AIA Korea delivered VONB growth in 2020, supported by an excellent performance in direct marketing. We launched our omnichannel distribution model in November with SK Telecom, SK holdings C&C, and our new strategic distribution partner, Samsung Card. Under this model, we use data analytics and digital marketing to embed our shared-value protection propositions into the customer journeys of the online and mobile ecosystems of our partners.

Sri Lanka: AIA Sri Lanka delivered excellent VONB growth in 2020 as we implemented several new digital tools to support remote agency recruitment and training, as well as enhanced the buy, service and claim customer journeys. This supported a recovery in the second half of the year, with increased agency recruitment and growth in the number of active agents.

Taiwan (China): AIA Taiwan delivered strong VONB growth in 2020, primarily driven by excellent sales momentum in our broker channel. We continue to focus on delivering insurance solutions that meet targeted customer needs for retirement and legacy planning and strengthening our relationships with key bancassurance and IFA partners.

Vietnam: AIA Vietnam delivered strong double-digit VONB growth in 2020 with both agency and partnership channels supporting the result. Agency remained the primary distribution channel for AIA Vietnam, and an increase in the number of active agents and good recruitment momentum drove the continued expansion of our Premier Agency. VONB growth was supported by an increase in VONB margin as we introduced a series of first-in-market features to our health and critical illness products that drove a shift towards higher margin protection products.

Notes:

(1) Throughout the Unrivalled Distribution section, VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.

(2) Following the completion of the conversion process of AIA Co.'s Shanghai branch to a wholly-owned subsidiary, future remittances to the Group from this subsidiary will be subject to withholding tax at the applicable tax rate in Mainland China (currently 5 per cent). OPAT and net profit from AIA China include the 5 per cent withholding tax from October 2020. EV and VONB from AIA China include the 5 per cent withholding tax from July 2020.

(3) The OPAT reported in Hong Kong is after the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation.

(4) Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

(5) Growth rates and commentaries are provided on a constant exchange rate basis.

REGULATORY AND INTERNATIONAL DEVELOPMENTS

The International Association of Insurance Supervisors (IAIS), a standard-setting body for insurers, adopted ComFrame, the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs) at its annual general meeting on 14 November 2019. Many of the regulators of the Group's business units, including the HKIA, are members of the IAIS. IAIGs are identified under ComFrame as insurance groups which meet certain minimum requirements in the jurisdictions in which they operate throughout the world and with regards to the size of their business. The Group has been designated an IAIG in accordance with these criteria.

In addition, as part of ComFrame, in 2020 the IAIS began the first of two phases in the development and implementation of the Insurance Capital Standard (ICS). Under the first phase, a "Reference ICS" is being assessed during a five-year Monitoring Period for reporting privately to group-wide supervisors. It is proposed that the second phase, beginning in 2025, will include implementation of the ICS as part of prescribed group capital requirements.

Further to our prior disclosures, the HKIA has been developing a GWS framework to align with international standards to supervise Hong Kong domiciled IAIGs. Legislation setting out the GWS framework was enacted on 17 July 2020.

On 31 December 2020, the Hong Kong SAR Government gazetted the commencement date of the legislation to be on 29 March 2021. In addition, the Group Capital Rules were tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. The GWS framework is reflective of the requirements of ComFrame.

Under the GWS framework, the HKIA will have direct regulatory powers over Hong Kong incorporated holding companies of insurance groups that are designated under the legislation. In respect of insurers which carry on insurance business in or from Hong Kong, the HKIA has various regulatory powers including powers to approve the appointment of a controller, a director and a key person, and powers to intervene, inspect and investigate. These powers may also be directly applied to Hong Kong incorporated holding companies of insurance groups pursuant to the GWS framework.

The Group Capital Rules will set out the capital requirements of the Group under the GWS framework and will be based on a "Summation Approach". The Group's published total available and minimum required capital will be calculated based on a summing up of the available and required capital according to the regulatory requirements for each relevant regulated entity within the Group, also known as the LCSM. The Group Capital Rules provide for conforming subordinated debt.

In addition to the above, AIA is an active participant in the industry dialogue on prudential, market conduct and other related matters including:

- Hong Kong Risk-based Capital regime: AIA continues to be closely and constructively engaged with the HKIA on the multi-year consultation process toward a risk-based capital regime in Hong Kong applicable to Hong Kong licensed insurance companies (distinct from the GWS framework applicable at the group level). This risk-based capital regime will replace the current Solvency 1 regime. Based on the most recently available information, our expectation is that the regime will become effective from 1 January 2024.

- Relaxation of Foreign Ownership Limits for Life Insurers in Mainland China: Further to its initial announcement in 2017 to relax the foreign ownership limits in the financial services sector, the Mainland Chinese Government has, as of 6 December 2019, officially lifted these ownership restrictions effective 1 January 2020 to allow for 100 per cent foreign ownership of licensed life insurance companies in Mainland China. On 19 June 2020, AIA Co. received approval from the CBIRC to convert its existing Shanghai branch to a wholly-owned subsidiary, through which it intends to manage and operate its existing and future business in Mainland China.

- The Organisation for Economic Co-operation and Development (OECD) is undertaking a new phase of work on tax policy, commonly referred to as "Base erosion and profit shifting 2.0" (BEPS 2.0), which has two pillars. The first pillar focuses on changes to the international tax system in respect of consumer businesses and automated digital services. It aims to allocate more taxing rights to sales and market jurisdictions and to ensure a taxable presence in jurisdictions where enterprises have no physical presence but still have a significant economic presence. The second pillar focuses on the development of rules that seek to apply a global minimum tax rate to multinational enterprises and their cross-border transactions. A carve-out from Pillar One has been proposed for the financial services industry. However, based on the blueprint covering the potential design of Pillar Two, the rules that the OECD is proposing may increase AIA's effective tax rate. At this stage the proposed rules are still subject to agreement by the jurisdictions that are members of the "Inclusive Framework" on BEPS 2.0.

羅兵咸永道

TO THE SHAREHOLDERS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited
The consolidated financial statements of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 187, which comprise:

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

Our opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified relate to the valuation of insurance contract liabilities and the amortisation of deferred acquisition costs ("DAC").

Key audit matter	How our audit addressed the key audit matter
a) Valuation of insurance contract liabilities	
Refer to the following notes in the consolidated financial statements: Note 2.4 for related accounting policies, Note 3 for critical accounting estimates and judgements, Note 27, Note 29 and Note 48 for the effect of adoption of revised accounting policies.	

As at 31 December 2020, the Group has insurance contract liabilities of US$223,071 million.
 	
The Director's valuation of these insurance contract liabilities involves significant judgement about uncertain future outcomes, including mortality, morbidity, persistency, expense, investment return, valuation interest rates and provision for adverse deviation, as well as complex valuation methodologies. Therefore, these liabilities are subject to significant estimation uncertainty and the associated inherent risk is considered significant.
 	
The liabilities for traditional participating life assurance policies with discretionary participation features and non-participating life assurance policies, annuities and policies related to other protection products are substantially determined by a net level premium valuation method using best estimate assumptions at policy inception adjusted for adverse deviation. These assumptions remain locked in thereafter, subject to meeting a liability adequacy test which compares the liabilities with a valuation on current best estimate assumptions.
	We tested how management made the estimate and performed audit procedures including the following:
	
	• We understood the valuation methodologies used, identified changes in methodologies from previous valuation and assessed the reasonableness and impact of material changes identified, by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectation derived from market experience.
	
	• We assessed the reasonableness of the key assumptions including those for mortality, morbidity, persistency, expense, investment return and valuation interest rates as well as the provision for adverse deviation. Our assessment of the assumptions included:
	
	  • Obtaining an understanding of, and testing, the controls in place to determine the assumptions;
	
	  • Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience;

pwc

羅兵咸永道

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
a) Valuation of insurance contract liabilities (continued)	
During the reporting period, the Group revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities ("revised accounting policy") of a type of traditional participating life policies. Insurance contract liabilities for universal life and unit-linked policies are substantially based on the value of the account balance together with liabilities for unearned revenue and additional insurance benefits which are dependent upon operating assumptions and future investment return assumptions that are reassessed at each reporting period. As part of our consideration of assumptions, we have focused on those insurance contracts where the assumptions are reassessed at each reporting date as well as how assumptions are set at policy inception dates. We have, in relation to valuation methodologies used, focused on changes in methodologies from the previous valuation as well as methodologies applied to material new product types (as applicable).	• Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice. • Regarding the revised accounting for a type of traditional participating life policies, we discussed with management and evaluated the rationale for and appropriateness of the change in accounting policy. We also tested the key assumptions and methodology applied to calculate the restated balances and evaluated the associated disclosures. • We checked the calculation of the liability adequacy test and assessed the related results in order to ascertain whether the insurance contract liabilities used for the inforce business are adequate in the context of a valuation on current best estimate assumptions. Based upon the work performed, we found the methodologies and assumptions used by management to be appropriate, including those used in the liability adequacy test.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
b) Amortisation of DAC	
Refer to the following notes in the consolidated financial statements: Note 2.4.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements, Note 11 and Note 20.	
As at 31 December 2020, the Group has reported DAC of US$27,915 million. DAC for traditional life insurance policies and annuities are amortised over the expected life of the policies as a constant percentage of premiums and involve less judgement by the Directors compared to universal life and unit-linked policies. Expected premiums are estimated at the date of policy issue. The amortisation of DAC for universal life and unit-linked policies involves greater judgement by the Directors. For these contracts, DAC is amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits are revised regularly and significant judgement is exercised in making appropriate estimates of gross profits. Therefore, the determination of amortisation of DAC for these contracts are subject to significant estimation uncertainty and the associated inherent risk is considered significant. As part of our audit we have focused on DAC related to universal life and unit-linked policies where the assumptions are reassessed at each reporting date.	We tested how management made the estimate and performed audit procedures including the following: • Reviewed and challenged the basis of amortisation of DAC in the context of the Group's accounting policy and the appropriateness of the assumptions used in determining the estimated gross profits used for amortisation for universal life and unit-linked policies. This included those for mortality, morbidity, persistency, expense and investment returns by comparing against past experience, market observable data (as applicable) and our experience of market practice. Based upon the work performed, we found the assumptions used in relation to the amortisation of DAC for universal life and unit-linked policies to be appropriate.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

Other Information

The Directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Matter

The Group has prepared Supplementary Embedded Value Information as at and for the year ended 31 December 2020 in accordance with the embedded value basis of preparation set out in Sections 4 and 5 of the Supplementary Embedded Value Information, on which we issued a separate auditor's report to the Board of Directors of the Company dated 12 March 2021.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and IFRSs issued by the IASB and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

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

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Ling Tung Man, Tom.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
12 March 2021

PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

US$m	Notes	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
REVENUE			
Premiums and fee income	6	**35,780**	34,777
Premiums ceded to reinsurers		**(2,452)**	(2,166)
Net premiums and fee income		**33,328**	32,611
Investment return	10	**16,707**	14,350
Other operating revenue	10	**324**	281
Total revenue		**50,359**	47,242
EXPENSES			
Insurance and investment contract benefits		**36,865**	34,068
Insurance and investment contract benefits ceded		**(2,126)**	(1,940)
Net insurance and investment contract benefits		**34,739**	32,128
Commission and other acquisition expenses		**4,402**	4,283
Operating expenses		**2,695**	2,468
Finance costs		**292**	283
Other expenses		**944**	845
Total expenses	11	**43,072**	40,007
Profit before share of losses from associates and joint ventures		**7,287**	7,235
Share of losses from associates and joint ventures		**(17)**	(8)
Profit before tax		**7,270**	7,227
Income tax expense attributable to policyholders' returns		**(171)**	(179)
Profit before tax attributable to shareholders' profits		**7,099**	7,048
Tax expense	12	**(1,491)**	(1,209)
Tax attributable to policyholders' returns		**171**	179
Tax expense attributable to shareholders' profits		**(1,320)**	(1,030)
Net profit		**5,779**	6,018
Net profit attributable to:			
Shareholders of AIA Group Limited		**5,779**	5,979
Non-controlling interests		**–**	39
EARNINGS PER SHARE (US$)			
Basic	13	**0.48**	0.50
Diluted	13	**0.48**	0.50

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Net profit	**5,779**	6,018
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on available for sale financial assets (net of tax of: 2020: US$(198)m; 2019: US$(1,278)m)(2)	**4,865**	9,773
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: 2020: US$98m; 2019: US$66m)(2)	**(1,345)**	(545)
Foreign currency translation adjustments	**951**	619
Cash flow hedges	**6**	3
Share of other comprehensive expense from associates and joint ventures	**(14)**	(1)
Subtotal	**4,463**	9,849
Items that will not be reclassified subsequently to profit or loss:		
Revaluation (losses)/gains on property held for own use (net of tax of: 2020: US$(1)m; 2019: US$(11)m)	**(46)**	154
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: 2020: US$1m; 2019: US$3m)	**(8)**	(24)
Subtotal	**(54)**	130
Total other comprehensive income	**4,409**	9,979
Total comprehensive income	**10,188**	15,997
Total comprehensive income attributable to:		
Shareholders of AIA Group Limited	**10,163**	15,926
Non-controlling interests	**25**	71

Notes:

(1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.

(2) Gross of tax, policyholders' participation and other shadow accounting related movements, US$8,212m (2019: US$14,173m) relates to the fair value gains on available for sale financial assets and US$1,443m (2019: US$611m) relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	As at 31 December 2020	As at 31 December 2019 (As adjusted)	As at 31 December 2018 (As adjusted)
ASSETS				
Intangible assets	15	**2,634**	2,520	1,970
Investments in associates and joint ventures	16	**606**	615	610
Property, plant and equipment	17	**2,722**	2,865	1,233
Investment property	18	**4,639**	4,834	4,794
Reinsurance assets	19	**4,560**	3,833	2,887
Deferred acquisition and origination costs	20	**27,915**	26,328	24,626
Financial investments:	21, 23			
Loans and deposits		**9,335**	10,086	7,392
Available for sale				
Debt securities		**165,106**	138,852	112,485
At fair value through profit or loss				
Debt securities		**36,775**	33,132	27,736
Equity securities		**59,182**	50,322	38,099
Derivative financial instruments	22	**1,069**	971	430
		271,467	233,363	186,142
Deferred tax assets	12	**23**	23	26
Current tax recoverable		**103**	205	164
Other assets	24	**5,833**	5,605	4,903
Cash and cash equivalents	26	**5,619**	3,941	2,451
Total assets		**326,121**	284,132	229,806
LIABILITIES				
Insurance contract liabilities	27	**223,071**	192,181	163,308
Investment contract liabilities	28	**12,881**	12,273	7,885
Borrowings	30	**8,559**	5,757	4,954
Obligations under repurchase agreements	31	**1,664**	1,826	1,683
Derivative financial instruments	22	**1,003**	412	243
Provisions	33	**230**	225	168
Deferred tax liabilities	12	**6,902**	6,214	4,193
Current tax liabilities		**346**	432	532
Other liabilities	34	**7,797**	9,417	5,984
Total liabilities		**262,453**	228,737	188,950

US$m	Notes	As at 31 December 2020	As at 31 December 2019 (As adjusted)	As at 31 December 2018 (As adjusted)
EQUITY				
Share capital	35	**14,155**	14,129	14,073
Employee share-based trusts	35	**(155)**	(220)	(258)
Other reserves	35	**(11,891)**	(11,887)	(11,910)
Retained earnings		**44,704**	40,922	36,880
Fair value reserve	35	**15,170**	11,669	2,458
Foreign currency translation reserve	35	**233**	(698)	(1,301)
Property revaluation reserve	35	**1,027**	1,073	534
Others		**(43)**	(41)	(20)
Amounts reflected in other comprehensive income		**16,387**	12,003	1,671
Total equity attributable to:				
Shareholders of AIA Group Limited		**63,200**	54,947	40,456
Non-controlling interests	36	**468**	448	400
Total equity		**63,668**	55,395	40,856
Total liabilities and equity		**326,121**	284,132	229,806

Approved and authorised for issue by the Board of Directors on 12 March 2021.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$m	Notes	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income: Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	Total equity
Balance at 1 January 2020, as previously reported		**14,129**	**(220)**	**(11,887)**	**40,372**	**14,663**	**(698)**	**1,163**	**(14)**	**448**	**57,956**
Retrospective adjustments for change in accounting policy	48	–	–	–	550	(2,994)	–	(90)	(27)	–	(2,561)
Balance at 1 January 2020, as adjusted		**14,129**	**(220)**	**(11,887)**	**40,922**	**11,669**	**(698)**	**1,073**	**(41)**	**448**	**55,395**
Net profit		–	–	–	5,779	–	–	–	–	–	5,779
Fair value gains on available for sale financial assets[2]		–	–	–	–	4,850	–	–	–	15	4,865
Fair value gains on available for sale financial assets transferred to income on disposal[2]		–	–	–	–	(1,345)	–	–	–	–	(1,345)
Foreign currency translation adjustments		–	–	–	–	–	941	–	–	10	951
Cash flow hedges		–	–	–	–	–	–	–	6	–	6
Share of other comprehensive expense from associates and joint ventures		–	–	–	–	(4)	(10)	–	–	–	(14)
Revaluation losses on property held for own use		–	–	–	–	–	–	(46)	–	–	(46)
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	(8)	–	(8)
Total comprehensive income/(expense) for the year		–	–	–	5,779	3,501	931	(46)	(2)	25	10,188
Dividends	14	–	–	–	(1,997)	–	–	–	–	(5)	(2,002)
Shares issued under share option scheme and agency share purchase plan		26	–	–	–	–	–	–	–	–	26
Acquisition of non-controlling interests		–	–	(3)	–	–	–	–	–	–	(3)
Share-based compensation		–	–	80	–	–	–	–	–	–	80
Purchase of shares held by employee share-based trusts		–	(16)	–	–	–	–	–	–	–	(16)
Transfer of vested shares from employee share-based trusts		–	81	(81)	–	–	–	–	–	–	–
Balance at 31 December 2020		**14,155**	**(155)**	**(11,891)**	**44,704**	**15,170**	**233**	**1,027**	**(43)**	**468**	**63,668**

Notes:

(1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.

(2) Gross of tax, policyholders' participation and other shadow accounting related movements, US$8,212m relates to the fair value gains on available for sale financial assets and US$1,443m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$m	Notes	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income: Fair value reserve	Other comprehensive income: Foreign currency translation reserve	Other comprehensive income: Property revaluation reserve	Other comprehensive income: Others	Non-controlling interests	Total equity
Balance at 1 January 2019, as previously reported[(3)]		14,073	(258)	(11,910)	35,661	2,211	(1,301)	1,020	(8)	400	39,888
Retrospective adjustments for change in accounting policy[(3)]	48	–	–	–	1,219	247	–	(77)	(12)	–	1,377
Balance at 1 January 2019, as adjusted[(3)]		14,073	(258)	(11,910)	36,880	2,458	(1,301)	943	(20)	400	41,265
Net profit		–	–	–	5,979	–	–	–	–	39	6,018
Fair value gains on available for sale financial assets[(2)]		–	–	–	–	9,747	–	–	–	26	9,773
Fair value gains on available for sale financial assets transferred to income on disposal[(2)]		–	–	–	–	(545)	–	–	–	–	(545)
Foreign currency translation adjustments		–	–	–	–	–	613	–	–	6	619
Cash flow hedges		–	–	–	–	–	–	–	3	–	3
Share of other comprehensive income/(expense) from associates and joint ventures		–	–	–	–	9	(10)	–	–	–	(1)
Revaluation gains on property held for own use		–	–	–	–	–	–	154	–	–	154
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	(24)	–	(24)
Total comprehensive income/(expense) for the year		–	–	–	5,979	9,211	603	154	(21)	71	15,997
Dividends	14	–	–	–	(1,961)	–	–	–	–	(21)	(1,982)
Shares issued under share option scheme and agency share purchase plan		56	–	–	–	–	–	–	–	–	56
Acquisition of non-controlling interests		–	–	(6)	–	–	–	–	–	(2)	(8)
Share-based compensation		–	–	88	–	–	–	–	–	–	88
Purchase of shares held by employee share-based trusts		–	(21)	–	–	–	–	–	–	–	(21)
Transfer of vested shares from employee share-based trusts		–	59	(59)	–	–	–	–	–	–	–
Revaluation reserve transferred to retained earnings on disposal		–	–	–	24	–	–	(24)	–	–	–
Balance at 31 December 2019 – As adjusted		14,129	(220)	(11,887)	40,922	11,669	(698)	1,073	(41)	448	55,395

Notes:

(1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.

(2) Gross of tax, policyholders' participation and other shadow accounting related movements, US$14,173m relates to the fair value gains on available for sale financial assets and US$611m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year ended 31 December 2019.

(3) The balances at 1 January 2019 previously reported reflect an opening adjustment on adoption of IFRS 16, as previously disclosed in the consolidated financial statements in the Group's Annual Report 2019, which increased property revaluation reserve and total equity by US$482m. This opening adjustment reduced by $73m as a result of the retrospective adjustments for change in accounting policy described in note 48. Excluding the net IFRS 16 opening adjustment of US$409m, total equity as at 1 January 2019 was US$40,856m.

CONSOLIDATED STATEMENT OF CASH FLOWS

US$m	Notes	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,270**	7,227
Adjustments for:			
Financial investments		**(26,100)**	(22,708)
Insurance and investment contract liabilities, and deferred acquisition and origination costs		**23,159**	19,499
Obligations under repurchase and securities lending agreements	31	**(280)**	152
Reinsurance commission related to acquisition of subsidiaries	5	**(131)**	632
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items		**(8,510)**	(8,220)
Operating cash items:			
Interest received		**7,054**	6,668
Dividends received		**961**	884
Interest paid		**(39)**	(60)
Tax paid		**(1,027)**	(737)
Net cash provided by operating activities		**2,357**	3,337
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangible assets	15	**(254)**	(169)
Distribution or dividend from associates	16	**3**	3
Payments for increase in interest of joint ventures	16	**(9)**	(8)
Proceeds from sales of investment property and property, plant and equipment	17, 18	**–**	190
Payments for investment property and property, plant and equipment	17, 18	**(120)**	(106)
Acquisition of subsidiaries, net of cash acquired	5	**(839)**	(155)
Net cash used in investing activities		**(1,219)**	(245)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of medium-term notes and securities	30	**2,792**	1,301
Redemption of medium-term notes	30	**–**	(500)
Proceeds from other borrowings	30	**934**	1,559
Repayment of other borrowings	30	**(934)**	(1,561)
Acquisition of non-controlling interests		**(3)**	(8)
Payments for lease liabilities(1)		**(180)**	(157)
Interest paid on medium-term notes		**(225)**	(207)
Dividends paid during the year		**(2,002)**	(1,982)
Purchase of shares held by employee share-based trusts		**(16)**	(21)
Shares issued under share option scheme and agency share purchase plan		**26**	56
Net cash provided by/(used in) financing activities		**392**	(1,520)
Net increase in cash and cash equivalents		**1,530**	1,572
Cash and cash equivalents at beginning of the financial year		**3,753**	2,146
Effect of exchange rate changes on cash and cash equivalents		**110**	35
Cash and cash equivalents at end of the financial year		**5,393**	3,753

Note:
(1) The total cash outflow for leases for the year ended 31 December 2020 was US$187m (2019: US$191m).

Cash and cash equivalents in the above consolidated statement of cash flows can be further analysed as follows:

US$m	Note	As at 31 December 2020	As at 31 December 2019
Cash and cash equivalents in the consolidated statement of financial position	26	**5,619**	3,941
Bank overdrafts		**(226)**	(188)
CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS		**5,393**	3,753

1. CORPORATE INFORMATION

AIA Group Limited (the "Company") was established as a company with limited liability incorporated in Hong Kong on 24 August 2009. The address of its registered office is 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code "1299" with American Depositary Receipts (Level 1) being traded on the over-the-counter market (ticker symbol: "AAGIY").

AIA Group Limited and its subsidiaries (collectively "AIA" or the "Group") is a life insurance based financial services provider operating in 18 markets. The Group's principal activity is the writing of life insurance business, providing life insurance, accident and health insurance and savings plans throughout Asia, and distributing related investment and other financial services products to its customers.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS), International Financial Reporting Standards (IFRS) and the Hong Kong Companies Ordinance. IFRS is substantially consistent with HKFRS and the accounting policy selections that the Group has made in preparing these consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. References to IFRS, International Accounting Standards (IAS) and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) in these consolidated financial statements should be read as referring to the equivalent HKFRS, Hong Kong Accounting Standards (HKAS) and Hong Kong (IFRIC) Interpretations (HK(IFRIC) – Int) as the case may be. Accordingly, there are not any differences of accounting practice between HKFRS and IFRS affecting these consolidated financial statements.

The consolidated financial statements have been approved for issue by the Board of Directors on 12 March 2021.

The consolidated financial statements have been prepared using the historical cost convention, as modified by the revaluation of available for sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss, derivative financial instruments, property held for own use and investment properties, all of which are carried at fair value.

Items included in the consolidated financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The Company's functional currency and the presentation currency of the Company and the Group is the US dollar. The consolidated financial statements are presented in millions of US dollars (US$m) unless otherwise stated.

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows and in note 48.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(a) The following standard and amendments are effective for the financial year ended 31 December 2020, but the Group has elected to apply the temporary exemption described further below:

- IFRS 9, Financial Instruments, 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 (FVTPL) or in other comprehensive income (FVOCI) 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. An option is also available at initial recognition to irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. In addition, a revised Expected Credit Loss (ECL) model replaces the incurred loss impairment model under 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 FVOCI if the cash flow represents solely payments of principal and interest and the financial assets are held within a business model of "hold to collect" or "hold to collect and sell". 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 Group is conducting a detailed assessment of the new standard.

  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 are effective for financial periods beginning on or after 1 January 2019), but the Group qualifies for a temporary exemption as explained below.

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option (known as the "deferral approach") 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 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before IFRS 17 is applied. 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, and that the exemption currently in place for some insurers, including the Group, regarding the application of IFRS 9 will be extended to enable the implementation of both IFRS 9 and IFRS 17 at the same time.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(a) The following standard and amendments are effective for the financial year ended 31 December 2020, but the Group has elected to apply the temporary exemption described further below: (continued)

The Group performed an initial eligibility assessment and met the IFRS 9 requirements for the deferral approach, and accordingly has decided to apply IFRS 9 to annual reporting periods beginning 1 January 2023. Subsequent to the initial eligibility assessment, there has been no change in the Group's activities that requires a reassessment of the eligibility test. Further details on the eligibility assessment are contained in the consolidated financial statements in the Group's Annual Report 2019. Additional information on financial assets in relation to the election of the deferral approach is illustrated per below:

Financial assets of the Group are separated into the following two groups:

(i) financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) in accordance with IFRS 9 and are not held for trading or managed on fair value basis; and

(ii) all financial assets other than those specified in (i).

The following tables show the fair value and change in fair value of these two groups of financial assets:

	Fair value as at 31 December 2020			Change in fair value for the year ended 31 December 2020		
US$m	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total
Debt securities	**192,362**	**9,519**	**201,881**	**9,181**	**223**	**9,404**
Other financial assets	**13,001**(1)	**60,397**(2)	**73,398**	**–**	**6,394**	**6,394**
Total(3)	**205,363**	**69,916**	**275,279**	**9,181**	**6,617**	**15,798**

	Fair value as at 31 December 2019			Change in fair value for the year ended 31 December 2019		
US$m	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total
Debt securities	162,997	8,987	171,984	15,266	189	15,455
Other financial assets	13,842(1)	50,881(2)	64,723	–	4,990	4,990
Total(3)	176,839	59,868	236,707	15,266	5,179	20,445

Notes:

(1) Balance of other financial assets qualifying as SPPI includes loans and deposits, other receivables, accrued investment income and cash and cash equivalents.

(2) Balance predominantly represents equity securities, derivative financial instruments and cash equivalents.

(3) Certain financial assets included within the consolidated financial statements, including policy loans under loans and deposits, reinsurance receivables and insurance receivables under other receivables amounting to US$6,348m (2019: US$5,561m) are not included above since they will be accounted for under IFRS 17 where its adoption is in parallel with IFRS 9.

The financial assets presented above that met SPPI criteria and not held for trading or managed on fair value basis are primarily debt securities. Additional information on the credit quality analysis of these debt securities is provided in note 21.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(a) The following standard and amendments are effective for the financial year ended 31 December 2020, but the Group has elected to apply the temporary exemption described further below: (continued)

- The Company is not eligible for the deferral approach in its separate financial statements since the Company did not meet the eligibility criteria for the temporary exemption.

  IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVTPL. These supersede IAS 39's categories of held to maturity investments, loans and receivables, available for sale financial assets and financial assets measured at FVTPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The classification and measurement categories for financial liabilities have remained the same.

  IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39. The new impairment model applies to financial assets measured at amortised cost and debt securities at FVOCI.

  The statement of financial position and statement of changes in equity of the Company are disclosed in notes 46 and 47 of the Group's consolidated financial statements, respectively.

(b) The following relevant new amendments to standards have been adopted for the first time for the financial year ended 31 December 2020 and have no material impact to the Group:

- Amendments to IAS 1 and IAS 8, Definition of Material;
- Amendments to IAS 39 and IFRS 7, Interest Rate Benchmark Reform; and
- Amendments to IFRS 3, Definition of a Business.

(c) The following relevant new amendments to standards have been issued but are not effective for the financial year ended 31 December 2020 and have not been early adopted (the financial years for which the adoption is required for the Group are stated in parentheses). The Group has assessed the impact of these new amendments on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Group:

- Amendment to IAS 1, Classification of Liabilities as Current or Non-Current (2023);
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies (2023);
- Amendments to IAS 8, Definition of Accounting Estimates (2023);
- Amendment to IAS 16, Proceeds before Intended Use (2022);
- Amendment to IAS 37, Cost of Fulfilling a Contract (2022);
- Amendment to IAS 41, Taxation in Fair Value Measurements (2022);
- Amendment to IFRS 1, Subsidiary as a First-time Adopter (2022);
- Amendment to IFRS 3, Reference to the Conceptual Framework (2022);
- Amendment to IFRS 9, Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (2022);
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2 (2021);
- Amendment to IFRS 16, Covid-19-Related Rent Concessions (2021); and
- Amendment to IFRS 16, Lease Incentives (2022).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(d) The following relevant new standard has been issued but is not effective for the financial year ended 31 December 2020 and has not been early adopted:

- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes 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 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of HKFRS 17, Insurance Contracts. On 25 June 2020, the IASB issued the amendments to IFRS 17 and the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. In October 2020, the HKICPA has finalised the endorsement of, and issued, equivalent Amendments to HKFRS 17. The Group is in the midst of conducting a detailed assessment of the new standard.

(e) Voluntary change in accounting policy

During the reporting period, the Group revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios. Prior to this change in accounting policy, the Group recognised and measured the insurance contract liabilities for this business based on the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. With effect from 1 January 2020, and applied retrospectively, the Group now recognises and measures the insurance contract liabilities for this business based on the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance contract liability is recorded for the proportion of the net assets of this other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation. This approach is consistent with the existing accounting for insurance contract liabilities arising from participating business. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time.

The impacts of this voluntary change in accounting policy are described in note 48.

The significant accounting policies adopted in the preparation of the Group's consolidated financial statements are set out below. These policies have been applied consistently in all periods presented. The Company's statement of financial position and the statement of changes in equity, as set out in notes 46 and 47 respectively, have been prepared in accordance with the Group's accounting policies, except for the accounting policies in respect of the Company's investments as set out in note 2.3 and financial instruments as set out in note 2.5.5.

2.2 Operating profit

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management purposes, the Group evaluates its results and its operating segments using a financial performance measure referred to as "operating profit". Operating profit includes among others the expected long-term investment returns for investments in equities and real estate based on the assumptions applied by the Group in the Supplementary Embedded Value Information. The Group defines operating profit after tax as net profit excluding the following non-operating items:

- short-term fluctuations between expected and actual investment returns related to equities and real estate;
- other investment return (including short-term fluctuations due to market factors); and
- other significant items that management considers to be non-operating income and expenses.

The Group considers that the presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. The Group considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors.

Operating profit is provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis and enhance overall understanding of financial performance.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The Group has determined that the investment funds and structured securities, such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities that the Group has an interest are structured entities.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date at which the Group no longer has control. Intercompany transactions are eliminated.

The Group utilises the acquisition method of accounting to account for the acquisition of subsidiaries, unless the acquisition forms part of the Group reorganisation of entities under common control. Under this method, the cost of an acquisition is measured as the fair value of consideration payable, shares issued or liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see note 2.10 below). The Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Any surplus of the acquirer's interest in the subsidiary's net assets over the cost of acquisition is credited to the consolidated income statement.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiaries in which AIA Group Limited has a controlling interest, using accounts drawn up to the reporting date.

Investment funds

Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds are consolidated in the financial statements. In conducting the assessment, the Group considers substantive contractual rights as well as de facto control. De facto control of an entity may arise from circumstances where the Group does not have more than 50% of the voting power but it has the practical ability to direct the relevant activities of the entity. If the Group has power to remove or control over the party having the ability to direct the relevant activities of the fund based on the facts and circumstances and that the Group has exposure to variable returns of the investment funds, they are consolidated. Variable returns include both rights to the profits or distributions as well as the obligation to absorb losses of the investees.

Employee share-based trusts

Trusts are set up to acquire shares of the Company for distribution to participants in future periods through the share-based compensation schemes. The consolidation of these trusts is evaluated in accordance with IFRS 10; where the Group is deemed to control the trusts, they are consolidated. Shares acquired by the trusts to the extent not provided to the participants upon vesting are carried at cost and reported as "employee share-based trusts" in the consolidated statement of financial position, and as a deduction from the equity in the consolidated statement of changes in equity.

Non-controlling interests

Non-controlling interests are presented within equity except when they arise through the minority's interest in puttable liabilities such as the unit holders' interest in consolidated investment funds, when they are recognised as a liability, reflecting the net assets of the consolidated entity.

Acquisitions and disposals of non-controlling interests, except when they arise through the minority's interest in puttable liabilities, are treated as transactions between equity holders. As a result, any difference between the acquisition cost or sale price of the non-controlling interest and the carrying value of the non-controlling interest is recognised as an increase or decrease in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Associates and joint ventures

Associates are entities over which the Group has significant influence, but which it does not control or joint control. Generally, it is presumed that the Group has significant influence if it has between 20 per cent and 50 per cent of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of an asset transferred between entities.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in an associate or joint venture, together with the Group's share of that entity's post-acquisition changes to equity, is included as an asset in the consolidated statement of financial position. Cost includes goodwill arising on acquisition. The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition movement in equity is recognised in other comprehensive income. Equity accounting is discontinued when the Group no longer has significant influence over the investment. If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, additional losses are provided for, and a liability recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Company's investments

In the Company's statement of financial position, subsidiaries, associates and joint ventures are stated at cost, unless impaired. The Company's interests in investment funds such as mutual funds and unit trusts are measured at fair value through profit or loss.

2.4 Insurance and investment contracts

Consistent accounting policies for the measurement and recognition of insurance and investment contracts have been adopted throughout the Group, except for in a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction (see note 2.4.3).

Product classification

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. Some insurance and investment contracts, referred to as traditional participating life business, have discretionary participation features (DPF), which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does for insurance contracts. The Group refers to such contracts as traditional participating life business.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39, Financial Instruments: Measurement and Recognition, and, if the contract includes an investment management element, IFRS 15, Revenue from Contracts with Customers, are applied. IFRS 4 permits the continued use of previously applied accounting policies for insurance contracts and investment contracts with DPF, and this basis has been adopted by the Group in accounting for such contracts. Once a contract has been classified as an insurance or investment contract, reclassification is not subsequently performed unless the terms of the agreement are later amended.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

Certain contracts with DPF supplement the amount of guaranteed benefits due to policyholders. These contracts are distinct from other insurance and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Customers may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

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

In some jurisdictions traditional participating life business is written in a participating fund which is distinct from the other assets of the company or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by regulation. Other participating business with distinct portfolios refers to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time. The current policyholder participation ratio applied for recognition and measurement of the insurance contract liabilities for locations with participating funds and other participating business with distinct portfolios is set out below.

Country	Current policyholder participation
Participating funds	
Singapore	90%
Malaysia	90%
Mainland China	70%
Australia	80%
Brunei	80%
Other participating business with distinct portfolios	
Hong Kong	70% – 90%

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business without distinct portfolios.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

The Group's products may be divided into the following main categories:

Policy type		Description of benefits payable	Basis of accounting for: Insurance contract liabilities[1]	Investment contract liabilities
Traditional participating life	Participating funds and other participating business with distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends For other participating business with distinct portfolios, the allocation of benefit from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time	Insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders, assuming all performance would be declared as a dividend based upon current policyholder participation. In addition, deferred profit liabilities for limited payment contracts are recognised	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
	Other participating business without distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Insurance contract liabilities make provision for the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
Non-participating life, annuities and other protection products		Benefits payable are not at the discretion of the insurer	Insurance contract liabilities reflect the present value of future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised	Investment contract liabilities are measured at amortised cost
Universal life		Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Not applicable as such contracts generally contain significant insurance risk
Unit-linked		These may be primarily savings products or may combine savings with an element of protection	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value)

Note:

(1) In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction.

In the notes to the financial statements, unit-linked contracts are presented together with pension contracts for disclosure purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

The basis of accounting for insurance and investment contracts is discussed in notes 2.4.1 and 2.4.2 below.

2.4.1 Insurance contracts and investment contracts with DPF

Premiums

Premiums from life insurance contracts, including participating policies and annuity policies with life contingencies, are recognised as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognise profits over the estimated life of the policies. For limited pay contracts, premiums are recognised in profit or loss when due, with any excess profit deferred and recognised in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from insurance contracts with investment features but with sufficient insurance risk to be considered insurance contracts, such as universal life, and certain unit-linked contracts, are accumulated as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration, and surrenders during the period.

Upfront fees are recognised over the estimated life of the contracts to which they relate. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Unearned revenue liability

Unearned revenue liability represents upfront fees and other non-level charges that have been collected and released to the consolidated income statement over the estimated life of the business. A separate liability for accumulation value is established.

Deferred profit liability

Deferred profit liability arising from traditional insurance contracts represents excess profits that have been collected and released to the consolidated income statement over the estimated life of the business. A separate liability for future policy benefits is established.

Deferred acquisition costs

The costs of acquiring new insurance contracts, including commissions and distribution costs, underwriting and other policy issue expenses which vary with and are primarily related to the production of new business or renewal of existing business, are deferred as an asset. Deferred acquisition costs are assessed for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. Deferred acquisition costs are assessed for recoverability at least annually thereafter. Future investment income is also taken into account in assessing recoverability. To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in the consolidated income statement.

Deferred acquisition costs for life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Deferred acquisition costs (continued)

Deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. The interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

In a limited number of cases where the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction, acquisition costs deemed recoverable are included as a component of insurance contract liabilities, and are therefore deferred and amortised over the life of the corresponding policies.

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortised using the same methodology and assumptions used to amortise acquisition costs when:

- the sales inducements are recognised as part of insurance contract liabilities;
- they are explicitly identified in the contract on inception;
- they are incremental to amounts credited on similar contracts without sales inducements; and
- they are higher than the expected ongoing crediting rates for periods after the inducement.

Unbundling

The deposit component of an insurance contract is unbundled when both of the following conditions are met:

- the deposit component (including any embedded surrender option) can be measured separately (i.e. without taking into account the insurance component); and
- the Group's accounting policies do not otherwise require the recognition of all obligations and rights arising from the deposit component.

Bifurcation

To the extent that certain of the Group's insurance contracts include embedded derivatives that are not clearly and closely related to the host contract, these are bifurcated from the insurance contracts and accounted for as derivatives.

Benefits and claims

Insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the period, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the period, whether reported or not, related handling costs, a reduction for recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, and are included in operating expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

Insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies.

Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders.

For contracts with an explicit account balance, such as universal life and unit-linked contracts, insurance contract liabilities are equal to the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges.

Settlement options are accounted for as an integral component of the underlying insurance or investment contract unless they provide annuitisation benefits, in which case an additional liability is established to the extent that the present value of expected annuitisation payments at the expected annuitisation date exceeds the expected account balance at that date. Where settlement options have been issued with guaranteed rates less than market interest rates, the insurance or investment contract liability does not reflect any provision for subsequent declines in market interest rates unless a deficiency is identified through liability adequacy testing.

The Group accounts for insurance contract liabilities for participating business written in participating funds and other participating business with distinct portfolios by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and the other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.4 above. The Group accounts for other participating business without distinct portfolios by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

Liability adequacy testing

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Liability adequacy testing is performed for each reportable segment.

For traditional life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on acquired insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of deferred acquisition cost and value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortised balance for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

For universal life and investment contracts with DPF, deferred acquisition costs, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, deferred acquisition costs are written down.

Financial guarantees

Financial guarantees are regarded as insurance contracts. Liabilities in respect of such contracts are recognised when loss is incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 Investment contracts

Investment contracts do not contain sufficient insurance risk to be considered insurance contracts and are accounted for as a financial liability, other than investment contracts with DPF which are excluded from the scope of IAS 39 and are accounted for as insurance contracts.

Revenue from these contracts consists of various charges (policy fees, handling fees, management fees and surrender charges) made against the contract for the cost of insurance, expenses and early surrender. First year charges are amortised over the life of the contract as the services are provided.

Investment contract fee revenue

Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognised as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

When part of the fee received from a policyholder is expected to be refunded in the future, the related fee is not recognised as a revenue and a sales inducement liability is established which forms part of the investment contract liabilities.

Origination and other "upfront" fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is recorded at amortised cost, these fees are amortised and recognised over the expected term of the policy as an adjustment to the effective yield. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are amortised and recognised as the services are provided.

Deferred origination costs

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortised over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

The costs of acquiring new investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortised cost of the related investment contract liabilities.

Investment contract liabilities

Deposits received in respect of investment contracts are not accounted for through the consolidated income statement, except for the investment income and fees attributable to those contracts, but are accounted for directly through the consolidated statement of financial position as an adjustment to the investment contract liability, which reflects the account balance.

The majority of the Group's contracts classified as investment contracts are unit-linked contracts, with measurement directly linked to the underlying investment assets. These represent investment portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) with changes recognised in profit or loss. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described under "Investment contract fee revenue" above.

Non unit-linked investment contract liabilities are carried at amortised cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front-end fees, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount. At each reporting date, the unearned revenue liability is determined as the value of the future best estimate cash flows discounted at the effective interest rate. Any adjustment is immediately recognised as income or expense in the consolidated income statement.

The amortised cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

Deferred fee income liability

Deferred fee income liability represents upfront fees and other non-level charges that have been collected and released to the consolidated income statement over the estimated life of the business. A separate liability for accumulation value is established.

2.4.3 Insurance and investment contracts

Reinsurance

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

Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position.

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 or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the consolidated income statement. 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 Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

The upfront premium rebate received on reinsurance contracts is a reinsurance liability. This liability is initially recognised as a reduction in deferred acquisition and origination costs up to the carrying value of associated deferred acquisition costs or associated value of business acquired, if any, with any excess being recognised in other liabilities. This reinsurance liability is released in line with the release of the underlying insurance contracts. Change in this reinsurance liability during the period is recognised as insurance and investment contract benefits ceded.

Value of business acquired (VOBA)

The VOBA in respect of a portfolio of long-term insurance contracts and investment contracts with DPF, either directly or through the purchase of a subsidiary, is recognised as an asset. If this results from the acquisition of an investment in a joint venture or an associate, the VOBA is held within the carrying amount of that investment. In all cases, the VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.3 Insurance and investment contracts (continued)

Shadow accounting

Shadow accounting is applied to insurance and certain investment contracts with discretionary participation feature where financial assets backing insurance and investment contract liabilities are classified as available for sale. Shadow accounting is applied to deferred acquisition costs, VOBA, deferred origination costs, and the contract liabilities for investment contracts with DPF to take into account the effect of unrealised gains or losses on insurance liabilities or assets that are recognised in other comprehensive income in the same way as for a realised gain or loss recognised in the consolidated income statement. Such assets or liabilities are adjusted with corresponding charges or credits recognised directly in shareholders' equity as a component of the related unrealised gains and losses.

Insurance contracts (including investment contracts with DPF) liabilities measured with reference to statutory requirements

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction. The insurance contract liabilities of those countries are predominately measured at the net present value of future receipts from and payments to policyholders. The discount rate applied reflects the current market rate. The excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of service provided to the policyholder. The movement in insurance contract liabilities recognised in the profit or loss reflects the planned release of this margin.

Other assessments and levies

The Group is potentially subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance or investment contract liabilities but are included under "Provisions" in the consolidated statement of financial position.

2.5 Financial instruments

2.5.1 Classification of and designation of financial instruments

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss comprise two categories:

- financial assets or liabilities designated at fair value through profit or loss upon initial recognition; and
- financial assets or liabilities classified as held for trading.

Management designates financial assets and liabilities at fair value through profit or loss if this eliminates a measurement inconsistency or if the related assets and liabilities are actively managed on a fair value basis, including:

- financial assets held to back unit-linked contracts and participating funds;
- other financial assets managed on a fair value basis; consisting of the Group's equity portfolio and investments held by the Group's fully consolidated investment funds; and
- compound instruments containing an embedded derivative, where the embedded derivative would otherwise require bifurcation.

Financial assets and liabilities classified as held for trading include financial assets acquired principally for the purpose of selling them in the near future and those that form part of a portfolio of financial assets in which there is evidence of short-term profit taking, as well as derivative assets and liabilities.

Dividend income from equity instruments designated at fair value through profit or loss is recognised in investment income in the consolidated income statement, generally when the security becomes ex-dividend. Interest income is recognised on an accrued basis. For all financial assets designated at fair value through profit or loss, changes in fair value are recognised in investment experience.

Transaction costs in respect of financial assets and liabilities at fair value through profit or loss are expensed as they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Available for sale financial assets

Financial assets, other than those at fair value through profit or loss, and loans and receivables, are classified as available for sale.

The available for sale category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Group's debt securities (other than those backing participating funds and unit-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs. For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the consolidated income statement using the effective interest method.

Unrealised gains and losses on securities classified as available for sale are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary available for sale investments, such as debt securities are calculated as if they were carried at amortised cost and so are recognised in the consolidated income statement as investment experience. For impairments of available for sale financial assets, reference is made to the section "Impairment of financial assets".

Changes in the fair value of securities classified as available for sale, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income and accumulated in a separate fair value reserve within equity. Impairment losses and relevant foreign exchange gains and losses are recognised in the consolidated income statement.

Realised gains and losses on financial assets

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

Recognition of financial instruments

Purchases and sales of financial instruments are recognised on the trade date, which is the date at which the Group commits to purchase or sell the assets.

Derecognition and offset of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Group is exposed to changes in the fair value of the asset.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans and receivables is recognised in investment income in the consolidated income statement using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Term deposits

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Certain of these balances are subject to regulatory or other restriction as disclosed in note 21 Financial investments. Deposits are stated at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments held for cash management purposes, which have maturities at acquisition of three months or less, or are convertible into known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include cash received as collateral for derivative transactions, and repo and reverse repo transactions, as well as cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products. Cash and cash equivalents are measured at amortised cost using the effective interest method.

2.5.2 Fair values of non-derivative financial instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, having regard to the specific characteristics of the asset or liability concerned, assuming that the transfer takes place in the most advantageous market to which the Group has access. The fair values of financial instruments traded in active markets (such as financial instruments at fair value through profit or loss and available for sale securities) are based on quoted market prices at the date of the consolidated statement of financial position. The quoted market price used for financial assets held by the Group is the current bid price, which is considered to be the price within the bid-ask spread that is most representative of the fair value in the circumstances. The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions at the date of each consolidated statement of financial position. The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place between market participants at the date of the consolidated statement of financial position.

Financial instruments carried at fair value are measured using a fair value hierarchy described in note 23.

2.5.3 Impairment of financial assets

General

Financial assets are assessed for impairment on a regular basis. The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that objective evidence of impairment does not exist for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Available for sale financial instruments

When a decline in the fair value of an available for sale asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss already recognised directly in other comprehensive income is recognised in current period profit or loss.

If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Where, following the recognition of an impairment loss in respect of an available for sale debt security, the asset suffers further falls in value, such further falls are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.3 Impairment of financial assets (continued)

Loans and receivables

For loans and receivables, impairment is considered to have taken place if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount is decreased through a charge to profit or loss. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognised as an impairment loss in profit or loss.

2.5.4 Derivative financial instruments

Derivative financial instruments primarily include foreign exchange contracts and interest rate swaps that derive their value mainly from underlying foreign exchange rates and interest rates. All derivatives are initially recognised in the consolidated statement of financial position at their fair value, which represents their cost excluding transaction costs, which are expensed, giving rise to a day one loss. They are subsequently remeasured at their fair value, with movements in this value recognised 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 and as liabilities when the fair values are negative.

Derivative instruments for economic hedging

Whilst the Group enters into derivative transactions to provide economic hedges under the Group's risk management framework, it adopts hedge accounting to these transactions only in limited circumstances. 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. Where hedge accounting does not apply, these transactions are treated as held for trading and fair value movements are recognised immediately in investment experience.

Cash flow hedge

The Group has, in a limited number of cases, designated certain derivatives as hedges of interest rate risk associated with the cash flows of highly probable forecast transactions such as forecast purchases of debt securities. To the extent these hedges are effective, the change in fair value of the derivatives designated as hedging instruments is recognised in the cash flow hedge reserve in other comprehensive income within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss when the hedged item affects profit or loss. In respect of a forecast purchase of a debt security classified as available for sale, the cash flows are expected to affect profit or loss when the coupons from the purchased bonds are recognised, or on disposal of the security. The application of hedge accounting is discontinued when one of the following situations occurs: when a derivative designated as the hedging instrument expires or is sold, terminated or exercised prior to the occurrence of the forecast transaction, when the hedge is no longer highly effective or expected to be highly effective, or when the Group revokes the designation of the hedging relationship. In these situations, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. This amount is reclassified to profit or loss when the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the entire amount is reclassified immediately to profit or loss.

Embedded derivatives

Embedded derivatives are derivatives embedded within other non-derivative host financial instruments to create hybrid instruments. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss, the embedded derivative is bifurcated and carried at fair value as a derivative in accordance with IAS 39.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.5 The Company's financial instruments

Financial assets are classified as measured at amortised cost, FVOCI or FVTPL. The classification of financial assets is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions:

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

A debt security is measured at FVOCI if it meets both of the following conditions:

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Changes in fair value of debt securities measured at FVOCI are recognised in other comprehensive income, except for those relating to expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses which are recognised in profit or loss. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

Changes in fair value of financial assets measured at FVTPL and interest are recognised in profit or loss.

The Company recognises loss allowances for ECL on financial assets measured at amortised cost and debt securities measured at FVOCI, which measured at either lifetime ECL or 12-month ECL according to a 'three-stage' impairment model. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1'. If a significant increase in credit risk since initial recognition is identified but the financial instrument is not yet assessed as credit impaired, the financial instrument is moved to 'Stage 2'. If the financial instrument is credit-impaired, it is then moved to 'Stage 3'. Financial instruments in Stages 2 and 3 have their loss allowances measured at Lifetime ECL which are the ECL that result from all possible default events over the expected life of a financial instrument. Financial instruments in Stage 1 have their loss allowances measured at 12-month ECL which are the portion of ECL that results from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.5 The Company's financial instruments (continued)

ECL are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive.

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowance for ECL of financial assets measured at amortised cost is deducted from the gross carrying amount of the assets, while ECL of debt securities measured at FVOCI is charged to profit or loss and is recognised in other comprehensive income.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amount due.

2.6 Segment reporting

An operating segment is a component of the Group that engages in business activity from which it earns revenues and incurs expenses and, for which, discrete financial information is available, and whose operating results are regularly reviewed by the Group's chief operating decision-maker, considered to be the Executive Committee of the Group (ExCo).

2.7 Foreign currency translation

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the period as this approximates to the exchange rates prevailing at the transaction date. Their statements of financial position are translated at year or period end exchange rates. Exchange differences arising from the translation of the net investment in foreign operations, are taken to the currency translation reserve within equity. On disposal of a foreign operation, such exchange differences are transferred out of this reserve and are recognised in the consolidated income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies into functional currency, are recognised in the consolidated income statement.

Translation differences on financial assets designated at fair value through profit or loss are included in investment experience. For monetary financial assets classified as available for sale, translation differences are calculated as if they were carried at amortised cost and so are recognised in the consolidated income statement. Foreign exchange movements on non-monetary equities that are accounted for as available for sale are included in the fair value reserve.

2.8 Property, plant and equipment

Property held for own use, excluding right-of-use assets in relation to other leased property, plant and equipment, is carried at fair value at last valuation date less accumulated depreciation. The Group records its interest in leasehold land and land use rights associated with property held for own use as right-of-use assets, which are reported as a component of property, plant and equipment and carried at fair value at last valuation date less accumulated depreciation. When an asset is adjusted for the latest fair value, any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset. The movement of fair values is generally recognised in other comprehensive income. When such properties are sold, the amounts accumulated in other comprehensive income are transferred to retained earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Right-of-use assets in relation to other leased property, plant and equipment are carried at cost less accumulated depreciation. The right-of-use asset in relation to a lease is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Depreciation is calculated using the straight-line method to allocate cost less any residual value over the estimated useful life, generally:

Fixtures, fittings and office equipment	5 years
Buildings	20 - 40 years
Computer hardware and other assets	3 - 5 years
Freehold land	No depreciation

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits will flow to the Group. Repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Residual values and useful lives are reviewed and adjusted, if applicable, at each reporting date. An asset is written down to its recoverable amount if the carrying value is greater than the estimated recoverable amount.

Any gain and loss arising on disposal of property, plant and equipment is measured as the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

2.9 Investment property

Property held for long-term rental or capital appreciation, or both that is not occupied by the Group is classified as investment property. Investment property, including land and buildings, is initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement.

If an investment property becomes held for own use, it is reclassified as property, plant and equipment. Where a property is partly used as an investment property and partly for the use by the Group, these elements are recorded separately within investment property and property, plant and equipment respectively, where the component used as investment property would be capable of separate sale or lease.

2.10 Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 December 2006 (the date of transition to IFRS) is carried at book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising on the Group's investment in subsidiaries since that date is shown as a separate asset and is carried at cost less any accumulated impairment losses, whilst that on associates and joint ventures is included within the carrying value of those investments. All acquisition-related costs are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Goodwill and other intangible assets (continued)

Other intangible assets

Other intangible assets consist primarily of acquired computer software and contractual relationships, such as access to distribution networks, and are amortised over their estimated useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs directly associated with the internal production of identifiable and unique software by the Group that will generate economic benefits exceeding those costs over a period greater than a year, are recognised as intangible assets. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs of acquiring computer software licences and incurred in the internal production of computer software are amortised using the straight-line method over the estimated useful life of the software, which does not generally exceed a period of 3 to 15 years. The amortisation charge for the period is included in the consolidated income statement under “Operating expenses”.

Costs associated with acquiring rights to access distribution networks are amortised over the life of the contracts based on the expected pattern of consumption of the expected future economic benefits embodied in the intangible asset. The amortisation charge for rights to access distribution networks is included in the consolidated income statement under “Commission and other acquisition expenses”.

2.11 Impairment of non-financial assets

Property, plant and equipment, goodwill and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount, which is the higher of the fair value of the asset less cost to sell and value in use. For the purposes of assessing impairment, assets are allocated to each of the Group’s cash-generating units, or group of cash-generating units, the lowest level for which there are separately identifiable cash flows. The carrying values of goodwill and intangible assets with indefinite useful lives are reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value.

The Group assesses at the end of each reporting period whether there is any objective evidence that its investments in associates and joint ventures are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the associates and joint ventures operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associate or a joint venture is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment’s fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

In the statement of financial position of the Company, impairment testing of the investments in subsidiaries, associates and joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associates or joint ventures in the period the dividend is declared or if the carrying amount of the relevant investment in the Company’s statement of financial position exceeds its carrying amount in the consolidated financial statements of the investees’ net assets including goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Securities lending including repurchase agreements

The Group has been a party to various securities lending agreements under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised and so they continue to be recognised within the appropriate investment classification.

Assets sold under repurchase agreements (repos)

Assets sold under repurchase agreements continue to be recognised and a liability is established for the consideration received. The Group may be required to provide additional collateral based on the fair value of the underlying assets, and such collateral assets remain on the consolidated statement of financial position.

Assets purchased under agreements to resell (reverse repos)

The Group enters into purchases of assets under agreements to resell (reverse repos). Reverse repos are initially recorded at the cost of the loan or collateral advanced within the caption "Loans and deposits" in the consolidated statement of financial position. In the event of failure by the counterparty to repay the loan, the Group has the right to the underlying assets.

2.13 Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of derivative transactions, securities lending transactions, and repo and reverse repo transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the consolidated statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the consolidated statement of financial position unless the Group sells these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

Collateral pledged in the form of cash which is legally segregated from the Group is derecognised from the consolidated statement of financial position and a corresponding receivable established for its return. Non-cash collateral pledged is not derecognised (except in the event of default) and therefore continues to be recognised in the consolidated statement of financial position within the appropriate financial instrument classification.

2.14 Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method. All borrowing costs are expensed as they are incurred, except for borrowing costs directly attributable to the development of investment properties and other qualifying assets, which are capitalised as part of the cost of the asset.

2.15 Income taxes

The current tax expense is based on the taxable profits for the period, including any adjustments in respect of prior years. Tax is allocated to profit or loss before taxation and amounts charged or credited to equity as appropriate. Management periodically evaluates tax positions taken where the interpretation of the relevant law or regulation may differ from that of the tax authorities and considers whether it is probable that a taxation authority will accept an uncertain tax position. Provisions for uncertain tax positions are recognised based on management's judgement and best estimate in relation to the probability or likelihood of different outcomes arising, and may increase or decrease in a particular period to reflect a re-assessment of a judgement made and/or change in estimate.

Deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except as described below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Income taxes (continued)

The principal temporary differences arise from the basis of recognition of insurance and investment contract liabilities, revaluation of certain financial assets and liabilities including derivative contracts, deferred acquisition costs and the future taxes arising on the surplus in life funds where the relevant local tax regime is distributions-based. The rates enacted or substantively enacted at the date of the consolidated statement of financial position are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is evidence that future profits will be available.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and which affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred tax related to fair value remeasurement of available for sale investments and other amounts taken directly to equity, is recognised initially within the applicable component of equity. It is subsequently recognised in the consolidated income statement, together with the gain or loss arising on the underlying item.

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

2.16 Revenue

Investment return

Investment income consists of dividends, interest and rents receivable for the reporting period. Investment experience comprises realised gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Rental income on investment property is recognised on an accrual basis. Investment return consists of investment income and investment experience.

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 and losses represent the difference between the carrying value at the period end and the carrying value at the previous year end or purchase price if purchased during the period, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the period.

Other fee and commission income

Other fee and commission income consists primarily of fund management fees, income from any incidental non-insurance activities, distribution fees from mutual funds, commissions on reinsurance ceded and commission revenue from the sale of mutual fund shares. Reinsurance commissions receivable are deferred in the same way as acquisition costs. Apart from certain additional administrative requests from customers such as fund switching, investment redemptions or subscription of which the related fees are recognised as revenue at the point in time when the related services take place, the Group's performance obligations under service contracts are generally satisfied over time as the customer simultaneously receives and consumes the benefits of the services rendered.

Income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. In case of variable consideration contracts, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is subsequently resolved.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

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 reporting date.

Post-retirement benefit obligations

The Group operates a number of funded and unfunded post-retirement employee benefit schemes, whose members receive benefits on either a defined benefit basis (generally related to salary and length of service) or a defined contribution basis (generally related to the amount invested, investment return and annuity rates), the assets of which are generally held in separate trustee-administered funds. The defined benefit plans provide life and medical benefits for employees after retirement and a lump sum benefit on cessation of employment, and the defined contribution plans provide post-retirement pension benefits.

For defined benefit plans, the costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to the consolidated income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The resulting scheme surplus or deficit appears as an asset or liability in the consolidated statement of financial position.

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

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the consolidated income statement when the plan amendment or curtailment occurs.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, does not have any further payment obligations. The Group's contributions are charged to the consolidated income statement in the reporting period to which they relate and are included in staff costs.

Share-based compensation and cash incentive plans

The Group launched a number of share-based compensation plans, under which the Group receives services from the employees, directors, officers and agents as consideration for the shares and/or share options of the Company. 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 Group's share-based compensation plans are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

Share-based compensation and cash incentive plans (continued)

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or share options granted. Non-market vesting conditions are included in assumptions about the number of shares and/or share options that are expected to be vested. At each period end, the Group revises its estimates of the number of shares and/or share options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to equity. Where grants of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate grant, and therefore the fair value of each tranche is recognised over the applicable vesting period.

The Group 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.

2.18 Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

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

2.19 Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the Group as a lessor, are classified as operating leases. Assets subject to such leases are included in property, plant and equipment or investment property, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the consolidated income statement as a component of investment return on a straight-line basis over the period of the relevant lease.

The Group leases various properties, computer hardware, fixtures, fittings and other small items as a lessee. These leases, except for short-term leases and leases of low-value assets, are recognised as right-of-use assets and lease liabilities at the date at which the leased assets are available for use by the Group. Right-of-use assets are presented as a component of property, plant and equipment or investment property while lease liabilities are presented as a component of other liabilities (see notes 17, 18 and 34). Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Leasehold land and prepayments for land use rights that are either held for the Group's own occupancy or used as investment property, a different measurement model is applied. The depreciation charge for right-of-use assets, by class of underlying asset, and finance cost on lease liabilities are disclosed in note 11.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate of the respective business unit (as the lessee) within the Group. Furthermore, a maturity analysis of the Group's lease liabilities is disclosed in note 38.

Right-of-use assets are measured at cost comprising the following:

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

Leasehold land and prepayments for land use rights are reported as right-of-use assets within property, plant, and equipment or as a component of investment property depending on whether the property interest is used as investment property. Leases held for long-term rental or capital appreciation or both that are not occupied by the Group are classified as investment property. They are initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. Leasehold land and prepayments for land use rights that are held for the Group's own occupancy are recognised at cost and measured subsequently using the revaluation model in IAS 16 Property, plant and equipment, where changes in fair values in subsequent periods are generally recognised in other comprehensive income. There are not any freehold land interests in Hong Kong.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computer hardware and small items of furniture and fixtures that are individually, when new, below US$5,000. Expenses relating to short-term leases are disclosed in note 11.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive for the lessee to exercise an extension option, or not exercise a termination option. Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) by the lessee. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Subleases

The Group subleases some of its leased property, such as office buildings, to third parties. The Group accounts for its interest in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease. Sublease income is presented as rental income which is a component of investment return.

2.20 Share capital

Ordinary shares are classified in equity when there is not any obligation to transfer cash or other assets to the holders.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue.

Dividends

Interim dividends on ordinary shares are recognised when they have been paid. Final dividends on ordinary shares are recognised when they have been approved by shareholders.

2.21 Presentation of the consolidated statement of financial position

The Group's insurance and investment contract liabilities and related assets are realised and settled over periods of several years, reflecting the long-term nature of the Group's products. Accordingly, the Group presents the assets and liabilities in its consolidated statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Group regards its intangible assets, investments in associates and joint ventures, property, plant and equipment, investment property and deferred acquisition and origination costs as non-current assets as these are held for the longer-term use of the Group.

2.22 Earnings per share

Basic earnings per share is calculated by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Earnings per share has also been calculated on the operating profit before adjusting items, attributable to ordinary shareholders, as the Directors believe this figure provides a better indication of operating performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these consolidated financial statements where the Group does not have contractual rights to the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

2.24 Consolidated statement of cash flows

The consolidated statement of cash flows presents movements in cash and cash equivalents and bank overdrafts as shown in the consolidated statement of financial position.

Purchases and sales of financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims. Purchases and sales of investment property are included within cash flows from investing activities.

2.25 Related party transactions

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, and revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

Items that are considered particularly sensitive to changes in estimates and assumptions, and the relevant accounting policies are those which relate to product classification, insurance contract liabilities (including liabilities in respect of investment contracts with DPF), deferred acquisition and origination costs, liability adequacy testing, fair value measurement and impairment of goodwill and other intangible assets.

3.1 Product classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group 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 consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.4.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.2 Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

The Group calculates the insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, policyholder dividends (for other participating business without distinct portfolios), surrenders and expenses set at the policy inception date. These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by geographical market, year of issuance and product. Mortality, morbidity, surrender and expense assumptions are based on actual experience by each geographical market, modified to allow for variations in policy form. The Group exercises significant judgement in making appropriate assumptions.

For contracts with an explicit account balance, such as universal life and unit-linked contracts, insurance contract liabilities represent the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges. Significant judgement is exercised in making appropriate estimates of gross profits which are based on historical and anticipated future experiences, these estimates are regularly reviewed by the Group.

The Group accounts for insurance contract liabilities for participating business written in participating funds and other participating business with distinct portfolios by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.4. Establishing these liabilities requires the exercise of significant judgement. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The Group accounts for other participating business without distinct portfolios by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction. The insurance contract liabilities of those countries are predominately measured at the net present value of future receipts from and payments to policyholders. The discount rate applied reflects the current market rate. Significant judgement is exercised in making appropriate assumptions of the cash flows.

The judgements exercised in the valuation of insurance contract liabilities (including investment contracts with DPF) affect the amounts recognised in the consolidated financial statements as insurance contract benefits and insurance contract liabilities.

Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.4, 27 and 29.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Deferred acquisition and origination costs

The judgements exercised in the deferral and amortisation of acquisition and origination costs affect amounts recognised in the consolidated financial statements as deferred acquisition and origination costs and insurance and investment contract benefits.

As noted in note 2.4.1, deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As noted in note 2.4.1, deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. As noted in note 3.2, significant judgement is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

Additional details of deferred acquisition and origination costs are provided in notes 2.4 and 20.

3.4 Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF at least annually. Significant judgement is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed by portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. The Group performs liability adequacy testing separately for each reportable segment.

The judgements exercised in liability adequacy testing affect amounts recognised in the consolidated financial statements as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and insurance and investment contract liabilities.

3.5 Fair value measurement

3.5.1 Fair value of financial assets

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

The degree of judgement used in measuring the fair value of financial assets 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, the characteristics specific to the transaction and general market conditions.

Changes in the fair value of financial assets held by the Group's participating funds and other participating business with distinct portfolios affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.4. Both of the foregoing changes are reflected in the consolidated income statement, except for those relating to other participating business with distinct portfolios which recognise a portion of an amount due to changes in fair value of available for sale financial assets and properties held for own use that are recognised in other comprehensive income.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Fair value measurement (continued)

3.5.1 Fair value of financial assets (continued)

Changes in the fair value of financial assets held to back the Group's unit-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in the consolidated income statement.

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 23 and 38.

3.5.2 Fair value of property held for own use and investment property

The Group uses independent professional valuers to determine the fair value of properties on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. In most cases, current use of the properties is considered to be the highest and best use for determining the fair value. Different valuation techniques may be adopted to reach the fair value of the properties. Under the Market Data Approach, records of recent sales and offerings of similar property are analysed and comparisons are made for factors such as size, location, quality and prospective use. For investment properties, the discounted cash flow approach may be used by reference to net rental income allowing for reversionary income potential to estimate the fair value of the properties. On some occasions, the cost approach is used as well to calculate the fair value which reflects the cost that would be required to replace the service capacity of the property.

Further details of the fair value of property held for own use and investment property are provided in note 23.

3.6 Impairment of goodwill and other intangible assets

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units or groups of cash generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). The determination of the recoverable amount requires significant judgement regarding the selection of appropriate valuation techniques and assumptions.

Further details of the impairment of goodwill during the period are provided in note 15.

4. EXCHANGE RATES

The Group's principal overseas operations during the reporting period were located within Asia. The results and cash flows of these operations have been translated into US dollars at the following average rates:

	US dollar exchange rates	
	Year ended 31 December 2020	Year ended 31 December 2019
Hong Kong	**7.76**	7.84
Thailand	**31.27**	31.03
Singapore	**1.38**	1.36
Malaysia	**4.20**	4.14
Mainland China	**6.90**	6.91

Assets and liabilities have been translated at the following year-end rates:

	US dollar exchange rates	
	As at 31 December 2020	As at 31 December 2019
Hong Kong	**7.75**	7.79
Thailand	**29.95**	29.84
Singapore	**1.32**	1.35
Malaysia	**4.02**	4.09
Mainland China	**6.53**	6.97

Exchange rates are expressed in units of local currency per US$1.

5. CHANGE IN GROUP COMPOSITION

In September 2017, the Group entered into an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia. On 1 November 2019, the Group, CBA and The Colonial Mutual Life Assurance Society Limited (CMLA) entered into a contractual joint cooperation agreement, which provided an alternative completion structure for the original planned acquisition. The final purchase consideration with respect to this acquisition was AUD2,135m or US$1,472m at exchange rate of the dates of the acquisition and the completion adjustment. The fair value of consideration at acquisition date comprised US$344m in cash, deferred cash consideration of US$1,059m and contingent consideration of US$69m.

During the year ended 31 December 2020, the purchase price adjustments were finalised and an adjustment of US$18m was made to the final purchase consideration. The fair value of consideration increased from US$1,454m to US$1,472m and the goodwill increased from US$558m to US$576m. There was no adjustment to the fair values of net assets acquired as at the date of acquisition.

At the time of the acquisition, there was a related reinsurance agreement, resulting in CMLA receiving a net upfront reinsurance commission of approximately US$480m. During the year ended 31 December 2020, the net upfront reinsurance commission was finalised at US$491m.

Details of the fair value of the assets and liabilities acquired and the final goodwill arising from the acquisition of CMLA are set out as follows:

US$m	
Provisional fair value of consideration	1,454
Purchase price adjustment	18
Final purchase consideration	1,472
Fair value as at the date of acquisition	
Investment securities	7,116
Reinsurance assets	329
Other assets[1]	441
Cash and cash equivalents	356
Insurance and investment contract liabilities	(6,811)
Deferred tax liabilities	(118)
Other liabilities	(417)
Net assets acquired	896
Final goodwill arising on acquisition	576

Note:

(1) Other assets include acquired receivables, including insurance and other receivables, for which the fair value approximated the gross contractual amount at the acquisition date. As of the acquisition date there are no amounts for contractual cash flows from acquired receivables that are not expected to be collected.

6. PREMIUMS AND FEE INCOME

Included in premium and fee income of US$191m (2019: US$142m) is fee income for investment contracts without DPF that refers to fees charged for the provision of investment management services for investment contracts without DPF, which usually vary with the amounts being managed, and the release of deferred fee income. For the investment management service fee charged, revenue is recognised as services are provided and the fees are deducted from the customers' account balances.

Generally, a customer can cancel an investment contract without DPF at any time after contract inception, subject to a surrender charge which is not a significant component of revenue.

7. OPERATING PROFIT AFTER TAX

Operating profit after tax may be reconciled to net profit as follows:

US$m	Note	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Operating profit after tax	9	**5,986**	5,734
Non-operating items, net of related changes in insurance and investment contract liabilities and taxes:			
Short-term fluctuations in investment return related to equities and real estate[1]		**(425)**	305
Reclassification of revaluation losses/(gains) for property held for own use[1]		**52**	(153)
Corporate transaction related costs		**(56)**	(85)
Implementation costs for new accounting standards		**(30)**	(39)
Other non-operating investment return and other items[2]		**252**	256
Subtotal[3]		**(207)**	284
Net profit		**5,779**	6,018
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited		**5,942**	5,689
Non-controlling interests		**44**	45
Net profit attributable to:			
Shareholders of AIA Group Limited		**5,779**	5,979
Non-controlling interests		**–**	39

Notes:

(1) Short-term fluctuations in investment return include the revaluation gains and losses for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.

(2) Includes the tax expense relating to provisions for uncertain tax positions.

(3) The amount is net of tax of US$(360)m (2019: nil). The gross amount before tax is US$153m (2019: US$284m).

Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.

8. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

For management decision-making and internal performance management purposes, the Group measures business volumes during the year using a performance measure referred to as total weighted premium income (TWPI). The Group measures new business activity using a performance measure referred to as annualised new premiums (ANP). The presentation of this note is consistent with our reportable segment presentation in note 9.

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premiums and fee income recorded in the consolidated income statement.

ANP is a key internal measure of new business activities, which consists of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. ANP excludes new business of pension business, personal lines and motor insurance.

TWPI US$m	**Year ended 31 December 2020**	Year ended 31 December 2019
TWPI by geography		
Hong Kong	**13,042**	13,107
Thailand	**4,462**	4,352
Singapore	**3,088**	2,916
Malaysia	**2,216**	2,142
Mainland China	**5,622**	4,804
Other Markets	**6,978**	6,681
Total	**35,408**	34,002
First year premiums by geography		
Hong Kong	**910**	2,134
Thailand	**605**	694
Singapore	**342**	367
Malaysia	**321**	325
Mainland China	**1,149**	1,204
Other Markets	**1,013**	935
Total	**4,340**	5,659
Single premiums by geography		
Hong Kong	**1,891**	2,089
Thailand	**239**	222
Singapore	**1,319**	1,258
Malaysia	**243**	234
Mainland China	**322**	326
Other Markets	**924**	722
Total	**4,938**	4,851

8. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS (continued)

TWPI (continued) US$m	Year ended 31 December 2020	Year ended 31 December 2019
Renewal premiums by geography		
Hong Kong	**11,943**	10,764
Thailand	**3,833**	3,636
Singapore	**2,614**	2,423
Malaysia	**1,871**	1,794
Mainland China	**4,441**	3,567
Other Markets	**5,872**	5,674
Total	**30,574**	27,858

ANP US$m	Year ended 31 December 2020	Year ended 31 December 2019
ANP by geography		
Hong Kong	**1,138**	2,393
Thailand	**661**	729
Singapore	**520**	538
Malaysia	**369**	406
Mainland China	**1,197**	1,248
Other Markets	**1,334**	1,271
Total	**5,219**	6,585

9. SEGMENT INFORMATION

The Group's operating segments, based on the reports received by the ExCo, are each of the geographical markets in which the Group operates. Each of the reportable segments, other than the "Group Corporate Centre" segment, writes life insurance business, providing life insurance, accident and health insurance and savings plans to customers in its local market, and distributes related investment and other financial services products. The reportable segments are Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, Mainland China, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia (including New Zealand), Cambodia, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

The acquired subsidiaries and respective operations mentioned in note 5 are included under the operations in Australia (including New Zealand).

As each reportable segment other than the Group Corporate Centre segment focuses on serving the life insurance needs of its local market, there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- ANP;
- TWPI;
- investment return;
- operating expenses;
- operating profit after tax attributable to shareholders of AIA Group Limited;
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit after tax expressed as a percentage of TWPI; and
- operating return on shareholders' allocated equity measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing shareholders' allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests and fair value reserve).

In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

Business volumes in respect of the Group's five largest customers are less than 30 per cent of premiums and fee income.

The Group provides deferred tax liabilities in respect of unremitted earnings in jurisdictions where withholding tax charge would be incurred upon dividend distribution. Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current year presentation.

On 1 October 2020, AIA Company Limited (AIA Co.) converted its Mainland China business to a wholly-owned subsidiary, AIA Life Insurance Company Limited, which was incorporated in Shanghai on 9 July 2020. Upon the conversion of the Mainland China business to AIA Life Insurance Company Limited, any future dividends to the Group from this subsidiary are subject to withholding tax at the applicable tax rate in Mainland China (currently at 5 per cent). Consequently, deferred tax liability in respect of unremitted earnings of this subsidiary was provided for in the year ended 31 December 2020.

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
Year ended 31 December 2020								
ANP	1,138	661	520	369	1,197	1,334	–	5,219
TWPI	13,042	4,462	3,088	2,216	5,622	6,978	–	35,408
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	13,879	4,238	3,395	1,818	5,594	4,655	87	33,666
Investment return	3,511	1,268	1,274	573	1,083	1,184	505	9,398
Total revenue	17,390	5,506	4,669	2,391	6,677	5,839	592	43,064
Net insurance and investment contract benefits	12,878	3,224	3,357	1,537	4,421	2,858	71	28,346
Commission and other acquisition expenses	1,618	773	414	244	365	974	14	4,402
Operating expenses	464	235	222	190	439	943	202	2,695
Finance costs and other expenses	186	53	52	16	38	86	227	658
Total expenses	15,146	4,285	4,045	1,987	5,263	4,861	514	36,101
Share of (losses)/profit from associates and joint ventures	(1)	–	–	1	–	(17)	–	(17)
Operating profit before tax	2,243	1,221	624	405	1,414	961	78	6,946
Tax on operating profit before tax	(170)	(234)	(3)	(73)	(194)	(250)	(36)	(960)
Operating profit after tax	2,073	987	621	332	1,220	711	42	5,986
Operating profit after tax attributable to:								
Shareholders of AIA Group Limited	2,059	987	621	326	1,220	687	42	5,942
Non-controlling interests	14	–	–	6	–	24	–	44
Key operating ratios:								
Expense ratio	3.6%	5.3%	7.2%	8.6%	7.8%	13.5%	–	7.6%
Operating margin	15.9%	22.1%	20.1%	15.0%	21.7%	10.2%	–	16.9%
Operating return on shareholders' allocated equity	18.8%	15.1%	16.7%	17.0%	29.7%	7.9%	–	13.0%
Operating profit before tax includes:								
Finance costs	31	1	2	2	20	9	224	289
Depreciation and amortisation	104	22	31	22	88	108	32	407

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
31 December 2020								
Total assets	**113,933**	**38,640**	**45,994**	**17,715**	**34,919**	**55,644**	**19,276**	**326,121**
Total liabilities	**95,598**	**28,730**	**40,640**	**15,445**	**29,989**	**44,369**	**7,682**	**262,453**
Total equity	**18,335**	**9,910**	**5,354**	**2,270**	**4,930**	**11,275**	**11,594**	**63,668**
Shareholders' allocated equity	**11,999**	**6,421**	**3,916**	**2,060**	**4,407**	**8,936**	**10,291**	**48,030**
Net capital (out)/in flows	**(643)**	**(394)**	**(332)**	**(97)**	**(1,139)**	**28**	**667**	**(1,910)**
Total assets include:								
Investments in associates and joint ventures	**3**	**–**	**–**	**2**	**–**	**601**	**–**	**606**

Segment information may be reconciled to the consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[(1)]	Consolidated income statement	
Year ended 31 December 2020					
Net premiums, fee income and other operating revenue	**33,666**	**–**	**(14)**	**33,652**	Net premiums, fee income and other operating revenue
Investment return	**9,398**	**820**	**6,489**	**16,707**	Investment return
Total revenue	**43,064**	**820**	**6,475**	**50,359**	**Total revenue**
Net insurance and investment contract benefits	**28,346**	**1,302**	**5,091**	**34,739**	Net insurance and investment contract benefits
Other expenses	**7,755**	**–**	**578**	**8,333**	Other expenses
Total expenses	**36,101**	**1,302**	**5,669**	**43,072**	**Total expenses**
Share of losses from associates and joint ventures	**(17)**	**–**	**–**	**(17)**	Share of losses from associates and joint ventures
Operating profit before tax	**6,946**	**(482)**	**806**	**7,270**	**Profit before tax**

Note:

(1) Include unit-linked contracts.

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
Year ended 31 December 2019 – As adjusted								
ANP	2,393	729	538	406	1,248	1,271	–	6,585
TWPI	13,107	4,352	2,916	2,142	4,804	6,681	–	34,002
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	14,191	4,222	3,372	1,826	4,814	4,413	58	32,896
Investment return	3,119	1,394	1,225	582	971	1,157	451	8,899
Total revenue	17,310	5,616	4,597	2,408	5,785	5,570	509	41,795
Net insurance and investment contract benefits	13,021	3,190	3,348	1,585	3,783	2,705	43	27,675
Commission and other acquisition expenses	1,602	814	390	216	315	951	9	4,297
Operating expenses	454	236	222	183	376	759	238	2,468
Finance costs and other expenses	164	55	30	16	64	59	194	582
Total expenses	15,241	4,295	3,990	2,000	4,538	4,474	484	35,022
Share of losses from associates and joint ventures	–	–	–	–	–	(8)	–	(8)
Operating profit before tax	2,069	1,321	607	408	1,247	1,088	25	6,765
Tax on operating profit before tax	(175)	(257)	(24)	(68)	(186)	(293)	(28)	(1,031)
Operating profit/(losses) after tax	1,894	1,064	583	340	1,061	795	(3)	5,734
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,879	1,064	583	333	1,061	772	(3)	5,689
Non-controlling interests	15	–	–	7	–	23	–	45
Key operating ratios:								
Expense ratio	3.5%	5.4%	7.6%	8.5%	7.8%	11.4%	–	7.3%
Operating margin	14.5%	24.4%	20.0%	15.9%	22.1%	11.9%	–	16.9%
Operating return on shareholders' allocated equity	20.2%	16.6%	17.6%	19.7%	28.8%	10.2%	–	14.0%
Operating profit before tax includes:								
Finance costs	31	2	–	2	47	8	181	271
Depreciation and amortisation	79	22	28	22	75	83	31	340

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
31 December 2019 – As adjusted								
Total assets	92,233	38,842	40,397	15,896	29,084	51,901	15,779	284,132
Total liabilities	78,462	28,346	36,034	13,958	24,690	41,371	5,876	228,737
Total equity	13,771	10,496	4,363	1,938	4,394	10,530	9,903	55,395
Shareholders' allocated equity	9,853	6,683	3,515	1,782	3,805	8,441	9,199	43,278
Net capital (out)/in flows	(986)	(1,037)	(295)	(176)	(1,022)	(214)	1,910	(1,820)
Total assets include:								
Investments in associates and joint ventures	3	–	–	4	–	608	–	615

Segment information may be reconciled to the consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[(1)]	Consolidated income statement	
Year ended 31 December 2019 – As adjusted					
Net premiums, fee income and other operating revenue	32,896	–	(4)	32,892	Net premiums, fee income and other operating revenue
Investment return	8,899	1,474	3,977	14,350	Investment return
Total revenue	41,795	1,474	3,973	47,242	**Total revenue**
Net insurance and investment contract benefits	27,675	1,131	3,322	32,128	Net insurance and investment contract benefits
Other expenses	7,347	–	532	7,879	Other expenses
Total expenses	35,022	1,131	3,854	40,007	**Total expenses**
Share of losses from associates and joint ventures	(8)	–	–	(8)	Share of losses from associates and joint ventures
Operating profit before tax	6,765	343	119	7,227	**Profit before tax**

Note:

(1) Include unit-linked contracts.

10. REVENUE

Investment return

US$m	Year ended 31 December 2020	Year ended 31 December 2019
Interest income	**7,055**	6,714
Dividend income	**932**	914
Rental income[1]	**172**	180
Investment income	**8,159**	7,808
Available for sale		
Net realised gains from debt securities	**1,442**	610
Net gains of available for sale financial assets reflected in the consolidated income statement	**1,442**	610
At fair value through profit or loss		
Net gains of debt securities	**1,192**	1,256
Net gains of equity securities	**5,436**	4,897
Net fair value movement on derivatives	**958**	93
Net gains in respect of financial instruments at fair value through profit or loss	**7,586**	6,246
Net fair value movement of investment property	**(292)**	103
Net foreign exchange losses	**(132)**	(461)
Other net realised (losses)/gains	**(56)**	44
Investment experience	**8,548**	6,542
Investment return	**16,707**	14,350

Note:
(1) Represents rental income from operating leases contracts in which the Group acts as a lessor.

Foreign currency movements resulted in the following losses recognised in the consolidated income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US$m	Year ended 31 December 2020	Year ended 31 December 2019
Foreign exchange losses	**(68)**	(345)

Other operating revenue

The balance of other operating revenue largely consists of asset management fees, administrative fees and membership fees.

11. EXPENSES

US$m	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Insurance contract benefits	**14,808**	14,011
Change in insurance contract liabilities	**20,752**	19,065
Investment contract benefits	**1,305**	992
Insurance and investment contract benefits	**36,865**	34,068
Insurance and investment contract benefits ceded	**(2,126)**	(1,940)
Insurance and investment contract benefits, net of reinsurance ceded	**34,739**	32,128
Commission and other acquisition expenses incurred	**5,566**	6,499
Deferral and amortisation of acquisition costs	**(1,164)**	(2,216)
Commission and other acquisition expenses	**4,402**	4,283
Employee benefit expenses	**1,727**	1,569
Depreciation	**265**	228
Amortisation	**92**	69
Other operating expenses(1)	**611**	602
Operating expenses	**2,695**	2,468
Investment management expenses and others	**580**	530
Depreciation on property held for own use	**32**	42
Restructuring and other non-operating costs(2)	**285**	246
Change in third-party interests in consolidated investment funds	**47**	27
Other expenses	**944**	845
Finance costs	**292**	283
Total	**43,072**	40,007

Other operating expenses include auditors' remuneration of US$25m (2019: US$26m), an analysis of which is set out below:

US$m	Year ended 31 December 2020	Year ended 31 December 2019
Audit services	**20**	19
Non-audit services, including:		
Audit-related services	**4**	5
Tax services	**1**	1
Other services	**–**	1
Total	**25**	26

Notes:

(1) Includes payments for short-term leases of US$7m (2019: US$34m).

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

11. EXPENSES (continued)

Depreciation consists of:

US$m	Year ended 31 December 2020	Year ended 31 December 2019
Computer hardware, fixtures and fittings and others	**86**	85
Right-of-use assets		
Property held for own use	**178**	142
Fixtures and fittings and others	**1**	1
Total	**265**	228

Finance costs may be analysed as:

US$m	Year ended 31 December 2020	Year ended 31 December 2019
Repurchase agreements	**17**	54
Medium-term notes and securities	**248**	208
Other loans	**11**	5
Lease liabilities	**16**	16
Total	**292**	283

Employee benefit expenses consist of:

US$m	Year ended 31 December 2020	Year ended 31 December 2019
Wages and salaries	**1,416**	1,278
Share-based compensation	**72**	79
Pension costs – defined contribution plans	**93**	90
Pension costs – defined benefit plans	**14**	13
Other employee benefit expenses	**132**	109
Total	**1,727**	1,569

12. INCOME TAX

US$m	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Tax charged in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	**158**	157
Current income tax – overseas	**901**	453
Deferred income tax on temporary differences	**432**	599
Total	**1,491**	1,209

The tax benefit or expense attributable to life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, New Zealand, the Philippines and Sri Lanka is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax expenses attributable to policyholders' returns included above is US$171m (2019: US$179m).

Corporate income tax

The provision for Hong Kong Profits Tax is calculated at 16.5 per cent. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below.

	Year ended 31 December 2020	Year ended 31 December 2019
Hong Kong	**16.5%**	16.5%
Thailand	**20%**	20%
Singapore	**17%**	17%
Malaysia	**24%**	24%
Mainland China	**25%**	25%
Other Markets	**12% - 30%**	12% - 30%

The table above reflects the principal rate of corporate income tax as at the end of each year. The rates reflect enacted or substantively enacted corporate tax rates throughout the year in each jurisdiction.

AIA Korea is currently subject to an effective corporate income tax of 27.5 per cent, which includes an Accumulated Earnings Tax. Based on current regulations, the corporate income tax rate will revert to 24.2 per cent from fiscal year 2024.

In 2020, the Indonesian government enacted a change in the corporate income tax rate from 25 per cent to 22 per cent for fiscal years 2020 and 2021 and 20 per cent from fiscal year 2022 onwards.

Withholding tax on dividends

In some jurisdictions where the Group operates, dividends remitted by subsidiaries to the Group are subject to withholding tax. The Group recognises deferred tax liabilities in respect of unremitted earnings of operations in jurisdictions where withholding tax charge would be incurred upon dividend distribution.

12. INCOME TAX (continued)

US$m	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Income tax reconciliation		
Profit before income tax	**7,270**	7,227
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**1,258**	1,315
Reduction in tax payable from:		
Life insurance tax[(1)]	**(55)**	–
Exempt investment income	**(330)**	(305)
Utilisation of previously unrecognised deferred tax assets	**(15)**	–
Adjustments in respect of prior years	**–**	(15)
Change in tax rate and law	**(8)**	(74)
	(408)	(394)
Increase in tax payable from:		
Life insurance tax[(1)]	**–**	86
Withholding taxes	**25**	47
Disallowed expenses	**66**	101
Unrecognised deferred tax assets	**–**	11
Provisions for uncertain tax positions[(2)]	**184**	7
Adjustments in respect of prior years	**106**	–
Others	**260**	36
	641	288
Total income tax expense	**1,491**	1,209

Notes:

(1) Life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.

(2) Provisions for uncertain tax positions relate to situations where the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities. Provisions are recognised based on management's judgement and best estimate in relation to the probability or likelihood of different outcomes arising, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

12. INCOME TAX (continued)

The movement in net deferred tax liabilities in the year may be analysed as set out below:

US$m	Net deferred tax asset/ (liability) at 1 January - As previously reported	Effect of change in accounting policy	Net deferred tax asset/ (liability) at 1 January - As adjusted	Acquisition of subsidiaries	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income: Fair value reserve[2]	Credited/(charged) to other comprehensive income: Foreign exchange	Credited/(charged) to other comprehensive income: Others	Net deferred tax asset/ (liability) at year end
31 December 2020									
Revaluation of financial instruments	**(2,468)**	**33**	**(2,435)**	**–**	**55**	**(96)**	**3**	**–**	**(2,473)**
Deferred acquisition costs	**(3,339)**	**–**	**(3,339)**	**–**	**(141)**	**–**	**(128)**	**–**	**(3,608)**
Insurance and investment contract liabilities	**639**	**(13)**	**626**	**–**	**(307)**	**–**	**(15)**	**–**	**304**
Withholding taxes	**(203)**	**–**	**(203)**	**–**	**9**	**–**	**(8)**	**–**	**(202)**
Provision for expenses	**215**	**–**	**215**	**–**	**(76)**	**–**	**4**	**1**	**144**
Losses available for offset against future taxable income	**170**	**–**	**170**	**–**	**71**	**–**	**8**	**–**	**249**
Life surplus[1]	**(760)**	**–**	**(760)**	**–**	**(152)**	**–**	**(17)**	**–**	**(929)**
Others	**(468)**	**3**	**(465)**	**–**	**109**	**–**	**(6)**	**(2)**	**(364)**
Total	**(6,214)**	**23**	**(6,191)**	**–**	**(432)**	**(96)**	**(159)**	**(1)**	**(6,879)**

US$m	Net deferred tax asset/ (liability) at 1 January - As previously reported	Effect of change in accounting policy	Net deferred tax asset/ (liability) at 1 January - As adjusted	Acquisition of subsidiaries[3]	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income: Fair value reserve[2]	Credited/(charged) to other comprehensive income: Foreign exchange	Credited/(charged) to other comprehensive income: Others	Net deferred tax asset/ (liability) at year end
31 December 2019 – As adjusted									
Revaluation of financial instruments	(890)	4	(886)	(154)	(157)	(1,216)	(22)	–	(2,435)
Deferred acquisition costs	(3,062)	–	(3,062)	–	(205)	–	(72)	–	(3,339)
Insurance and investment contract liabilities	726	(11)	715	26	(152)	–	37	–	626
Withholding taxes	(181)	–	(181)	–	(17)	–	(5)	–	(203)
Provision for expenses	137	–	137	15	53	–	7	3	215
Losses available for offset against future taxable income	55	–	55	–	114	–	1	–	170
Life surplus[1]	(617)	–	(617)	–	(135)	–	(8)	–	(760)
Others	(329)	3	(326)	(5)	(100)	–	(7)	(27)	(465)
Total	(4,161)	(4)	(4,165)	(118)	(599)	(1,216)	(69)	(24)	(6,191)

Notes:

(1) Life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long-term fund. This primarily relates to Singapore and Malaysia.

(2) Of the fair value reserve deferred tax charge/(credit) of US$96m for 2020 (2019: US$1,216m), US$194m (2019: US$1,282m) relates to fair value gains on available for sale financial assets and US$(98)m (2019: US$(66)m) relates to fair value gains on available for sale financial assets transferred to income on disposal.

(3) The amount of US$118m represents a one-time adjustment in respect of the acquisition of CMLA.

12. INCOME TAX (continued)

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The Group has not recognised deferred tax assets of US$65m (2019: US$71m) on tax losses and the temporary difference on insurance and investment contract liabilities arising from different accounting and statutory/tax reserving methodology for certain branches and subsidiaries on the basis that they have histories of tax losses and there is insufficient evidence that future profits will be available.

The Group has not provided deferred tax liabilities of US$295m (2019: US$176m) in respect of unremitted earnings of operations in jurisdictions from which a withholding tax charge would be incurred upon distribution as the Group does not consider it probable that this portion of accumulated earnings will be remitted in the foreseeable future.

The Group has unused income tax losses carried forward in Hong Kong, Macau, Thailand, Singapore, Malaysia, Mainland China, Australia, Cambodia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka and Taiwan (China). The tax losses of Hong Kong, Singapore, Australia and New Zealand can be carried forward indefinitely. The tax losses of remaining branches and subsidiaries are due to expire within the periods ending 2022 (the Philippines), 2023 (Macau, Mainland China and Myanmar), 2024 (Sri Lanka), 2025 (Cambodia and Thailand), 2027 (Malaysia) and 2030 (South Korea and Taiwan (China)).

13. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for purposes of computing basic and diluted earnings per share.

	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Net profit attributable to shareholders of AIA Group Limited (US$m)	**5,779**	5,979
Weighted average number of ordinary shares in issue (million)	**12,060**	12,042
Basic earnings per share (US cents per share)	**47.92**	49.65

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 December 2020 and 2019, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 40.

	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Net profit attributable to shareholders of AIA Group Limited (US$m)	**5,779**	5,979
Weighted average number of ordinary shares in issue (million)	**12,060**	12,042
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans (million)	**20**	29
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,080**	12,071
Diluted earnings per share (US cents per share)	**47.84**	49.53

At 31 December 2020, 9,156,477 share options (2019: 4,249,232) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

Operating profit after tax per share

Operating profit after tax (see note 7) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year. As of 31 December 2020 and 2019, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 40.

	Year ended 31 December 2020	Year ended 31 December 2019 (As adjusted)
Basic (US cents per share)	**49.27**	47.24
Diluted (US cents per share)	**49.19**	47.13

14. DIVIDENDS

Dividends to shareholders of the Company attributable to the year:

US$m	**Year ended 31 December 2020**	Year ended 31 December 2019
Interim dividend declared and paid of 35.00 Hong Kong cents per share (2019: 33.30 Hong Kong cents per share)	**545**	513
Final dividend proposed after the reporting date of 100.30 Hong Kong cents per share (2019: 93.30 Hong Kong cents per share)(1)	**1,561**	1,444
Total	**2,106**	1,957

Note:

(1) Based upon shares outstanding at 31 December 2020 and 2019 that are entitled to a dividend, other than those held by employee share-based trusts.

The above final dividend was proposed by the Board on 12 March 2021 subject to shareholders' approval at the AGM to be held on 20 May 2021. The proposed final dividend has not been recognised as a liability at the reporting date.

Dividends to shareholders of the Company attributable to the previous financial period, approved and paid during the year:

US$m	**Year ended 31 December 2020**	Year ended 31 December 2019
Final dividend in respect of the previous financial year, approved and paid during the year of 93.30 Hong Kong cents per share (2019: 84.80 Hong Kong cents per share)	**1,452**	1,302
Special dividend in respect of the previous financial year, approved and paid during the year nil per share (2019: 9.50 Hong Kong cents per share)	**–**	146

15. INTANGIBLE ASSETS

US$m	Note	Goodwill	Computer software	Distribution and other rights	Total
Cost					
At 1 January 2019		976	598	888	2,462
Additions		–	79	2	81
Acquisition of subsidiaries		558	4	–	562
Disposals		–	(2)	–	(2)
Foreign exchange movements		21	8	5	34
At 31 December 2019		**1,555**	**687**	**895**	**3,137**
Additions		**–**	**130**	**3**	**133**
Measurement period adjustment	5	**18**	**–**	**–**	**18**
Disposals		**–**	**(22)**	**(2)**	**(24)**
Foreign exchange movements		**86**	**28**	**15**	**129**
At 31 December 2020		**1,659**	**823**	**911**	**3,393**
Accumulated amortisation					
At 1 January 2019		(4)	(349)	(139)	(492)
Amortisation charge for the year		–	(69)	(52)	(121)
Disposals		–	1	–	1
Foreign exchange movements		–	(5)	–	(5)
At 31 December 2019		**(4)**	**(422)**	**(191)**	**(617)**
Amortisation charge for the year		**–**	**(92)**	**(50)**	**(142)**
Disposals		**–**	**16**	**2**	**18**
Foreign exchange movements		**–**	**(14)**	**(4)**	**(18)**
At 31 December 2020		**(4)**	**(512)**	**(243)**	**(759)**
Net book value					
At 31 December 2019		1,551	265	704	2,520
At 31 December 2020		**1,655**	**311**	**668**	**2,634**

The Group holds intangible assets for its long-term use and the annual amortisation charge of US$142m (2019: US$121m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period.

Intangible assets in this note exclude deferred acquisition and origination costs, which are separately disclosed with further details provided in note 20.

Impairment tests for goodwill

Goodwill arises primarily in respect of the Group's insurance businesses in Malaysia of US$731m (2019: US$718m) and Australia (including New Zealand) of US$820m (2019: US$728m). Goodwill is tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). If the recoverable amount of the unit (group of units) exceeds the carrying amount of the unit (group of units), the goodwill allocated to that unit (group of units) shall be regarded as not impaired. The recoverable amount is the value in use of the cash-generating unit (group of units) unless otherwise stated.

The value in use is determined by calculating as an actuarially determined appraisal value, based on embedded value of the business and the present value of expected future new business of the cash-generating unit (group of units). The present value of expected future new business is based on financial budgets approved by management, typically covering a three year period unless otherwise stated. These financial budgets reflect management's best estimate of future profit based on historical experience and best estimate operating assumptions such as premium and expenses. Further, the present value of expected future new business beyond this initial three year period are extrapolated using a perpetual growth rate, which typically does not exceed the long-term expected Gross Domestic Product (GDP) growth of the geographical area in which the cash flows supporting the goodwill are generated.

15. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

The key assumptions used in the embedded value calculations include risk discount rate, investment returns, mortality, morbidity, persistency, expenses and inflation. In the majority of instances these assumptions are aligned to those assumptions detailed in Section 5 of Supplementary Embedded Value Information. The present value of expected future new business is calculated based on a combination of indicators which include, among others, taking into account recent production mix, business strategy, market trends and risk associated with the future new business projections. The risk discount rates that are used in the value in use of in-force business and present value of expected future new business ranges from 8% to 16% (2019: 8% to 16%) and the perpetual growth rates for future new business cash flows of 3% was used, where applicable, to extrapolate the present value of expected future new business beyond the initial three year period; the rate was determined by reference to the long-term expected GDP growth of the geographical area in which the cash flows supporting the goodwill are generated. The Group may apply alternative method to estimate the value of future new business if the described method is not appropriate under the circumstances.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

US$m	As at 31 December 2020	As at 31 December 2019
Group		
Investments in associates	**592**	603
Investments in joint ventures	**14**	12
Total	**606**	615

Investments in associates and joint ventures are held for their long-term contribution to the Group's performance and so all amounts are expected to be realised more than 12 months after the end of the reporting period.

The Group's interests in its principal associates and joint ventures are as follows:

				Group's interest %	
	Place of incorporation	Principal activity	Type of shares held	As at 31 December 2020	As at 31 December 2019
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	**49%**	49%

All associates and joint ventures are unlisted.

Aggregated financial information of associates and joint ventures

The investments in the associates and joint ventures are measured using the equity method. The following table analyses, in aggregate, the carrying amount and share of losses and other comprehensive expense of these associates and joint ventures.

US$m	Year ended 31 December 2020	Year ended 31 December 2019
Carrying amount in the statement of financial position	**606**	615
Losses from continuing operations	**(17)**	(8)
Other comprehensive expense	**(14)**	(1)
Total comprehensive expense	**(31)**	(9)

17. PROPERTY, PLANT AND EQUIPMENT

US$m	Property held for own use	Computer hardware	Fixtures and fittings and others	Total
Cost or revaluation				
At 1 January 2019	2,384	195	529	3,108
Additions	202	30	69	301
Disposals	(20)	(9)	(24)	(53)
Net transfers from investment property	12	–	–	12
Increase from valuation	141	–	–	141
Foreign exchange movements	22	5	11	38
At 31 December 2019	**2,741**	**221**	**585**	**3,547**
Additions	**118**	**28**	**51**	**197**
Disposals	**(32)**	**(5)**	**(27)**	**(64)**
Decrease from valuation	**(107)**	**–**	**–**	**(107)**
Foreign exchange movements	**33**	**5**	**11**	**49**
At 31 December 2020	**2,753**	**249**	**620**	**3,622**
Accumulated depreciation				
At 1 January 2019	–	(162)	(308)	(470)
Depreciation charge for the year	(184)	(21)	(65)	(270)
Disposals	12	8	18	38
Revaluation adjustment	29	–	–	29
Foreign exchange movements	–	(4)	(5)	(9)
At 31 December 2019	**(143)**	**(179)**	**(360)**	**(682)**
Depreciation charge for the year	**(210)**	**(24)**	**(63)**	**(297)**
Disposals	**32**	**4**	**24**	**60**
Revaluation adjustment	**30**	**–**	**–**	**30**
Foreign exchange movements	**–**	**(4)**	**(7)**	**(11)**
At 31 December 2020	**(291)**	**(203)**	**(406)**	**(900)**
Net book value				
At 31 December 2019	2,598	42	225	2,865
At 31 December 2020	**2,462**	**46**	**214**	**2,722**

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Right-of-use assets in relation to leases are reported within property, plant and equipment. The carrying amount of right-of-use assets, by class of underlying asset, is set out below:

US$m	As at 31 December 2020	As at 31 December 2019
Property held for own use	**1,438**	1,579
Fixtures and fittings and others	**4**	3
Total	**1,442**	1,582

Additions to right-of-use assets for the year ended 31 December 2020 were US$103m (2019: US$193m).

Properties held for own use (excluding right-of-use assets) are carried at fair value at the reporting date less accumulated depreciation. Right-of-use assets with respect to the Group's interest in leasehold land and land use rights associated with property held for own use are also carried at the same basis. The fair value at the reporting date is determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 23. Right-of-use assets in relation to other leased property, plant and equipment are carried at cost less accumulated depreciation.

During the year, US$22m expenditure (2019: US$6m) recognised in the carrying amount of property held for own use was in the course of its construction. Decrease from revaluation on property held for own use of US$77m (2019: Increase of US$170m) were taken to other comprehensive income, of which US$66m was related to right-of-use assets (2019: Increase of US$146m).

If property held for own use (excluding right-of-use assets) were stated on a historical cost basis, the carrying value would be US$345m (2019: US$335m). Similarly, stated on a historical basis the carrying value of the right-of-use assets related to the Group's interest in leasehold land and land use rights associated with property held for own use would be US$878m (2019: US$894m). The Group holds property, plant and equipment for its long-term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

18. INVESTMENT PROPERTY

US$m	
Fair value	
At 1 January 2019	4,794
Additions and capitalised subsequent expenditures	9
Disposals	(120)
Net transfers to property, plant and equipment	(12)
Fair value gains	103
Foreign exchange movements	60
At 31 December 2019	**4,834**
Additions and capitalised subsequent expenditures	**29**
Disposals	**(1)**
Fair value losses	**(292)**
Foreign exchange movements	**69**
At 31 December 2020	**4,639**

Investment properties are carried at fair value at the reporting date as determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 23.

The Group leases out its investment property under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every one to four years to reflect market rentals. There were not any material contingent rentals earned as income for the period. Rental income generated from investment property amounted to US$172m (2019: US$180m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US$27m (2019: US$34m).

The Group owns investment property in the form of freehold land outside Hong Kong and leasehold land. Leasehold land which is held for long-term rental or capital appreciation or both that is not occupied by the Group is classified as investment property. They are leased out under operating leases and are initially recognised as right-of-use assets at cost, with changes in fair values in subsequent periods recognised in the consolidated income statement. The Group does not hold freehold land in Hong Kong.

The future undiscounted lease payments under operating leases that the Group expects to receive in future periods may be analysed as follows:

US$m	**As at 31 December 2020**	As at 31 December 2019
Leases of investment property classified as operating leases		
Expiring no later than one year	**132**	132
Expiring later than one year and no later than two years	**99**	80
Expiring later than two years and no later than three years	**56**	57
Expiring later than three years and no later than four years	**44**	22
Expiring later than four years and no later than five years	**13**	21
Expiring after five years or more	**25**	43
Total undiscounted lease receipts	**369**	355

19. REINSURANCE ASSETS

US$m	Note	As at 31 December 2020	As at 31 December 2019
Amounts recoverable from reinsurers		**671**	683
Ceded insurance and investment contract liabilities	27	**3,889**	3,150
Total(1)		**4,560**	3,833

Note:
(1) Including US$1,290m (2019: US$972m) which is expected to be recovered within 12 months after the end of the reporting period.

20. DEFERRED ACQUISITION AND ORIGINATION COSTS

US$m	As at 31 December 2020	As at 31 December 2019
Carrying amount		
Deferred acquisition costs on insurance contracts	**27,549**	25,915
Deferred origination costs on investment contracts	**261**	302
Value of business acquired	**432**	432
Less: Upfront reinsurance premium rebate	**(327)**	(321)
Total	**27,915**	26,328

	Year ended 31 December 2020	Year ended 31 December 2019
Movements in the year		
At beginning of financial year	**26,328**	24,626
Deferral and amortisation of acquisition and origination costs	**1,220**	2,242
Foreign exchange movements	**559**	403
Impact of assumption changes	**(55)**	(26)
Other movements	**(137)**	(917)
At end of financial year	**27,915**	26,328

Deferred acquisition and origination costs are expected to be recoverable over the mean term of the Group's insurance and investment contracts, and liability adequacy testing is performed at least annually to confirm their recoverability. Accordingly, the annual amortisation charge, which varies with investment performance for certain universal life and unit-linked products, approximates to the amount which is expected to be realised within 12 months of the end of the reporting period.

21. FINANCIAL INVESTMENTS

The following tables analyse the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: unit-linked investments and policyholder and shareholder investments. The investment risk in respect of unit-linked investments is generally wholly borne by our customers, and does not directly affect the profit for the year before tax. Furthermore, unit-linked contract holders are responsible for allocation of their policy values amongst investment options offered by the Group. Although profit for the year before tax is not affected by unit-linked investments, the investment return from such financial investments is included in the Group's profit for the year before tax, as the Group has elected the fair value option for all unit-linked investments with corresponding changes in insurance and investment contract liabilities for unit-linked contracts. Policyholder and shareholder investments include all financial investments other than unit-linked investments. The investment risk in respect of policyholder and shareholder investments is partially or wholly borne by the Group.

Policyholder and shareholder investments are further categorised as participating funds and other participating business with discretionary expected sharing with policyholders and underlying distinct investment portfolios ("Other participating business with distinct portfolios"), and other policyholder and shareholder. Other participating business with distinct portfolios refers to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.

The reason for separately analysing financial investments held by participating funds and other participating business with distinct portfolios is that participating funds are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends, and for other participating business with distinct portfolios it is, as explained above, expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected the fair value option for debt and equity securities of participating funds. For other participating business with distinct portfolio, the Group has elected the fair value option for equity securities and the available for sale classification for the majority of debt securities. The Group's accounting policy is to record an insurance liability for the proportion of net assets of the participating funds and other participating business with distinct portfolio that would be allocated to policyholders assuming all performance would be declared as a dividend based upon policyholder participation as described in note 2.4 as at the date of the consolidated statement of financial position. As a result, the Group's net profit before tax for the year is impacted by the proportion of investment return that would be allocated to shareholders as described above.

Other policyholder and shareholder investments are distinct from unit-linked investments, participating funds and other participating business with distinct portfolios as there is not any direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders or it is not expected that the policyholder will receive at the discretion of the insurer additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Group's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Group's accounting policy for insurance and certain investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments either is not allocated to participating contracts or varies from the best estimates, it will impact the Group's profit before tax.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available for sale.

21. FINANCIAL INVESTMENTS (continued)

Debt securities

In compiling the tables, external ratings have been used in accordance with the Group's credit risk assessment framework. Where external ratings are not readily available an internal rating methodology has been adopted, if applicable.

Credit risk limits are set according to the Group's credit risk assessment framework, which define the relative risk level of a debt security.

External ratings		Internal ratings	Reported as
Standard and Poor's and Fitch	Moody's		
AAA	Aaa	1	AAA
AA+ to AA-	Aa1 to Aa3	2+ to 2-	AA
A+ to A-	A1 to A3	3+ to 3-	A
BBB+ to BBB-	Baa1 to Baa3	4+ to 4-	BBB
BB+ and below	Ba1 and below	5+ and below	Below investment grade

Debt securities by type comprise the following:

	Policyholder and shareholder							
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds[1]	
US$m	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2020								
Government bonds[2]								
Thailand	**–**	**–**	**–**	**16,524**	**16,524**	**–**	**–**	**16,524**
Mainland China	**4,041**	**–**	**–**	**13,706**	**17,747**	**38**	**–**	**17,785**
South Korea	**–**	**–**	**–**	**8,225**	**8,225**	**311**	**–**	**8,536**
Singapore	**3,396**	**–**	**–**	**1,588**	**4,984**	**867**	**–**	**5,851**
Philippines	**–**	**–**	**–**	**2,777**	**2,777**	**157**	**–**	**2,934**
Malaysia	**1,422**	**–**	**–**	**769**	**2,191**	**168**	**–**	**2,359**
Indonesia	**–**	**–**	**148**	**586**	**734**	**92**	**–**	**826**
Other	**465**	**–**	**1,041**	**1,575**	**3,081**	**213**	**–**	**3,294**
Subtotal	**9,324**	**–**	**1,189**	**45,750**	**56,263**	**1,846**	**–**	**58,109**

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2020, 99 per cent are rated as investment grades.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

US$m	Policyholder and shareholder							
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds(1)	
	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2020								
Other government and government agency bonds(3)								
AAA	**2,501**	**1,296**	**7**	**5,247**	**9,051**	**183**	**–**	**9,234**
AA	**268**	**1,028**	**3**	**4,324**	**5,623**	**165**	**260**	**6,048**
A	**3,269**	**1,545**	**4**	**4,440**	**9,258**	**87**	**71**	**9,416**
BBB	**676**	**1,046**	**58**	**4,450**	**6,230**	**63**	**1**	**6,294**
Below investment grade	**53**	**19**	**3**	**382**	**457**	**6**	**–**	**463**
Not rated	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Subtotal	**6,767**	**4,934**	**75**	**18,843**	**30,619**	**508**	**332**	**31,459**
Corporate bonds								
AAA	**12**	**352**	**–**	**600**	**964**	**25**	**–**	**989**
AA	**323**	**2,428**	**9**	**3,052**	**5,812**	**10**	**315**	**6,137**
A	**5,220**	**18,954**	**55**	**22,063**	**46,292**	**256**	**1,299**	**47,847**
BBB	**5,880**	**20,645**	**156**	**24,158**	**50,839**	**892**	**395**	**52,126**
Below investment grade	**481**	**289**	**20**	**2,102**	**2,892**	**122**	**54**	**3,068**
Not rated	**6**	**–**	**24**	**–**	**30**	**154**	**–**	**184**
Subtotal	**11,922**	**42,668**	**264**	**51,975**	**106,829**	**1,459**	**2,063**	**110,351**
Structured securities(4)								
AAA	**97**	**–**	**203**	**10**	**310**	**149**	**–**	**459**
AA	**30**	**–**	**–**	**146**	**176**	**–**	**–**	**176**
A	**100**	**–**	**–**	**471**	**571**	**25**	**–**	**596**
BBB	**90**	**–**	**–**	**286**	**376**	**20**	**–**	**396**
Below investment grade	**–**	**–**	**–**	**12**	**12**	**–**	**–**	**12**
Not rated	**40**	**–**	**271**	**11**	**322**	**1**	**–**	**323**
Subtotal	**357**	**–**	**474**	**936**	**1,767**	**195**	**–**	**1,962**
Total(5)(6)	**28,370**	**47,602**	**2,002**	**117,504**	**195,478**	**4,008**	**2,395**	**201,881**

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

(4) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(5) Debt securities of US$9,188m are restricted due to local regulatory requirements.

(6) AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9 amounted to US$197,244m with 98 per cent are rated as investment grades.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

US$m	Policyholder and shareholder							
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds[1]	
	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2019								
Government bonds[2]								
Thailand	–	–	–	16,454	16,454	–	–	16,454
Mainland China	2,987	–	–	12,006	14,993	74	–	15,067
South Korea	–	–	–	7,607	7,607	280	–	7,887
Singapore	3,099	–	–	1,276	4,375	578	–	4,953
Philippines	–	–	–	2,558	2,558	145	–	2,703
Malaysia	1,334	–	–	564	1,898	69	–	1,967
Indonesia	–	–	190	583	773	102	–	875
Other	331	–	1,207	900	2,438	352	–	2,790
Subtotal	7,751	–	1,397	41,948	51,096	1,600	–	52,696
Other government and government agency bonds[3]								
AAA	2,195	1,511	7	4,250	7,963	82	–	8,045
AA	265	733	4	4,128	5,130	53	291	5,474
A	2,950	890	4	4,007	7,851	80	56	7,987
BBB	518	864	54	4,082	5,518	31	–	5,549
Below investment grade	46	2	7	184	239	20	–	259
Not rated	–	–	–	–	–	4	–	4
Subtotal	5,974	4,000	76	16,651	26,701	270	347	27,318

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2019, 99 per cent are rated as investment grades.

(3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

	Policyholder and shareholder							
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds(1)	
US$m	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2019								
Corporate bonds								
AAA	41	211	–	424	676	24	1	701
AA	381	1,399	22	2,512	4,314	28	379	4,721
A	5,146	13,389	64	20,086	38,685	402	1,281	40,368
BBB	5,006	14,036	186	21,200	40,428	908	283	41,619
Below investment grade	516	178	26	1,893	2,613	103	–	2,716
Not rated	6	–	5	–	11	150	2	163
Subtotal	11,096	29,213	303	46,115	86,727	1,615	1,946	90,288
Structured securities(4)								
AAA	51	–	122	12	185	60	–	245
AA	30	19	–	144	193	–	–	193
A	70	99	–	338	507	25	–	532
BBB	120	124	–	185	429	–	–	429
Below investment grade	–	–	–	3	3	–	–	3
Not rated	20	–	256	1	277	3	–	280
Subtotal	291	242	378	683	1,594	88	–	1,682
Total(5)(6)	25,112	33,455	2,154	105,397	166,118	3,573	2,293	171,984

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(4) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(5) Debt securities of US$8,150m are restricted due to local regulatory requirements.

(6) AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9 amounted to US$138,307m with 98 per cent are rated as investment grades.

The Group's debt securities classified at fair value through profit or loss are all designated at fair value through profit or loss.

21. FINANCIAL INVESTMENTS (continued)

Equity securities

Equity securities by type comprise the following:

US$m	Policyholder and shareholder: Participating funds and other participating business with distinct portfolios FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds(1) FVTPL	Total
31 December 2020						
Equity shares	**15,596**	**6,302**	**21,898**	**7,185**	**1,073**	**30,156**
Interests in investment funds	**8,296**	**756**	**9,052**	**19,974**	**–**	**29,026**
Total	**23,892**	**7,058**	**30,950**	**27,159**	**1,073**	**59,182**

US$m	Policyholder and shareholder: Participating funds and other participating business with distinct portfolios FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds(1) FVTPL	Total
31 December 2019						
Equity shares	12,114	6,613	18,727	6,302	331	25,360
Interests in investment funds	6,625	869	7,494	17,468	–	24,962
Total	18,739	7,482	26,221	23,770	331	50,322

Note:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

Debt and equity securities

US$m	As at 31 December 2020	As at 31 December 2019
Debt securities		
Listed	**160,062**	137,014
Unlisted	**41,819**	34,970
Total	**201,881**	171,984
Equity securities		
Listed	**31,050**	26,743
Unlisted(1)	**28,132**	23,579
Total	**59,182**	50,322

Note:

(1) Including US$25,806m (2019: US$21,333m) of investment funds which can be redeemed daily.

21. FINANCIAL INVESTMENTS (continued)

Interests in structured entities

The Group has determined that the investment funds and structured securities, such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities that the Group has interest are structured entities.

The Group has consolidated certain investment funds for which the Group provides guarantee on capital or rate of return to the investors and deemed to have control based on an analysis of the guidance in IFRS 10. For these investment funds, the Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators. The Group has an obligation to absorb losses in the event that the returns of the funds are insufficient to cover the capital or rate of return guarantee provided to the investors.

The following table summarises the Group's interest in unconsolidated structured entities:

	As at 31 December 2020		As at 31 December 2019	
US$m	Investment funds	Structured securities[1]	Investment funds	Structured securities[1]
Available for sale debt securities	**2,984[2]**	**936**	2,158[2]	925
Debt securities at fair value through profit or loss	**811[2]**	**1,026**	721[2]	757
Equity securities at fair value through profit or loss	**29,026**	**–**	24,962	–
Total	**32,821**	**1,962**	27,841	1,682

Notes:

(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.

(2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

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

In addition, the Group receives management fees and trustee fees in respect of providing trustee, management and administrative services to certain retirement scheme funds and investment funds. These funds are not held and the associated investment risks are not borne by the Group, the Group does not have exposure to loss in these funds.

21. FINANCIAL INVESTMENTS (continued)

Loans and deposits

US$m	As at 31 December 2020	As at 31 December 2019
Policy loans	**3,547**	3,246
Mortgage loans on residential real estate	**590**	606
Mortgage loans on commercial real estate	**49**	49
Other loans	**760**	776
Allowance for loan losses	**(14)**	(13)
Loans	**4,932**	4,664
Term deposits	**2,683**	3,696
Promissory notes[1]	**1,720**	1,726
Total	**9,335**	10,086

Note:

(1) The promissory notes are issued by a government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US$2,057m (2019: US$1,951m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 31 December 2020, the carrying value of such receivables is US$271m (2019: US$265m).

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative exposure was as follows:

		Fair value	
US$m	Notional amount	Assets	Liabilities
31 December 2020			
Foreign exchange contracts			
Cross-currency swaps	**8,172**	**313**	**(158)**
Forwards	**2,694**	**121**	**(17)**
Foreign exchange futures	**100**	**–**	**–**
Total foreign exchange contracts	**10,966**	**434**	**(175)**
Interest rate contracts			
Interest rate swaps	**8,510**	**561**	**(308)**
Other			
Warrants and options	**1,342**	**51**	**(45)**
Forward contracts	**10,658**	**18**	**(469)**
Swaps	**1,267**	**5**	**(6)**
Netting	**(100)**	**–**	**–**
Total	**32,643**	**1,069**	**(1,003)**
31 December 2019			
Foreign exchange contracts			
Cross-currency swaps	8,338	396	(204)
Forwards	4,973	62	(24)
Foreign exchange futures	98	–	–
Currency options	3	–	–
Total foreign exchange contracts	13,412	458	(228)
Interest rate contracts			
Interest rate swaps	8,740	487	(161)
Other			
Warrants and options	147	3	–
Forward contracts	1,843	14	(17)
Swaps	1,333	9	(6)
Netting	(98)	–	–
Total	25,377	971	(412)

The column "notional amount" in the above table represents the pay leg of derivative transactions other than equity-index option. For certain equity-index call and put options with the same notional amount that are purchased to hedge the downside risk of the underlying equities by means of a collar strategy, the notional amount represents the exposure of the hedged equities.

Of the total derivatives, US$25m (2019: US$12m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to provide an economic hedge to financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

Foreign exchange contracts

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices and the timing of payments.

Interest rate swaps

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

Other derivatives

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Forward contracts are contractual obligations to buy or sell a financial instrument on a predetermined future date at a specified price. Swaps are OTC contractual agreements between the Group and a third party to exchange a series of cash flows based upon an index, rates or other variables applied to a notional amount.

Netting adjustment

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

Collateral under derivative transactions

At 31 December 2020, the Group had posted cash collateral of US$86m (2019: US$37m) and pledged debt securities with carrying value of US$696m (2019: US$266m) for liabilities and held cash collateral of US$500m (2019: US$581m), debt securities collateral with carrying value of US$17m (2019: US$7m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

23. FAIR VALUE MEASUREMENT

Fair value of financial instruments

The Group 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, except for investment contracts with DPF which are accounted for under IFRS 4.

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

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
31 December 2020						
Financial investments	21					
Loans and deposits		–	–	9,335	9,335	9,333
Debt securities		36,775	165,106	–	201,881	201,881
Equity securities		59,182	–	–	59,182	59,182
Derivative financial instruments	22	1,069	–	–	1,069	1,069
Reinsurance receivables	19	–	–	671	671	671
Other receivables	24	–	–	3,053	3,053	3,053
Accrued investment income	24	–	–	1,822	1,822	1,822
Cash and cash equivalents	26	–	–	5,619	5,619	5,619
Financial assets		97,026	165,106	20,500	282,632	282,630

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	28	12,026	543	12,569	12,569
Borrowings	30	–	8,559	8,559	9,555
Obligations under repurchase agreements	31	–	1,664	1,664	1,664
Derivative financial instruments	22	1,003	–	1,003	1,003
Other liabilities	34	1,025	6,772	7,797	7,797
Financial liabilities		14,054	17,538	31,592	32,588

23. FAIR VALUE MEASUREMENT (continued)

Fair value of financial instruments (continued)

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
31 December 2019						
Financial investments	21					
Loans and deposits		–	–	10,086	10,086	10,086
Debt securities		33,132	138,852	–	171,984	171,984
Equity securities		50,322	–	–	50,322	50,322
Derivative financial instruments	22	971	–	–	971	971
Reinsurance receivables	19	–	–	683	683	683
Other receivables	24	–	–	2,983	2,983	2,983
Accrued investment income	24	–	–	1,710	1,710	1,710
Cash and cash equivalents	26	–	–	3,941	3,941	3,941
Financial assets		84,425	138,852	19,403	242,680	242,680

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	28	11,391	515	11,906	11,906
Borrowings	30	–	5,757	5,757	6,169
Obligations under repurchase agreements	31	–	1,826	1,826	1,826
Derivative financial instruments	22	412	–	412	412
Other liabilities	34	1,116	8,301	9,417	9,417
Financial liabilities		12,919	16,399	29,318	29,730

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

Foreign currency exposure, including the net positions of foreign currency derivative, is shown in note 38 for the Group's key foreign exchange exposures.

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

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.

23. FAIR VALUE MEASUREMENT (continued)

Fair value measurements on a recurring basis

The Group measures at fair value property held for own use, investment property, financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis.

The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

Fair value of properties is based on valuation by independent professional valuers.

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the year ended 31 December 2020.

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

Determination of fair value

Loans and receivables

For loans and advances that are repriced frequently and have not had any significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair values.

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.

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Derivative financial instruments

The Group 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 Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

When the Group holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Group 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 Group measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Property held for own use and investment property

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's properties at least on an annual basis. The valuation on an open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of certain other properties were derived using the Market Data Approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity. Certain other properties are valued using a combination of these two methods.

The properties held for own use and investment properties, in most cases, are valued on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. The current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the properties in use would be taken into account when they would maximise the fair value of the properties; the Group is occupying these properties for operational purposes.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

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

Fair value of securities sold under repurchase agreements and the associated payables

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

Other assets

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

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Investment contract liabilities

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

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 27. These are not measured at fair value.

Borrowings

The fair values of borrowings with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities or prices obtained from brokers.

Other liabilities

The fair values of other unquoted financial liabilities are estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those without stated maturity, where the carrying value approximates to fair value.

Fair value hierarchy for fair value measurement on a recurring basis

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace 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 Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group 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. The Group considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.
- **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 properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

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

23. FAIR VALUE MEASUREMENT (continued)

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

A summary of assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2020				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	1,025	1,025
Investment property	–	–	4,639	4,639
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	47,594	8	47,602
Other policyholder and shareholder	69	116,178	1,257	117,504
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	14	27,426	930	28,370
Unit-linked and consolidated investment funds	14	6,386	3	6,403
Other policyholder and shareholder	1	1,697	304	2,002
Equity securities				
Participating funds and other participating business with distinct portfolios	20,272	877	2,743	23,892
Unit-linked and consolidated investment funds	27,640	285	307	28,232
Other policyholder and shareholder	5,481	1,077	500	7,058
Derivative financial instruments				
Foreign exchange contracts	–	434	–	434
Interest rate contracts	–	561	–	561
Other contracts	13	61	–	74
Total assets on a recurring fair value measurement basis	53,504	202,576	11,716	267,796
% of Total	*20.0*	*75.6*	*4.4*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	12,026	12,026
Derivative financial instruments				
Foreign exchange contracts	–	175	–	175
Interest rate contracts	–	308	–	308
Other contracts	12	508	–	520
Other liabilities	–	1,025	–	1,025
Total liabilities on a recurring fair value measurement basis	12	2,016	12,026	14,054
% of Total	*0.1*	*14.3*	*85.6*	*100.0*

23. FAIR VALUE MEASUREMENT (continued)

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

US$m	Fair value hierarchy Level 1	Level 2	Level 3	Total
31 December 2019				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	1,019	1,019
Investment property	–	–	4,834	4,834
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	72	33,153	230	33,455
Other policyholder and shareholder	133	104,220	1,044	105,397
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	8	24,529	575	25,112
Unit-linked and consolidated investment funds	–	5,848	18	5,866
Other policyholder and shareholder	1	1,886	267	2,154
Equity securities				
Participating funds and other participating business with distinct portfolios	16,108	896	1,735	18,739
Unit-linked and consolidated investment funds	23,559	244	298	24,101
Other policyholder and shareholder	6,348	755	379	7,482
Derivative financial instruments				
Foreign exchange contracts	–	458	–	458
Interest rate contracts	–	487	–	487
Other contracts	14	12	–	26
Total assets on a recurring fair value measurement basis	46,243	172,488	10,399	229,130
% of Total	*20.2*	*75.3*	*4.5*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	11,391	11,391
Derivative financial instruments				
Foreign exchange contracts	–	228	–	228
Interest rate contracts	–	161	–	161
Other contracts	12	11	–	23
Other liabilities	–	1,116	–	1,116
Total liabilities on a recurring fair value measurement basis	12	1,516	11,391	12,919
% of Total	*0.1*	*11.7*	*88.2*	*100.0*

23. FAIR VALUE MEASUREMENT (continued)

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

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 31 December 2020, the Group transferred US$127m (2019: US$379m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US$9m of assets (2019: US$36m) from Level 2 to Level 1 during the year ended 31 December 2020.

The Group's Level 2 financial instruments include debt securities, equity securities, derivative instruments and other liabilities. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from private pricing services and brokers are not available, internal valuation techniques and inputs will be used to derive the fair value for the financial instruments.

The tables below set out a summary of changes in the Group's Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended 31 December 2020 and 2019. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 31 December 2020 and 2019.

Level 3 assets and liabilities

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 January 2020	**1,019**	**4,834**	**2,134**	**2,412**	**–**	**(11,391)**
Net movement on investment contract liabilities	**–**	**–**	**–**	**–**	**–**	**(635)**
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	**(15)**	**(292)**	**(26)**	**75**	**–**	**–**
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	**3**	**69**	**99**	**80**	**–**	**–**
Purchases	**18**	**29**	**798**	**1,141**	**–**	**–**
Sales	**–**	**(1)**	**(313)**	**(258)**	**–**	**–**
Settlements	**–**	**–**	**(233)**	**–**	**–**	**–**
Transfer into Level 3	**–**	**–**	**43**	**100**	**–**	**–**
At 31 December 2020	**1,025**	**4,639**	**2,502**	**3,550**	**–**	**(12,026)**
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	**(15)**	**(292)**	**(26)**	**(5)**	**–**	**–**

23. FAIR VALUE MEASUREMENT (continued)

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

Level 3 assets and liabilities (continued)

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 January 2019	982	4,794	1,850	1,333	–	(6,907)
Net movement on investment contract liabilities	–	–	–	–	–	(480)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(26)	103	(10)	(35)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	44	60	(6)	24	–	–
Acquisition of subsidiaries	–	–	247	448	–	(4,004)
Transfer from investment property	9	(9)	–	–	–	–
Purchases	10	9	559	706	–	–
Sales	–	(120)	(19)	(31)	–	–
Settlements	–	–	(487)	–	–	–
Transfer out of Level 3	–	(3)	–	(33)	–	–
At 31 December 2019	1,019	4,834	2,134	2,412	–	(11,391)
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	(26)	103	(3)	19	–	–

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 28.

Assets transferred out of Level 3 mainly relate to equity securities of which market-observable inputs became available during the year and were used in determining the fair value.

There are not any 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.

23. FAIR VALUE MEASUREMENT (continued)

Significant unobservable inputs for level 3 fair value measurements

As at 31 December 2020 and 2019, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 31 December 2020 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	**997**	**Discounted cash flows**	**Risk adjusted discount rate**	**3.40% – 10.40%**

Description	Fair value at 31 December 2019 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	817	Discounted cash flows	Risk adjusted discount rate	3.69% – 14.14%

Fair value of the Group's properties are determined based on appropriate valuation techniques which may consider among others income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable.

Valuation processes

The Group 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 Group in general uses private pricing providers and, only in rare cases when third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment team analyses reported price exceptions and reviews price challenge responses from private pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Valuations Advisory Committee which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the debt securities and investment contracts. The unobservable inputs for determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

23. FAIR VALUE MEASUREMENT (continued)

Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2020 and 2019 is given below.

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2020				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	**2,153**	**2,700**	**4,480**	**9,333**
Reinsurance receivables	**–**	**671**	**–**	**671**
Other receivables	**27**	**2,975**	**51**	**3,053**
Accrued investment income	**37**	**1,785**	**–**	**1,822**
Cash and cash equivalents	**5,619**	**–**	**–**	**5,619**
Total assets for which the fair value is disclosed	**7,836**	**8,131**	**4,531**	**20,498**
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	**–**	**–**	**543**	**543**
Borrowings	**8,132**	**1,423**	**–**	**9,555**
Obligations under repurchase agreements	**–**	**1,664**	**–**	**1,664**
Other liabilities	**575**	**6,132**	**65**	**6,772**
Total liabilities for which the fair value is disclosed	**8,707**	**9,219**	**608**	**18,534**

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2019				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	2,959	2,769	4,358	10,086
Reinsurance receivables	–	683	–	683
Other receivables	55	2,855	73	2,983
Accrued investment income	36	1,674	–	1,710
Cash and cash equivalents	3,941	–	–	3,941
Total assets for which the fair value is disclosed	6,991	7,981	4,431	19,403
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	–	–	515	515
Borrowings	5,350	819	–	6,169
Obligations under repurchase agreements	–	1,826	–	1,826
Other liabilities	354	7,888	59	8,301
Total liabilities for which the fair value is disclosed	5,704	10,533	574	16,811

24. OTHER ASSETS

US$m	As at 31 December 2020	As at 31 December 2019
Accrued investment income	**1,822**	1,710
Pension scheme assets		
Defined benefit pension scheme surpluses	**46**	44
Insurance receivables due from insurance and investment contract holders	**1,983**	1,459
Others[1]	**1,982**	2,392
Total	**5,833**	5,605

Note:
(1) Represents, among others, prepayments and investment-related receivables.

All amounts other than certain prepayments are generally expected to be recovered within 12 months after the end of the reporting period.

25. IMPAIRMENT OF FINANCIAL ASSETS

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

Available for sale debt securities

During the year ended 31 December 2020, no impairment loss (2019: nil) was recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2020 was nil (2019: nil).

Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 21 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 31 December 2020 was US$15m (2019: US$14m). The Group has a portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short-term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within one year and cover is cancelled if consideration is not received.

26. CASH AND CASH EQUIVALENTS

US$m	As at 31 December 2020	As at 31 December 2019
Cash	**2,877**	3,158
Cash equivalents	**2,742**	783
Total[(1)]	**5,619**	3,941

Note:

(1) Of cash and cash equivalents, US$1,111m (2019: US$703m) are held to back unit-linked contracts and US$108m (2019: US$49m) are held by consolidated investment funds.

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments with maturities at acquisition of three months or less and money market funds that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Accordingly, all such amounts are expected to be realised within 12 months after the end of the reporting period.

27. INSURANCE CONTRACT LIABILITIES

The movements of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) and ceded insurance contract liabilities (see note 19) are shown as follows:

US$m	Note	Gross	Reinsurance	Net
At 1 January 2019 – As previously reported		164,764	(2,323)	162,441
Effect of change in accounting policy	48	(1,381)	–	(1,381)
At 1 January 2019 – As adjusted		163,383	(2,323)	161,060
Valuation premiums and deposits		33,822	(1,804)	32,018
Liabilities released for policy termination or other policy benefits paid and related expenses		(22,063)	1,269	(20,794)
Fees from account balances		(2,401)	–	(2,401)
Accretion of interest		5,542	(20)	5,522
Change in net asset values attributable to policyholders		9,996	–	9,996
Acquisition of subsidiaries		2,807	(285)	2,522
Foreign exchange movements		2,207	13	2,220
Other movements		(1,112)	–	(1,112)
At 31 December 2019 – As adjusted		**192,181**	**(3,150)**	**189,031**
Valuation premiums and deposits		**35,438**	**(2,128)**	**33,310**
Liabilities released for policy termination or other policy benefits paid and related expenses		**(23,038)**	**1,720**	**(21,318)**
Fees from account balances		**(2,427)**	**–**	**(2,427)**
Accretion of interest		**6,056**	**(33)**	**6,023**
Change in net asset values attributable to policyholders		**11,491**	**–**	**11,491**
Foreign exchange movements		**3,657**	**(298)**	**3,359**
Other movements		**(287)**	**–**	**(287)**
At 31 December 2020		**223,071**	**(3,889)**	**219,182**

27. INSURANCE CONTRACT LIABILITIES (continued)

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can also be analysed as follows:

US$m	As at 31 December 2020	As at 31 December 2019 (As adjusted)
Deferred profit	**24,972**	20,500
Unearned revenue	**1,751**	2,091
Policyholders' share of participating surplus	**31,151**	21,870
Liabilities for future policyholder benefits	**165,197**	147,720
Total	**223,071**	192,181

27. INSURANCE CONTRACT LIABILITIES (continued)

Business description

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life	Participating funds and other participating business with distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends For other participating business with distinct portfolios, the allocation of benefit from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders • Morbidity	Hong Kong, Singapore, Mainland China, Malaysia
	Other participating business without distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders • Morbidity	Thailand, Other Markets
Traditional non-participating life		Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses	All(1)
Accident and health		These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses	All(1)
Unit-linked		Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	• Investment performance • Lapses • Expenses • Mortality	All(1)
Universal life		The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer	Benefits are based on the account balance and death benefit	• Investment performance • Crediting rates • Lapses • Expenses • Mortality	All(1)

Note:

(1) Other than the Group Corporate Centre segment.

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items to which profit for the year and shareholders' equity are sensitive are market, insurance and lapse risks which are shown in the table below. Indirect exposure indicates that there is a second order impact. For example, whilst the profit for the year attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of unit-linked contracts), there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risks is offset by a corresponding movement in insurance contract liabilities.

		Market and credit risks			
		Direct exposure			
Type of contract		Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life	Participating funds and other participating business with distinct portfolios	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality • Morbidity
	Other participating business without distinct portfolios	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality • Morbidity
Traditional non-participating life		• Guarantees • Asset-liability mismatch risk	• Investment performance • Asset-liability mismatch risk • Credit risk	• Not applicable	• Mortality • Persistency • Morbidity
Accident and health		• Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Not applicable	• Morbidity • Persistency
Pension		• Net neutral • Asset-liability mismatch risk	• Net neutral • Asset-liability mismatch risk	• Performance-related investment management fees	• Persistency
Unit-linked		• Net neutral	• Net neutral	• Performance-related investment management fees	• Persistency • Mortality
Universal life		• Guarantees • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Spread between earned rate and crediting rate to policyholders	• Mortality • Persistency • Withdrawals

The Group is also exposed to foreign exchange rate risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions (continued)

Valuation interest rates

As at 31 December 2020 and 2019, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by operating segment, year of issuance and products, within the first 20 years are as follows:

	As at 31 December 2020	As at 31 December 2019
Hong Kong	**3.00% – 7.50%**	3.50% – 7.50%
Thailand	**2.49% – 9.00%**	3.13% – 9.00%
Singapore	**2.00% – 7.00%**	2.00% – 7.00%
Malaysia	**3.00% – 5.43%**	3.70% – 5.43%
Mainland China	**2.75% – 7.00%**	2.75% – 7.00%
Australia	**0.01% – 7.11%**	0.51% – 7.11%
Indonesia	**3.02% – 8.61%**	3.02% – 8.61%
Philippines	**2.20% – 9.20%**	2.20% – 9.20%
South Korea	**2.05% – 6.50%**	2.17% – 6.50%
Sri Lanka	**8.87% – 10.29%**	8.61% – 10.96%
Taiwan (China)	**1.75% – 6.50%**	1.75% – 6.50%
Vietnam	**5.53% – 11.48%**	5.53% – 11.48%

28. INVESTMENT CONTRACT LIABILITIES

US$m	Year ended 31 December 2020	Year ended 31 December 2019
At beginning of financial year	**12,273**	7,885
Investment contract benefits	**1,305**	992
Fees charged	**(88)**	(93)
Acquisition of subsidiaries	**–**	4,004
Net withdrawals and other movements	**(1,046)**	(603)
Foreign exchange movements	**437**	88
At end of financial year(1)	**12,881**	12,273

Note:

(1) Of investment contract liabilities, US$312m (2019: US$367m) represents deferred fee income. Movement of deferred fee income of US$55m (2019: US$62m) represents revenue recognised as a result of performance obligations satisfied during the year.

29. EFFECT OF CHANGES IN ASSUMPTIONS AND ESTIMATES

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

US$m	**As at 31 December 2020**	As at 31 December 2019
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	**140**	127
0.5 pps decrease in investment return	**(162)**	(143)
10% increase in expenses	**(63)**	(50)
10% increase in mortality rates	**(92)**	(80)
10% increase in lapse/discontinuance rates	**(76)**	(66)

Future policy benefits for the Group's majority traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of these traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group's traditional life products, except for a limited number of cases where statutory requirements are adopted in the applicable jurisdiction.

For interest sensitive insurance contracts, such as universal life products and unit-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US$166m (2019: US$38m) decrease in profit.

30. BORROWINGS

US$m	As at 31 December 2020	As at 31 December 2019
Medium-term notes and securities		
Senior notes	**6,824**	5,757
Subordinated securities	**1,735**	–
Total	**8,559**	5,757

Interest expense on borrowings is shown in note 11. Further information relating to interest rates and the maturity profile of borrowings is presented in note 38.

The following table summarises the Company's outstanding medium-term notes and securities placed to the market at 31 December 2020:

Senior notes

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
13 March 2013(1)	US$500m	3.125%	10 years	13 March 2023
11 March 2014(1)	US$500m	4.875%	30 years	11 March 2044
11 March 2015(1)	US$750m	3.200%	10 years	11 March 2025
16 March 2016(1)	US$750m	4.500%	30 years	16 March 2046
23 May 2017(2)	US$500m	4.470%	30 years	23 May 2047
6 April 2018(1)	US$500m	3.900%	10 years	6 April 2028
12 April 2018	HK$3,900m	2.760%	3 years	12 April 2021
20 September 2018(1)	US$500m	3M LIBOR + 0.52%	3 years	20 September 2021
16 January 2019	HK$1,300m	2.950%	3.5 years	16 July 2022
16 January 2019	HK$1,100m	3.680%	12 years	16 January 2031
9 April 2019(1)	US$1,000m	3.600%	10 years	9 April 2029
7 April 2020(1)	US$1,000m	3.375%	10 years	7 April 2030
24 June 2020	A$90m	2.950%	10 years	24 June 2030

Subordinated securities

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
16 September 2020(1)(3)	US$1,750m	3.200%	20 years	16 September 2040

Notes:

(1) These medium-term notes and securities are listed on The Stock Exchange of Hong Kong Limited.

(2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

(3) These medium-term securities are subordinated instruments of the Company. The Company has the right to redeem these securities in the event of a tax event, regulatory event or a minimal outstanding amount, or to conduct a make-whole redemption, subject to the satisfaction of the applicable redemption conditions.

The net proceeds from issuance during the year ended 31 December 2020 are used for general corporate purposes.

The Group has access to an aggregate of US$2,290m unsecured committed credit facilities, which includes a US$100m revolving three-year credit facility expiring in 2023 and a US$2,190m five-year credit facility expiring in 2025, both subject to certain extension options. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 31 December 2020 and 2019.

31. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not de-recognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each year end:

US$m	**As at 31 December 2020**	As at 31 December 2019
Debt securities – AFS		
Repurchase agreements	**1,444**	1,947
Debt securities – FVTPL		
Repurchase agreements	**232**	41
Total	**1,676**	1,988

Collateral

At 31 December 2020, the Group had pledged debt securities of US$1m (2019: nil). No cash collateral (2019: US$1m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

At 31 December 2020, the obligations under repurchase agreements were US$1,664m (2019: US$1,826m).

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Offsetting, enforceable master netting agreements and similar agreements

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

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2020						
Financial assets:						
Derivative assets	**1,069**	**–**	**1,069**	**(17)**	**(500)**	**552**
Reverse repurchase agreements	**271**	**–**	**271**	**(271)**	**–**	**–**
Total	**1,340**	**–**	**1,340**	**(288)**	**(500)**	**552**

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2019						
Financial assets:						
Derivative assets	971	–	971	(7)	(581)	383
Reverse repurchase agreements	265	–	265	(265)	–	–
Total	1,236	–	1,236	(272)	(581)	383

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Offsetting, enforceable master netting agreements and similar agreements (continued)

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

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2020						
Financial liabilities:						
Derivative liabilities	**1,003**	**–**	**1,003**	**(696)**	**(86)**	**221**
Repurchase agreements	**1,664**	**–**	**1,664**	**(1,664)**	**–**	**–**
Total	**2,667**	**–**	**2,667**	**(2,360)**	**(86)**	**221**

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2019						
Financial liabilities:						
Derivative liabilities	412	–	412	(266)	(37)	109
Repurchase agreements	1,826	–	1,826	(1,826)	–	–
Total	2,238	–	2,238	(2,092)	(37)	109

The Group entered into enforceable master netting agreements for derivative transactions, as well as the repurchase agreements for debt instruments with various counterparties. Except for certain futures contracts executed through clearing house mechanism where the settlement arrangement satisfied the IFRS netting criteria, the transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the IFRS netting criteria. The provision in the master netting agreement and similar agreements enables a party to terminate transactions early and settle at a net amount if a default or termination event occurs.

33. PROVISIONS

US$m	Employee benefits	Other	Total
At 1 January 2019	130	38	168
Charged to the consolidated income statement	13	34	47
Charged to other comprehensive income	25	–	25
Acquisition of subsidiaries	–	15	15
Exchange differences	9	1	10
Released during the year	–	(6)	(6)
Utilised during the year	(7)	(33)	(40)
Other movements	6	–	6
At 31 December 2019	**176**	**49**	**225**
Charged to the consolidated income statement	**14**	**36**	**50**
Charged to other comprehensive income	**10**	**–**	**10**
Exchange differences	**–**	**2**	**2**
Released during the year	**–**	**(13)**	**(13)**
Utilised during the year	**(5)**	**(39)**	**(44)**
At 31 December 2020	**195**	**35**	**230**

Other provisions

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

34. OTHER LIABILITIES

US$m	**As at 31 December 2020**	As at 31 December 2019
Trade and other payables	**4,850**	6,262
Lease liabilities	**502**	556
Third-party interests in consolidated investment funds	**1,025**	1,116
Reinsurance-related payables	**1,420**	1,483
Total	**7,797**	9,417

Third-party interests in consolidated investment funds consist of third-party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period. The realisation of third-party interests in investment funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third-party investors.

Reinsurance-related payables of US$563m (2019: US$573m) are expected to be settled more than 12 months after the end of the reporting period.

35. SHARE CAPITAL AND RESERVES

Share capital

	As at 31 December 2020		As at 31 December 2019	
	Million shares	US$m	Million shares	US$m
Ordinary shares[1], issued and fully paid				
At beginning of the financial year	**12,089**	**14,129**	12,077	14,073
Shares issued under share option scheme and agency share purchase plan	**6**	**26**	12	56
At end of the financial year	**12,095**	**14,155**	12,089	14,129

Note:

(1) Ordinary shares have no nominal value.

The Company issued 4,876,916 shares under share option scheme (2019: 10,552,614 shares) and 1,185,442 shares under agency share purchase plan (2019: 1,260,386 shares) during the year ended 31 December 2020.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2020 with the exception of 1,552,886 shares (2019: 3,127,664 shares) of the Company purchased by and nil share (2019: 911,718 shares) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the year ended 31 December 2020, 12,667,066 shares (2019: 15,525,163 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 31 December 2020, 28,748,261 shares (2019: 39,862,439 shares) of the Company were held by the employee share-based trusts.

Reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

Property revaluation reserve

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

Other reserves

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

36. NON-CONTROLLING INTERESTS

US$m	As at 31 December 2020	As at 31 December 2019
Equity shares in subsidiaries	**69**	69
Share of earnings	**369**	374
Share of other reserves	**30**	5
Total	**468**	448

37. GROUP CAPITAL STRUCTURE

Capital Management Approach

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely and satisfying regulatory capital requirements at all times.

The Group's capital management function oversees all capital-related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining AIA's capacity to pay dividends to shareholders.

Regulatory Solvency

The Group supervisor is the Hong Kong Insurance Authority (HKIA). The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's principal operating companies are AIA Co. and AIA International Limited (AIA International) which are required by the HKIA to meet the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.

AIA has given an undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in each of AIA Co. and AIA International.

The capital positions of the Group's two principal operating companies as of 31 December 2020 and 2019 are as follows:

	31 December 2020			31 December 2019		
US$m	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	**9,780**	**2,000**	**489%**	11,856	3,272	362%
AIA International	**9,382**	**3,122**	**301%**	9,280	2,443	380%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

37. GROUP CAPITAL STRUCTURE (continued)

Group-wide Supervision Framework

In addition to the HKIO requirements for AIA Co. and AIA International, the HKIA has been developing a Group-wide Supervision (GWS) framework to align with international standards to supervise Hong Kong domiciled Internationally Active Insurance Groups (IAIGs). Legislation setting out the GWS framework was enacted on 17 July 2020. On 31 December 2020, the Government gazetted the commencement date of the legislation to be on 29 March 2021. In addition, the Insurance (Group Capital) Rules (Group Capital Rules) were tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. Under the Group Capital Rules, the GWS framework will be based on a "Summation Approach". The Group's available capital and minimum required capital will be calculated based on summing up of the available capital and required capital according to the regulatory requirements for each relevant regulated entity within the Group, also known as Group Local Capital Summation Method (LCSM).

Upon the effective date of the GWS framework, the Group will apply the LCSM to determine the group-level regulatory capital position and will disclose it in its financial statements for the six months ending 30 June 2021 and going forward. Following the new disclosure of the Group's regulatory capital position in the Group's consolidated financial statements, the solvency ratio disclosure for AIA Co. and AIA International will no longer be published in the Group's consolidated financial statements. AIA Co. and AIA International will continue to disclose their solvency ratios in their respective financial statements, and will submit annual filings to the HKIA of their solvency margin positions based on their annual audited financial statements.

Local Regulatory Solvency

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKIA of their solvency margin position based on their annual audited financial statements.

Dividends, remittances and other payments from individual branches and subsidiaries

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends, remittances and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends, remittances and other payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group.

37. GROUP CAPITAL STRUCTURE (continued)

Capital and Regulatory Orders Specific to the Group

As of 31 December 2020, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

Hong Kong Insurance Authority

AIA Group Limited has given to the HKIA an undertaking that AIA Group Limited will:

(i) ensure that (a) each of AIA Co. and AIA International will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong ("minimum amount"); (b) it will not withdraw capital or transfer any funds or assets out of AIA Co. or AIA International that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; and (c) should the solvency ratio of either AIA Co. or AIA International fall below the respective minimum amounts, AIA Group Limited will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the HKIA;

(ii) notify the HKIA in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;

(iii) be subject to the supervision of the HKIA and AIA Group Limited will be required to continually comply with the HKIA's guidance on the "fit and proper" standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Group's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Group's corporate governance; the soundness of the Group's risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and

(iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidelines issued by the HKIA from time to time.

38. RISK MANAGEMENT

Risk management framework

AIA recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the Group. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

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

Lapse risk is the risk policies lapse, on average, earlier than assumed in the pricing or reserving assumptions.

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

Expense

Expense risk is the risk of greater than expected trends in, or sudden shocks to, the amount or timing of expenses incurred by the business.

Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Group's very substantial experience within the markets in which we operate.

Morbidity and Mortality

Morbidity and mortality risk is the risk that the incidence and/or amounts of medical/death claims are higher than the assumptions made in pricing and/or reserving.

The Group 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 Group's actuarial teams 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 Group 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.

38. RISK MANAGEMENT (continued)

Investment and financial risks

Credit risk

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

The Group's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of defence. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Group's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating determined by the investment teams. The Group's Risk Management function manages the Group's internal ratings framework and conducts periodic rating reviews. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. 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 Group's insurance liabilities.

AIA manages interest rate risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2020				
Financial assets				
Loans and deposits	**1,020**	**7,421**	**894**	**9,335**
Other receivables	**69**	**1**	**2,636**	**2,706**
Debt securities	**10,735**	**191,146**	**–**	**201,881**
Equity securities	**–**	**–**	**59,182**	**59,182**
Reinsurance receivables	**–**	**–**	**671**	**671**
Accrued investment income	**–**	**–**	**1,822**	**1,822**
Cash and cash equivalents	**4,071**	**–**	**1,548**	**5,619**
Derivative financial instruments	**–**	**–**	**1,069**	**1,069**
Total financial assets	**15,895**	**198,568**	**67,822**	**282,285**
Financial liabilities				
Investment contract liabilities	**–**	**–**	**12,569**	**12,569**
Borrowings	**500**	**8,059**	**–**	**8,559**
Obligations under repurchase agreements	**1,664**	**–**	**–**	**1,664**
Other liabilities	**409**	**503**	**6,885**	**7,797**
Derivative financial instruments	**–**	**–**	**1,003**	**1,003**
Total financial liabilities	**2,573**	**8,562**	**20,457**	**31,592**

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Exposure to interest rate risk (continued)

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2019				
Financial assets				
Loans and deposits	1,042	8,238	806	10,086
Other receivables	2	1	2,677	2,680
Debt securities	8,229	163,755	–	171,984
Equity securities	–	–	50,322	50,322
Reinsurance receivables	–	–	683	683
Accrued investment income	–	–	1,710	1,710
Cash and cash equivalents	3,639	–	302	3,941
Derivative financial instruments	–	–	971	971
Total financial assets	12,912	171,994	57,471	242,377
Financial liabilities				
Investment contract liabilities	–	–	11,906	11,906
Borrowings	500	5,257	–	5,757
Obligations under repurchase agreements	1,826	–	–	1,826
Other liabilities	682	141	8,594	9,417
Derivative financial instruments	–	–	412	412
Total financial liabilities	3,008	5,398	20,912	29,318

Equity price risk

Equity price risk arises from changes in the market value of equity securities. Investments in equity securities on a long-term basis are expected to align policyholders expectations, provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group’s strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 29. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholder participation ratios described in note 2.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

	31 December 2020			31 December 2019 – As adjusted		
US$m	**Impact on profit before tax**	**Impact on total equity (before the effects of taxation)**	**Impact on allocated equity (before the effects of taxation)**	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
Equity price risk						
10 per cent increase in equity prices	**1,091**	**1,091**	**1,091**	1,050	1,050	1,050
10 per cent decrease in equity prices	**(1,091)**	**(1,091)**	**(1,091)**	(1,050)	(1,050)	(1,050)
Interest rate risk						
+ 50 basis points shift in yield curves	**(550)**	**(8,403)**	**(550)**	(289)	(7,026)	(289)
– 50 basis points shift in yield curves	**584**	**9,356**	**584**	312	7,869	312

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in Asia and the translation of multiple currencies to US dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

However, assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

Foreign exchange rate net exposure

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2020						
Equity analysed by original currency	**35,400**	**4,617**	**6,445**	**(4,644)**	**2,516**	**5,862**
Net positions of currency derivatives	**(9,942)**	**650**	**3,457**	**4,239**	**135**	**–**
Currency exposure	**25,458**	**5,267**	**9,902**	**(405)**	**2,651**	**5,862**
5% strengthening of original currency						
Impact on profit before tax	**260**	**71**	**9**	**25**	**5**	**41**
Impact on other comprehensive income	**(286)**	**141**	**485**	**(45)**	**128**	**252**
Impact on total equity	**(26)**	**212**	**494**	**(20)**	**133**	**293**
5% strengthening of the US dollar						
Impact on profit before tax	**260**	**(5)**	**(6)**	**(9)**	**(4)**	**(34)**
Impact on other comprehensive income	**(286)**	**(207)**	**(488)**	**29**	**(129)**	**(259)**
Impact on total equity	**(26)**	**(212)**	**(494)**	**20**	**(133)**	**(293)**

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2019 – As adjusted						
Equity analysed by original currency	29,978	3,483	6,703	(2,604)	2,312	4,612
Net positions of currency derivatives	(8,371)	592	3,349	3,274	(123)	(629)
Currency exposure	21,607	4,075	10,052	670	2,189	3,983
5% strengthening of original currency						
Impact on profit before tax	152	(2)	(17)	11	(8)	(25)
Impact on other comprehensive income	(180)	151	519	23	118	224
Impact on total equity	(28)	149	502	34	110	199
5% strengthening of the US dollar						
Impact on profit before tax	152	46	20	4	9	26
Impact on other comprehensive income	(180)	(195)	(522)	(38)	(119)	(225)
Impact on total equity	(28)	(149)	(502)	(34)	(110)	(199)

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk

The liquidity principle adopted by the Group Board is "*We will maintain sufficient liquidity to meet our expected financial commitments as they fall due*" and as such AIA has defined liquidity risk as the risk of failure to meet current and future financial commitments as they fall due. This incorporates the risks arising from the timing mismatch of cash inflows and outflows in day-to-day operations, including collateral requirements, as well as the market liquidity of assets required for policyholder liabilities.

AIA manages liquidity risk in accordance with the Group's liquidity framework. This framework contains the standards, procedures, and tools used by the Group to monitor and manage liquidity risk in base and stressed conditions across multiple time horizons from daily to twelve months. AIA further supports its liquidity by maintaining access to committed credit facilities, use of bond repurchase markets and debt markets via the Group's Global Medium-term Note and Securities Programme.

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity[2]
31 December 2020						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	**8,940**	**1,997**	**1,013**	**580**	**1,793**	**3,557**
Other receivables	**2,574**	**2,477**	**50**	**13**	**–**	**34**
Debt securities	**195,478**	**3,973**	**21,353**	**31,072**	**139,080**	**–**
Equity securities	**30,950**	**–**	**–**	**–**	**–**	**30,950**
Reinsurance receivables	**671**	**671**	**–**	**–**	**–**	**–**
Accrued investment income	**1,757**	**1,756**	**1**	**–**	**–**	**–**
Cash and cash equivalents	**4,400**	**4,400**	**–**	**–**	**–**	**–**
Derivative financial instruments	**1,016**	**189**	**189**	**249**	**389**	**–**
Subtotal	**245,786**	**15,463**	**22,606**	**31,914**	**141,262**	**34,541**
Financial assets (Unit-linked contracts and consolidated investment funds)	**36,499**	**–**	**–**	**–**	**–**	**36,499**[3]
Total	**282,285**	**15,463**	**22,606**	**31,914**	**141,262**	**71,040**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	**169,477**	**4,316**	**15,559**	**17,309**	**132,293**	**–**
Borrowings	**8,559**	**1,002**	**1,414**[1]	**2,548**	**3,595**	**–**
Obligations under repurchase agreements	**1,664**	**1,664**	**–**	**–**	**–**	**–**
Other liabilities excluding lease liabilities	**4,025**	**2,305**	**240**	**150**	**171**	**1,159**
Lease liabilities	**539**	**177**	**325**	**35**	**2**	**–**
Derivative financial instruments	**991**	**135**	**534**	**109**	**213**	**–**
Subtotal	**185,255**	**9,599**	**18,072**	**20,151**	**136,274**	**1,159**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	**35,125**	**–**	**–**	**–**	**–**	**35,125**
Total	**220,380**	**9,599**	**18,072**	**20,151**	**136,274**	**36,284**

Note:

(1) Including US$1,246m which fall due after 2 years through 5 years.

38. RISK MANAGEMENT (continued)
Investment and financial risks (continued)
Liquidity risk (continued)

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity[2]
31 December 2019 – As adjusted						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	9,383	2,657	1,048	594	1,828	3,256
Other receivables	2,598	2,488	75	7	–	28
Debt securities	166,118	2,849	19,404	31,219	112,646	–
Equity securities	26,221	–	–	–	–	26,221
Reinsurance receivables	683	683	–	–	–	–
Accrued investment income	1,644	1,635	–	–	–	9
Cash and cash equivalents	3,189	3,189	–	–	–	–
Derivative financial instruments	937	167	189	196	385	–
Subtotal	210,773	13,668	20,716	32,016	114,859	29,514
Financial assets (Unit-linked contracts and consolidated investment funds)	31,604	–	–	–	–	31,604[3]
Total	242,377	13,668	20,716	32,016	114,859	61,118
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	144,801	3,297	12,025	13,676	115,803	–
Borrowings	5,757	–	1,665[4]	2,233	1,859	–
Obligations under repurchase agreements	1,826	1,826	–	–	–	–
Other liabilities excluding lease liabilities	7,716	5,868	234	162	229	1,223
Lease liabilities	605	178	368	55	4	–
Derivative financial instruments	397	40	165	79	113	–
Subtotal	161,102	11,209	14,457	16,205	118,008	1,223
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	31,098	–	–	–	–	31,098
Total	192,200	11,209	14,457	16,205	118,008	32,321

Notes:

(2) Financial assets with no fixed maturity are equities or receivables on demand which the Group has the choice to call. Similarly, financial liabilities with no fixed maturity are payable on demand as the counterparty has a choice of when the amount is paid.

(3) The total value of amounts within financial assets (Unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds). Included within financial assets (Unit-linked contracts and consolidated investment funds) are debt securities of US$433m (2019: US$668m) due in one year or less, US$2,622m (2019: US$2,392m) due after 1 year through 5 years, US$1,934m (2019: US$1,792m) due after 5 years through 10 years and US$1,414m (2019: US$1,014m) due after 10 years, in accordance with the contractual terms of the financial investments.

(4) Including US$665m which fall due after 2 years through 5 years.

39. EMPLOYEE BENEFITS

Defined benefit plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Indonesia, South Korea, the Philippines, Sri Lanka, Taiwan (China) and Vietnam. The latest independent actuarial valuation of the plans was at 31 December 2020 and was prepared by credentialed actuaries of Towers Watson Hong Kong Limited. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 39 per cent (2019: 40 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US$96m (2019: US$88m). The total expenses relating to these plans recognised in the consolidated income statement was US$14m (2019: US$13m).

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was US$93m (2019: US$90m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 22 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

40. SHARE-BASED COMPENSATION

Share-based compensation plans

During the year ended 31 December 2020, the Group made further grants of share options (SOs), restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (2010 SO Scheme) and the Restricted Share Unit Scheme (2010 RSU Scheme) and the Employee Share Purchase Plan (2011 ESPP). In addition, the Group made further grants of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

Due to the expiry of the 2010 SO Scheme in 2020, the Company has sought and obtained the approval from its shareholders at the annual general meeting of the Company held on 29 May 2020 (2020 AGM) for the termination of the 2010 SO Scheme and the adoption of a new share option scheme (2020 SO Scheme), each as of 29 May 2020. The 2020 SO Scheme is effective for a period of 10 years from the date of adoption. Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme, no further SOs can be granted thereunder. However, the 2010 SO Scheme shall remain in full force and effect for all SOs granted prior to its termination, and the exercise of such SOs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 SO Scheme and the Listing Rules.

In addition, the Company has adopted a new restricted share unit scheme (2020 RSU Scheme) and a new employee share purchase plan (2020 ESPP) on 1 August 2020, in place of the 2010 RSU Scheme and 2011 ESPP, which were terminated with effect from 31 July 2020 and 31 October 2020 respectively. Both the 2020 RSU Scheme and 2020 ESPP are also effective for a period of 10 years from the date of adoption. Following the termination of the 2010 RSU Scheme and the 2011 ESPP, no further RSUs or RSPUs can be granted thereunder. However, the 2010 RSU Scheme and the 2011 ESPP shall remain in full force and effect for all RSUs and RSPUs granted prior to their terminations, and the vesting of such RSUs and RSPUs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 RSU Scheme and 2011 ESPP respectively.

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

RSU Schemes

Under the 2010 and 2020 RSU Schemes, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. Restricted share unit (RSU) grants are vested either entirely after a specific period of time or in tranches over the vesting period during which, the eligible participants are required to remain in employment with the Group. For RSU grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting period. For most RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the granted RSUs are expected to be settled in equity. The total number of shares that can be granted under this scheme is 302,264,978 (2019: 301,100,000), representing 2.5 per cent of the number of shares in issue on the reference date, being the 2020 AGM date.

	Year ended 31 December 2020	Year ended 31 December 2019
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial year	**32,733,981**	37,801,324
Granted	**13,451,940**	10,672,622
Forfeited	**(2,836,395)**	(2,202,873)
Vested	**(11,562,459)**	(13,537,092)
Outstanding at end of financial year	**31,787,067**	32,733,981

SO Schemes

The objectives of the 2010 and 2020 SO Schemes are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which the eligible participants are required to remain in employment with the Group. For SO grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting periods. The granted SOs expire 10 years from the date of grant and each SO entitles the eligible participant to subscribe for one ordinary share. Subject to restrictions in the applicable laws, regulations and rules of the relevant jurisdictions, the granted SOs are expected to be settled in equity. The total number of shares under options that can be granted under this scheme is 302,264,978 (2019: 301,100,000), representing 2.5 per cent of the number of shares in issue on the date of adoption.

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

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options	**Weighted average exercise price (HK$)**	Number of share options	Weighted average exercise price (HK$)
Share options				
Outstanding at beginning of financial year	**23,798,042**	**53.86**	30,403,944	46.22
Granted	**5,856,668**	**68.10**	4,412,153	76.42
Exercised	**(4,876,916)**	**40.01**	(10,552,614)	40.71
Forfeited or expired	**(1,073,985)**	**69.34**	(465,441)	66.45
Outstanding at end of financial year	**23,703,809**	**59.53**	23,798,042	53.86
Share options exercisable at end of financial year	**10,115,925**	**45.22**	9,119,636	37.93

At the respective dates on which the SOs were exercised, the weighted average share price of the Company was HK$80.73 for the year ended 31 December 2020 (2019: HK$78.65).

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

SO Schemes (continued)

The range of exercise prices for the SOs outstanding as of 31 December 2020 and 2019 is summarised in the table below.

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK$26 – HK$35	**1,542,961**	**1.30**	3,167,121	2.27
HK$36 – HK$45	**2,633,722**	**4.57**	4,436,084	5.42
HK$46 – HK$55	**5,108,806**	**5.60**	6,387,390	6.71
HK$56 – HK$65	**830,436**	**6.58**	1,336,469	7.72
HK$66 – HK$75	**9,759,038**	**8.42**	4,221,746	8.20
HK$76 – HK$85	**3,828,846**	**8.24**	4,249,232	9.24
Outstanding at end of financial year	**23,703,809**	**6.83**	23,798,042	6.65

ESPP

Under the 2011 and 2020 ESPPs, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will grant one matching restricted stock purchase unit (RSPU) to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the relevant vesting period, the eligible employees must hold the contribution shares purchased and remain employed by the Group in order to qualify to receive the matching shares upon the vesting of the matching RSPUs. The granted matching RSPUs are expected to be settled in equity. Under the 2010 ESPP, the level of qualified employee contribution was subject to a maximum amount equal to 8 per cent of the monthly base salary or HK$9,750 (or local currency equivalent) per month, whichever is lower. Under the 2020 ESPP, the level of qualified employee contribution is subject to a maximum amount equal to 10 per cent of the monthly base salary or HK$12,500 (or local currency equivalent) per month, whichever is lower. For the year ended 31 December 2020, eligible employees paid US$32m (2019: US$27m) to purchase 3,126,641 ordinary shares (2019: 2,640,834 ordinary shares) of the Company under the 2011 ESPP and 2020 ESPP.

ASPP

The structure of the ASPP generally follows that of the 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 the Company at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will grant one matching restricted stock subscription unit (RSSU) to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each RSSU entitles eligible agents to subscribe for one new share of the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased and maintain their agent contracts with the Group in order to qualify to receive the matching shares upon the vesting of the matching RSSUs. The granted matching RSSUs are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum amount of US$15,000 per annum. For the year ended 31 December 2020, eligible agents paid US$24m (2019: US$25m) to purchase 2,411,360 ordinary shares (2019: 2,501,196 ordinary shares) of the Company.

40. SHARE-BASED COMPENSATION (continued)

Valuation methodology

The Group utilises a binomial lattice model to calculate the fair value of the SO grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, RSPU and RSSU grants, taking into account the terms and conditions upon which the grants were made. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange. The expected life of the SOs is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company'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 grants.

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

	Year ended 31 December 2020			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	**0.85%**	**0.31% – 0.78%***	**0.09% – 1.68%**	**0.87%**
Volatility	**24%**	**24%**	**n/a**	**n/a**
Dividend yield	**1.60%**	**1.60%**	**1.60%**	**1.60%**
Exercise price (HK$)	**68.10**	**n/a**	**n/a**	**n/a**
Share option life (in years)	**10**	**n/a**	**n/a**	**n/a**
Expected life (in years)	**7.84**	**n/a**	**n/a**	**n/a**
Weighted average fair value per option/unit at measurement date (HK$)	**15.51**	**63.20**	**79.07**	**59.48**

	Year ended 31 December 2019			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.44% – 1.59%	1.36% – 1.67%*	1.44% – 1.76%	1.59%
Volatility	20%	20%	n/a	n/a
Dividend yield	1.50%	1.50% – 1.60%	1.50% – 1.60%	1.50%
Exercise price (HK$)	76.38 – 78.70	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.97	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK$)	15.55	67.32	75.36	65.08

* Applicable to RSU with market conditions.

The weighted average share price for SO valuation for grants made during the year ended 31 December 2020 is HK$68.10 (2019: HK$76.37). The total fair value of SO granted during the year ended 31 December 2020 is US$12m (2019: US$9m).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation grants made by the Group for the year ended 31 December 2020 is US$80m (2019: US$88m).

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directors' remuneration

The Executive Director receives compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long-term incentives represent the variable components in the Executive Director's compensation and are linked to the performance of the Group and the Executive Director. Details of share-based payment schemes are described in note 40.

US$	**Director's fees**	**Salaries, allowances and benefits in kind[(1)]**	**Bonuses**	**Share-based payments[(2)]**	**Pension scheme contributions**	**Other benefits[(3)]**	**Other payments[(4)]**	**Total**
Year ended 31 December 2020								
Executive Directors								
Mr. Ng Keng Hooi[(5)]	**–**	**688,987**	**2,839,400**	**7,631,345**	**40,933**	**112,203**	**–**	**11,312,868**
Mr. Lee Yuan Siong[(6)]	**–**	**1,428,337**	**3,960,000**	**1,493,396**	**56,271**	**–**	**10,892,303**	**17,830,307**
Total	**–**	**2,117,324**	**6,799,400**	**9,124,741**	**97,204**	**112,203**	**10,892,303**	**29,143,175**

US$	Director's fees	Salaries, allowances and benefits in kind[(1)]	Bonuses	Share-based payments[(2)]	Pension scheme contributions	Other benefits[(3)]	Other payments	Total
Year ended 31 December 2019								
Executive Director								
Mr. Ng Keng Hooi[(5)]	–	1,617,677	3,267,000	4,816,710	96,476	697,485	–	10,495,348
Total	–	1,617,677	3,267,000	4,816,710	96,476	697,485	–	10,495,348

Notes:

(1) Includes non-cash benefits for housing, medical and life insurance, club and professional membership, company car and perquisites.

(2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP based on the fair value at the respective grant dates.

(3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay. Other benefits for the year ended 31 December 2019 include a tax reimbursement to relief double taxation in Singapore and Hong Kong.

(4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.

(5) Mr. Ng Keng Hooi's remuneration includes compensation and benefits up to his retirement as Group Chief Executive and President and Director effective 31 May 2020, with the bonus for the year ended 31 December 2020 to be paid on full-year basis and subject to actual performance assessments.

(6) Mr. Lee Yuan Siong is currently the Group Chief Executive and President of the Company. He receives his remuneration exclusively for his role as Group Chief Executive and President of the Company and receives no separate fees for his role as a director of the Company or for acting as a director of any subsidiary of the Company.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

The remuneration of Independent Non-executive Directors of the Company at 31 December 2020 and 2019 are included in the tables below:

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Other payments	Total
Year ended 31 December 2020								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	**685,000**	**143,315**	**–**	**–**	**–**	**–**	**–**	**828,315**
Mr. Jack Chak-Kwong So	**268,000**	**–**	**–**	**–**	**–**	**–**	**–**	**268,000**
Mr. Chung-Kong Chow	**228,000**	**–**	**–**	**–**	**–**	**–**	**–**	**228,000**
Mr. John Barrie Harrison	**268,000**	**–**	**–**	**–**	**–**	**–**	**–**	**268,000**
Mr. George Yong-Boon Yeo	**253,000**	**–**	**–**	**–**	**–**	**–**	**–**	**253,000**
Mr. Mohamed Azman Yahya[3]	**87,295**	**–**	**–**	**–**	**–**	**–**	**–**	**87,295**
Professor Lawrence Juen-Yee Lau	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Ms. Swee-Lian Teo	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Dr. Narongchai Akrasanee[4]	**281,333**	**–**	**–**	**–**	**–**	**–**	**–**	**281,333**
Mr. Cesar Velasquez Purisima	**183,000**	**–**	**–**	**–**	**–**	**–**	**–**	**183,000**
Total	**2,679,628**	**143,315**	**–**	**–**	**–**	**–**	**–**	**2,822,943**

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Other payments	Total
Year ended 31 December 2019								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	627,500	149,080	–	–	–	–	–	776,580
Mr. Jack Chak-Kwong So	268,000	–	–	–	–	–	–	268,000
Mr. Chung-Kong Chow	228,000	–	–	–	–	–	–	228,000
Mr. John Barrie Harrison	268,000	–	–	–	–	–	–	268,000
Mr. George Yong-Boon Yeo	253,000	–	–	–	–	–	–	253,000
Mr. Mohamed Azman Yahya[3]	213,000	–	–	–	–	–	–	213,000
Professor Lawrence Juen-Yee Lau	213,000	–	–	–	–	–	–	213,000
Ms. Swee-Lian Teo	213,000	–	–	–	–	–	–	213,000
Dr. Narongchai Akrasanee[4]	273,000	–	–	–	–	–	–	273,000
Mr. Cesar Velasquez Purisima	183,000	–	–	–	–	–	–	183,000
Total	2,739,500	149,080	–	–	–	–	–	2,888,580

Notes:

(1) Save as disclosed below, all Directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.

(2) Includes non-cash benefits for housing, club and professional membership, medical insurance and company car.

(3) Mr. Mohamed Azman Yahya retired as an Independent Non-executive Director of the Company with effect from 30 May 2020.

(4) US$58,333 and US$50,000 which represented remuneration to Dr. Narongchai Akrasanee in respect of his services as Chairman of Advisory Board of AIA Thailand for the year ended 31 December 2020 and 2019 respectively are included in his fees stated above.

Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in each of the year ended 31 December 2020 and 2019 is presented in the table below.

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contributions	Other benefits[3]	Other payments[4]	Total
Year ended 31 December 2020	**–**	**5,367,242**	**9,502,800**	**15,162,153**	**303,157**	**112,203**	**10,892,303**	**41,339,858**
Year ended 31 December 2019	–	5,806,998	5,878,400	10,892,582	313,044	765,257	–	23,656,281

Notes:

(1) 2020 and 2019 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.

(2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the five highest-paid individuals based on the fair value at the respective grant dates.

(3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay. Other benefits for the year ended 31 December 2019 include relief of double taxation arrangement.

(4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Remuneration of five highest-paid individuals (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK$	Year ended 31 December 2020	Year ended 31 December 2019
23,500,001 to 24,000,000	**–**	1
25,000,001 to 25,500,000	**–**	1
26,500,001 to 27,000,000	**–**	1
27,500,001 to 28,000,000	**–**	1
28,500,001 to 29,000,000	**1**	–
30,500,001 to 31,000,000	**1**	–
35,000,001 to 35,500,000	**1**	–
82,000,001 to 82,500,000	**–**	1
87,500,001 to 88,000,000	**1**	–
138,000,001 to 138,500,000	**1**	–

Key management personnel remuneration

Key management personnel have been identified as the members of the Group's Executive Committee.

US$	Year ended 31 December 2020	Year ended 31 December 2019
Key management compensation and other expenses		
Salaries and other short-term employee benefits	**30,844,469**	23,633,256
Post-employment benefits	**1,118,468**	1,422,732
Share-based payments[1]	**28,808,491**	16,552,154
Termination benefits	**1,707,434**	618,081
Total	**62,478,862**	42,226,223

Note:

(1) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the key management personnel based on the fair value at the respective grant dates.

The emoluments of the key management personnel are within the following bands:

US$	Year ended 31 December 2020	Year ended 31 December 2019
Below 1,000,000	**1**	2
1,000,001 to 2,000,000	**–**	4
2,000,001 to 3,000,000	**6**	4
3,000,001 to 4,000,000	**4**	4
4,000,001 to 5,000,000	**1**	–
Over 10,000,000	**2**	1

42. RELATED PARTY TRANSACTIONS

Remuneration of Directors and key management personnel is disclosed in note 41.

43. COMMITMENTS AND CONTINGENCIES

Investment and capital commitments

US$m	As at 31 December 2020	As at 31 December 2019
Not later than one year	**2,504**	1,911
Later than one and not later than five years	**174**	8
Later than five years	**16**	–
Total	**2,694**	1,919

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

Contingencies

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies, claims and taxes. The Group believes that these matters are adequately provided for in these financial statements.

The Group operates in many jurisdictions across Asia and in certain of those jurisdictions, the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities, which can result in disputes arising. The Group has made provisions to cover the potential tax implications, based on management's judgement and best estimate in relation to the probability or likelihood of the potential outcomes, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US$479m at 31 December 2020 (2019: US$462m). The liabilities and related reinsurance assets, which totalled US$3m (2019: US$6m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

44. SUBSIDIARIES

The principal subsidiary companies which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 31 December 2020		As at 31 December 2019	
				Group's interest %	**NCI's interest %**	Group's interest %	NCI's interest %
AIA Company Limited[(1)]	Hong Kong	Insurance	2,596,049,861 ordinary shares of US$7,407,084,182 issued share capital	**100%**	**–**	100%	–
AIA International Limited	Bermuda	Insurance	3,000,000 ordinary shares of US$1.20 each	**100%**	**–**	100%	–
AIA Australia Limited	Australia	Insurance	2,025,462,500 ordinary shares of A$2,107,267,000 issued share capital	**100%**	**–**	100%	–
AIA Bhd.	Malaysia	Insurance	191,859,543 ordinary shares of RM810,000,000 issued share capital	**100%**	**–**	100%	–
AIA Singapore Private Limited	Singapore	Insurance	1,558,021,163 ordinary shares of S$1 each	**100%**	**–**	100%	–
PT. AIA Financial	Indonesia	Insurance	1,910,844,141 ordinary shares of Rp1,000 each	**100%**	**–**	100%	–
The Philippine American Life and General Insurance (PHILAM LIFE) Company	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	**100%**	**–**	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND3,224,420,000,000	**100%**	**–**	100%	–
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US$1 each	**90%**	**10%**	90%	10%
BPI-Philam Life Assurance (BPLAC) Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	**51%**	**49%**	51%	49%
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US$1 each	**100%**	**–**	100%	–
AIA Life Insurance Co. Ltd.	South Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	**100%**	**–**	100%	–
AIA New Zealand Limited	New Zealand	Insurance	246,543,729 ordinary shares of NZD856,310,811 issued share capital	**100%**	**–**	100%	–
The Colonial Mutual Life Assurance Society Limited[(3)]	Australia	Insurance	1,608,901,100 ordinary shares of A$897,901,100 issued share capital	**Note 3**	**Note 3**	Note 3	Note 3
AIA Life Insurance Company Limited	Mainland China	Insurance	Registered share capital of RMB3,777,399,440	**100%**	**–**	–	–

Notes:

(1) The Company's subsidiary.

(2) All of the above subsidiaries are audited by PricewaterhouseCoopers.

(3) The Group has not legally acquired the voting equity of this entity but has entered into a contractual joint cooperation agreement under which it exercises control over it with the exception of a stake in BoCommLife Insurance Company Limited. No non-controlling interest is recorded in relation to this subsidiary during the year ended 31 December 2020 and 2019.

All subsidiaries are unlisted.

45. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2021, a Committee appointed by the Board of Directors proposed a final dividend of 100.30 Hong Kong cents per share (2019: final dividend of 93.30 Hong Kong cents per share).

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US$m	As at 31 December 2020	As at 31 December 2019
Assets		
Investment in subsidiaries	**17,341**	17,476
Financial investments:		
At fair value through other comprehensive income		
Debt securities[(2)]	**9,871**	7,374
At fair value through profit or loss		
Debt securities	**37**	12
Equity securities	**227**	87
	10,135	7,473
Loans to/amounts due from subsidiaries	**1,904**	1,918
Other assets	**78**	235
Promissory notes from subsidiaries[(3)]	**1,844**	997
Cash and cash equivalents	**409**	160
Total assets	**31,711**	28,259
Liabilities		
Borrowings	**9,152**	6,351
Derivative financial instruments	**12**	27
Other liabilities	**92**	238
Total liabilities	**9,256**	6,616
Equity		
Share capital	**14,155**	14,129
Employee share-based trusts	**(155)**	(220)
Other reserves	**259**	260
Retained earnings	**7,360**	7,079
Amounts reflected in other comprehensive income	**836**	395
Total equity	**22,455**	21,643
Total liabilities and equity	**31,711**	28,259

Notes:

(1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.

(2) Includes United States Treasury securities of US$3,372m as at 31 December 2020 (2019: US$2,561m).

(3) The promissory notes from subsidiaries are repayable on demand.

Approved and authorised for issue by the Board of Directors on 12 March 2021.

47. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2020	**14,129**	**(220)**	**260**	**7,079**	**395**	**21,643**
Net profit	**–**	**–**	**–**	**2,278**	**–**	**2,278**
Fair value gains on debt securities at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**549**	**549**
Fair value gains on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	**–**	**–**	**–**	**–**	**(108)**	**(108)**
Dividends	**–**	**–**	**–**	**(1,997)**	**–**	**(1,997)**
Shares issued under share option scheme and agency share purchase plan	**26**	**–**	**–**	**–**	**–**	**26**
Share-based compensation	**–**	**–**	**80**	**–**	**–**	**80**
Purchase of shares held by employee share-based trusts	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Transfer of vested shares from employee share-based trusts	**–**	**81**	**(81)**	**–**	**–**	**–**
Balance at 31 December 2020	**14,155**	**(155)**	**259**	**7,360**	**836**	**22,455**

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2019	14,073	(258)	231	6,488	(79)	20,455
Net profit	–	–	–	2,552	–	2,552
Fair value gains on debt securities at fair value through other comprehensive income	–	–	–	–	303	303
Fair value losses on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	–	–	–	–	171	171
Dividends	–	–	–	(1,961)	–	(1,961)
Shares issued under share option scheme and agency share purchase plan	56	–	–	–	–	56
Share-based compensation	–	–	88	–	–	88
Purchase of shares held by employee share-based trusts	–	(21)	–	–	–	(21)
Transfer of vested shares from employee share-based trusts	–	59	(59)	–	–	–
Balance at 31 December 2019	14,129	(220)	260	7,079	395	21,643

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES

For the year ended 31 December 2020, the Group has revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios. Other participating business with distinct portfolios refer to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. Prior to this change in accounting policy, the Group recognised and measured the insurance contract liabilities for this business based on the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. With effect from 1 January 2020, and applied retrospectively, the Group now recognises and measures the insurance contract liabilities for this business based on the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance contract liability is recorded for the proportion of the net assets of this other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation. This approach is consistent with the existing accounting for insurance contract liabilities arising from participating business. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time; the current policyholder participation ratio applied for recognition and measurement of the insurance contract liabilities for Hong Kong ranged from 70% to 90%.

The Group believes that the new accounting policy is more relevant and no less reliable to the economic decision-making needs of users. It brings more consistency between assets and liabilities of the other participating business with distinct portfolios and more closely reflects its economic substance, thereby enhancing the understandability of the Group's performance.

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

The tables below show the quantitative effect of the adoption of the revised accounting policy on the consolidated financial statements.

(a) Consolidated Income Statement

US$m	Year ended 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	Year ended 31 December 2020 (As reported)
REVENUE			
Premiums and fee income	35,780	–	35,780
Premiums ceded to reinsurers	(2,452)	–	(2,452)
Net premiums and fee income	33,328	–	33,328
Investment return	16,707	–	16,707
Other operating revenue	324	–	324
Total revenue	50,359	–	50,359
EXPENSES			
Insurance and investment contract benefits	35,090	1,775	36,865
Insurance and investment contract benefits ceded	(2,126)	–	(2,126)
Net insurance and investment contract benefits	32,964	1,775	34,739
Commission and other acquisition expenses	4,402	–	4,402
Operating expenses	2,695	–	2,695
Finance costs	292	–	292
Other expenses	944	–	944
Total expenses	41,297	1,775	43,072
Profit/(losses) before share of losses from associates and joint ventures	9,062	(1,775)	7,287
Share of losses from associates and joint ventures	(17)	–	(17)
Profit/(losses) before tax	9,045	(1,775)	7,270
Income tax expense attributable to policyholders' returns	(171)	–	(171)
Profit/(losses) before tax attributable to shareholders' profits	8,874	(1,775)	7,099
Tax expense	(1,489)	(2)	(1,491)
Tax attributable to policyholders' returns	171	–	171
Tax expense attributable to shareholders' profits	(1,318)	(2)	(1,320)
Net profit/(losses)	7,556	(1,777)	5,779
Net profit/(losses) attributable to:			
Shareholders of AIA Group Limited	7,556	(1,777)	5,779
Non-controlling interests	–	–	–
EARNINGS PER SHARE (US$)			
Basic	0.63	(0.15)	0.48
Diluted	0.63	(0.15)	0.48

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(a) Consolidated Income Statement (continued)

US$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
REVENUE			
Premiums and fee income	34,777	–	34,777
Premiums ceded to reinsurers	(2,166)	–	(2,166)
Net premiums and fee income	32,611	–	32,611
Investment return	14,350	–	14,350
Other operating revenue	281	–	281
Total revenue	47,242	–	47,242
EXPENSES			
Insurance and investment contract benefits	33,400	668	34,068
Insurance and investment contract benefits ceded	(1,940)	–	(1,940)
Net insurance and investment contract benefits	31,460	668	32,128
Commission and other acquisition expenses	4,283	–	4,283
Operating expenses	2,468	–	2,468
Finance costs	283	–	283
Other expenses	845	–	845
Total expenses	39,339	668	40,007
Profit/(losses) before share of losses from associates and joint ventures	7,903	(668)	7,235
Share of losses from associates and joint ventures	(8)	–	(8)
Profit/(losses) before tax	7,895	(668)	7,227
Income tax expense attributable to policyholders' returns	(179)	–	(179)
Profit/(losses) before tax attributable to shareholders' profits	7,716	(668)	7,048
Tax expense	(1,208)	(1)	(1,209)
Tax attributable to policyholders' returns	179	–	179
Tax expense attributable to shareholders' profits	(1,029)	(1)	(1,030)
Net profit/(losses)	6,687	(669)	6,018
Net profit/(losses) attributable to:			
Shareholders of AIA Group Limited	6,648	(669)	5,979
Non-controlling interests	39	–	39
EARNINGS PER SHARE (US$)			
Basic	0.55	(0.05)	0.50
Diluted	0.55	(0.05)	0.50

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position

US$m	As at 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	As at 31 December 2020 (As reported)
ASSETS			
Intangible assets	2,634	–	2,634
Investments in associates and joint ventures	606	–	606
Property, plant and equipment	2,722	–	2,722
Investment property	4,639	–	4,639
Reinsurance assets	4,560	–	4,560
Deferred acquisition and origination costs	27,915	–	27,915
Financial investments:			
Loans and deposits	9,335	–	9,335
Available for sale			
Debt securities	165,106	–	165,106
At fair value through profit or loss			
Debt securities	36,775	–	36,775
Equity securities	59,182	–	59,182
Derivative financial instruments	1,069	–	1,069
	271,467	–	271,467
Deferred tax assets	23	–	23
Current tax recoverable	103	–	103
Other assets	5,833	–	5,833
Cash and cash equivalents	5,619	–	5,619
Total assets	326,121	–	326,121
LIABILITIES			
Insurance contract liabilities	215,454	7,617	223,071
Investment contract liabilities	12,881	–	12,881
Borrowings	8,559	–	8,559
Obligations under repurchase agreements	1,664	–	1,664
Derivative financial instruments	1,003	–	1,003
Provisions	230	–	230
Deferred tax liabilities	6,945	(43)	6,902
Current tax liabilities	346	–	346
Other liabilities	7,797	–	7,797
Total liabilities	254,879	7,574	262,453

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	As at 31 December 2020 (As reported)
EQUITY			
Share capital	14,155	–	14,155
Employee share-based trusts	(155)	–	(155)
Other reserves	(11,891)	–	(11,891)
Retained earnings	45,931	(1,227)	44,704
Fair value reserve	21,392	(6,222)	15,170
Foreign currency translation reserve	233	–	233
Property revaluation reserve	1,074	(47)	1,027
Others	35	(78)	(43)
Amounts reflected in other comprehensive income	22,734	(6,347)	16,387
Total equity attributable to:			
Shareholders of AIA Group Limited	70,774	(7,574)	63,200
Non-controlling interests	468	–	468
Total equity	71,242	(7,574)	63,668
Total liabilities and equity	326,121	–	326,121

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2019 (As adjusted)
ASSETS			
Intangible assets	2,520	–	2,520
Investments in associates and joint ventures	615	–	615
Property, plant and equipment	2,865	–	2,865
Investment property	4,834	–	4,834
Reinsurance assets	3,833	–	3,833
Deferred acquisition and origination costs	26,328	–	26,328
Financial investments:			
Loans and deposits	10,086	–	10,086
Available for sale			
Debt securities	138,852	–	138,852
At fair value through profit or loss			
Debt securities	33,132	–	33,132
Equity securities	50,322	–	50,322
Derivative financial instruments	971	–	971
	233,363	–	233,363
Deferred tax assets	23	–	23
Current tax recoverable	205	–	205
Other assets	5,605	–	5,605
Cash and cash equivalents	3,941	–	3,941
Total assets	284,132	–	284,132
LIABILITIES			
Insurance contract liabilities	189,597	2,584	192,181
Investment contract liabilities	12,273	–	12,273
Borrowings	5,757	–	5,757
Obligations under repurchase agreements	1,826	–	1,826
Derivative financial instruments	412	–	412
Provisions	225	–	225
Deferred tax liabilities	6,237	(23)	6,214
Current tax liabilities	432	–	432
Other liabilities	9,417	–	9,417
Total liabilities	226,176	2,561	228,737

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2019 (As adjusted)
EQUITY			
Share capital	14,129	–	14,129
Employee share-based trusts	(220)	–	(220)
Other reserves	(11,887)	–	(11,887)
Retained earnings	40,372	550	40,922
Fair value reserve	14,663	(2,994)	11,669
Foreign currency translation reserve	(698)	–	(698)
Property revaluation reserve	1,163	(90)	1,073
Others	(14)	(27)	(41)
Amounts reflected in other comprehensive income	15,114	(3,111)	12,003
Total equity attributable to:			
Shareholders of AIA Group Limited	57,508	(2,561)	54,947
Non-controlling interests	448	–	448
Total equity	57,956	(2,561)	55,395
Total liabilities and equity	284,132	–	284,132

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2018 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2018 (As adjusted)
ASSETS			
Intangible assets	1,970	–	1,970
Investments in associates and joint ventures	610	–	610
Property, plant and equipment	1,233	–	1,233
Investment property	4,794	–	4,794
Reinsurance assets	2,887	–	2,887
Deferred acquisition and origination costs	24,626	–	24,626
Financial investments:			
Loans and deposits	7,392	–	7,392
Available for sale			
Debt securities	112,485	–	112,485
At fair value through profit or loss			
Debt securities	27,736	–	27,736
Equity securities	38,099	–	38,099
Derivative financial instruments	430	–	430
	186,142	–	186,142
Deferred tax assets	26	–	26
Current tax recoverable	164	–	164
Other assets	4,903	–	4,903
Cash and cash equivalents	2,451	–	2,451
Total assets	229,806	–	229,806
LIABILITIES			
Insurance contract liabilities	164,764	(1,456)	163,308
Investment contract liabilities	7,885	–	7,885
Borrowings	4,954	–	4,954
Obligations under repurchase and securities lending agreements	1,683	–	1,683
Derivative financial instruments	243	–	243
Provisions	168	–	168
Deferred tax liabilities	4,187	6	4,193
Current tax liabilities	532	–	532
Other liabilities	5,984	–	5,984
Total liabilities	190,400	(1,450)	188,950

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2018 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2018 (As adjusted)
EQUITY			
Share capital	14,073	–	14,073
Employee share-based trusts	(258)	–	(258)
Other reserves	(11,910)	–	(11,910)
Retained earnings	35,661	1,219	36,880
Fair value reserve	2,211	247	2,458
Foreign currency translation reserve	(1,301)	–	(1,301)
Property revaluation reserve	538	(4)	534
Others	(8)	(12)	(20)
Amounts reflected in other comprehensive income	1,440	231	1,671
Total equity attributable to:			
Shareholders of AIA Group Limited	39,006	1,450	40,456
Non-controlling interests	400	–	400
Total equity	39,406	1,450	40,856
Total liabilities and equity	229,806	–	229,806

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

The tables below set out the impacts of the adoption of the revised accounting policy on operating profit/(losses).

(c) Operating profit

US$m	Year ended 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	Year ended 31 December 2020 (As reported)
Operating profit before tax	6,830	116	6,946
Tax on operating profit before tax	(957)	(3)	(960)
Operating profit after tax	5,873	113	5,986
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited	5,829	113	5,942
Non-controlling interests	44	–	44
Operating profit after tax per share (US cents)			
Basic	48.33	0.94	49.27
Diluted	48.25	0.94	49.19

US$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
Operating profit/(losses) before tax	6,816	(51)	6,765
Tax on operating profit/(losses) before tax	(1,030)	(1)	(1,031)
Operating profit/(losses) after tax	5,786	(52)	5,734
Operating profit/(losses) after tax attributable to:			
Shareholders of AIA Group Limited	5,741	(52)	5,689
Non-controlling interests	45	–	45
Operating profit/(losses) after tax per share (US cents)			
Basic	47.67	(0.43)	47.24
Diluted	47.56	(0.43)	47.13

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(c) Operating profit (continued)

Operating profit/(losses) after tax may be reconciled to net profit/(losses) as follows:

US$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
Operating profit/(losses) after tax	5,786	(52)	5,734
Non-operating items, net of related changes in insurance and investment contract liabilities and taxes:			
Short-term fluctuations in investment return related to equities and real estate	937	(632)	305
Reclassification of revaluation gains for property held for own use	(170)	17	(153)
Corporate transaction related costs	(85)	–	(85)
Implementation costs for new accounting standards	(39)	–	(39)
Other non-operating investment return and other items	258	(2)	256
Subtotal(1)	901	(617)	284
Net profit/(losses)	6,687	(669)	6,018
Operating profit/(losses) after tax attributable to:			
Shareholders of AIA Group Limited	5,741	(52)	5,689
Non-controlling interests	45	–	45
Net profit/(losses) attributable to:			
Shareholders of AIA Group Limited	6,648	(669)	5,979
Non-controlling interests	39	–	39

Note:

(1) The adjusted amount is net of tax of nil (As previously reported: US$1m). The gross adjusted amount before tax is US$284m (As previously reported: US$900m).

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The Supplementary Embedded Value Information (the "EV Information") of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 192 to 217, which comprises:

- the consolidated EV results as at and for the year ended 31 December 2020;
- the sensitivity analysis as at and for the year then ended; and
- a summary of significant methodology and assumptions and other explanatory notes.

Our opinion

In our opinion, the EV Information of the Group as at and for the year ended 31 December 2020 is prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the EV Information section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of Matter – Basis of Preparation

We draw attention to Sections 4 and 5 of the EV Information, which describe the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Other Matter

The Group has prepared a separate set of consolidated financial statements for the year ended 31 December 2020 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and International Financial Reporting Standards issued by the International Accounting Standards Board, on which we issued a separate auditor's report to the shareholders of the Company dated 12 March 2021.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the EV Information and our auditor's report thereon.

Our opinion on the EV Information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the EV Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the EV Information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

Responsibilities of Directors and Those Charged with Governance for the EV Information

The Directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information and for such internal control as the Directors determine is necessary to enable the preparation of the EV Information that is free from material misstatement, whether due to fraud or error.

In preparing the EV Information, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's EV Information reporting process.

Auditor's Responsibilities for the Audit of the EV Information

Our objectives are to obtain reasonable assurance about whether the EV Information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 this EV Information.

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

- Identify and assess the risks of material misstatement of the EV Information, 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 Group's internal control.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

Auditor's Responsibilities for the Audit of the EV Information (continued)

- Evaluate the appropriateness of the EV basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' 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 Group'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 EV Information 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 Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the EV Information of the entities or business activities within the Group to express an opinion on the EV Information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

PricewaterhouseCoopers

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

12 March 2021

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of the changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

1. HIGHLIGHTS

Embedded Value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB) for all entities other than Tata AIA Life Insurance Company Limited (Tata AIA Life). This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. For Tata AIA Life, the Group uses the Indian Embedded Value (IEV) methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India.

The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company, after allowing for taxes. Prior to 2020, the Group reflected the impact of withholding tax under Group Corporate Centre. Starting from 2020, the segment information has been enhanced to present withholding tax under the appropriate operating segment. More details on the EV results, methodology and assumptions are covered in later sections of this report.

Unless otherwise stated, the growth rates provided in the commentaries are shown on a constant exchange rate (CER) basis.

Summary of Key Metrics[(1)] (US$ millions)

	As at 31 December 2020	As at 31 December 2019	Change CER	Change AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	**67,185**	63,905	3%	5%
Embedded value (EV)	**65,247**	61,985	3%	5%
Adjusted net worth (ANW)	**28,503**	28,241	(1)%	1%
Value of in-force business (VIF)	**36,744**	33,744	7%	9%

	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
Value of new business (VONB)	**2,765**	4,154	(33)%	(33)%
Annualised new premiums (ANP)	**5,219**	6,585	(20)%	(21)%
VONB margin	**52.6%**	62.9%	(10.4) pps	(10.3) pps
EV operating profit	**7,243**	8,685	(17)%	(17)%
Operating return on EV (Operating ROEV)	**11.7%**	15.9%	(4.1) pps	(4.2) pps
Underlying free surplus generation (UFSG)	**5,843**	5,501	7%	6%

Note:

(1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

The EV as at 31 December 2020 is presented consistently with the segment information in the IFRS consolidated financial statements.

Summary of EV by Business Unit (US$ millions)

	As at 31 December 2020				
Business Unit	ANW[(2)]	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	7,735	17,319	2,159	15,160	**22,895**
AIA Thailand	3,008	5,145	1,096	4,049	**7,057**
AIA Singapore	2,984	4,416	814	3,602	**6,586**
AIA Malaysia	1,293	2,084	233	1,851	**3,144**
AIA China	3,439	8,409	4	8,405	**11,844**
Other Markets	5,983	5,018	1,561	3,457	**9,440**
Group Corporate Centre	11,472	–	–	–	**11,472**
Subtotal	35,914	42,391	5,867	36,524	**72,438**
Adjustment to reflect consolidated reserving and capital requirements[(3)]	(7,064)	3,115	1,596	1,519	**(5,545)**
After-tax value of unallocated Group Office expenses	–	(1,138)	–	(1,138)	**(1,138)**
Total (before non-controlling interests)	28,850	44,368	7,463	36,905	**65,755**
Non-controlling interests	(347)	(173)	(12)	(161)	**(508)**
Total	**28,503**	**44,195**	**7,451**	**36,744**	**65,247**

	As at 31 December 2019 (as adjusted)[(1)]				
Business Unit	ANW[(2)]	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	8,372	15,059	1,534	13,525	21,897
AIA Thailand	4,802	5,583	1,365	4,218	9,020
AIA Singapore	2,805	4,360	831	3,529	6,334
AIA Malaysia	1,211	1,946	215	1,731	2,942
AIA China	3,074	6,968	–	6,968	10,042
Other Markets	5,949	4,708	1,309	3,399	9,348
Group Corporate Centre	9,291	–	–	–	9,291
Subtotal	35,504	38,624	5,254	33,370	68,874
Adjustment to reflect consolidated reserving and capital requirements[(3)]	(6,905)	3,180	1,583	1,597	(5,308)
After-tax value of unallocated Group Office expenses	–	(1,067)	–	(1,067)	(1,067)
Total (before non-controlling interests)	28,599	40,737	6,837	33,900	62,499
Non-controlling interests	(358)	(164)	(8)	(156)	(514)
Total	28,241	40,573	6,829	33,744	61,985

Notes:

(1) In 2020, the Group enhanced the segment information to present withholding tax under the appropriate operating segment. The 2019 comparative information has been adjusted to conform to this presentation.

(2) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS consolidated financial statements.

(3) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

Derivation of the Consolidated ANW from IFRS Equity (US$ millions)

	As at 31 December 2020	As at 31 December 2019 (as adjusted)
IFRS equity attributable to shareholders of the Company	**63,200**	54,947
Elimination of IFRS deferred acquisition and origination costs assets	**(27,915)**	(26,328)
Difference between IFRS policy liabilities and local statutory policy liabilities	**(937)**	5,949
Difference between net IFRS policy liabilities and local statutory policy liabilities	**(28,852)**	(20,379)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	**(3)**	–
Elimination of intangible assets	**(2,634)**	(2,520)
Recognition of deferred tax impacts of the above adjustments	**3,735**	3,008
Recognition of non-controlling interests impacts of the above adjustments	**121**	90
ANW (Business Unit)	**35,567**	35,146
Adjustment to reflect consolidated reserving requirements, net of tax	**(7,064)**	(6,905)
ANW (Consolidated)	**28,503**	28,241

IFRS equity attributable to shareholders of the Company as at 31 December 2019 has been adjusted to reflect the change in accounting policy as per note 48 to the IFRS consolidated financial statements.

2.3 Breakdown of ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.6 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

Free Surplus and Required Capital for the Group (US$ millions)

	As at 31 December 2020		As at 31 December 2019	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	**24,093**	**13,473**	24,523	14,917
Required capital	**11,474**	**15,030**	10,623	13,324
ANW	**35,567**	**28,503**	35,146	28,241

The Company's subsidiaries, AIA Company Limited (AIA Co.) and AIA International Limited (AIA International), are both subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements. These regulatory reserving and capital requirements, and other consolidated reserving and capital requirements as determined by the Group, apply in addition to the relevant local requirements applicable to our Business Units.

2. EMBEDDED VALUE RESULTS (continued)

2.4 Earnings Profile

The tables below show how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the consolidated reserving and capital requirements.

Profile of Projected After-Tax Distributable Earnings for the Group's In-force Business (US$ millions)

	As at 31 December 2020	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	**21,452**	**17,845**
6 – 10 years	**19,489**	**10,980**
11 – 15 years	**22,452**	**8,615**
16 – 20 years	**20,070**	**5,356**
21 years and thereafter	**143,817**	**8,978**
Total	**227,280**	**51,774**

	As at 31 December 2019	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	20,000	16,641
6 – 10 years	16,759	9,383
11 – 15 years	18,398	7,029
16 – 20 years	18,724	4,963
21 years and thereafter	166,423	9,052
Total	240,304	47,068

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$51,774 million (2019: US$47,068 million) plus the free surplus of US$13,473 million (2019: US$14,917 million) shown in Section 2.3 of this report is equal to the EV of US$65,247 million (2019: US$61,985 million) shown in Section 2.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business

The VONB for the Group for the year ended 31 December 2020 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS consolidated financial statements. Section 4.1 of this report contains a list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 31 December 2020 was US$2,765 million, a decrease of US$1,389 million, or 33 per cent, from US$4,154 million for the year ended 31 December 2019.

Summary of VONB by Business Unit (US$ millions)

	Year ended 31 December 2020			Year ended 31 December 2019		
Business Unit	VONB before CoC	CoC	VONB after CoC	VONB before CoC	CoC	VONB after CoC
AIA Hong Kong	670	120	**550**	1,728	107	1,621
AIA Thailand	520	51	**469**	559	65	494
AIA Singapore	347	17	**330**	384	32	352
AIA Malaysia	239	17	**222**	276	18	258
AIA China	1,030	62	**968**	1,248	81	1,167
Other Markets	632	118	**514**	646	111	535
Total before unallocated Group Office expenses and non-controlling interests (Business Unit)	3,438	385	**3,053**	4,841	414	4,427
Adjustment to reflect consolidated reserving and capital requirements	(56)	47	**(103)**	(88)	(1)	(87)
Total before unallocated Group Office expenses and non-controlling interests (Consolidated)	3,382	432	**2,950**	4,753	413	4,340
After-tax value of unallocated Group Office expenses	(161)	–	**(161)**	(154)	–	(154)
Total before non-controlling interests (Consolidated)	3,221	432	**2,789**	4,599	413	4,186
Non-controlling interests	(25)	(1)	**(24)**	(32)	–	(32)
Total	**3,196**	**431**	**2,765**	4,567	413	4,154

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the year ended 31 December 2020.

The VONB margin and PVNBP margin are defined as VONB, gross of non-controlling interests and excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB used in the margin calculation is gross of non-controlling interests and excludes pension business to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the year ended 31 December 2020 was 52.6 per cent compared with 62.9 per cent for the year ended 31 December 2019. The Group PVNBP margin for the year ended 31 December 2020 was 9 per cent compared with 11 per cent for the year ended 31 December 2019.

Breakdown of VONB, ANP, VONB Margin and PVNBP Margin[1] (US$ millions)

	VONB after CoC[1]	ANP[1]	VONB Margin[1]	PVNBP Margin[1]
Year				
Values for 2020				
Twelve months ended 31 December 2020	**2,765**	**5,219**	**52.6%**	**9%**
Values for 2019				
Twelve months ended 31 December 2019[1]	4,154	6,585	62.9%	11%
Quarter				
Values for 2020				
Three months ended 31 March 2020	**841**	**1,483**	**56.6%**	**10%**
Three months ended 30 June 2020	**569**	**1,096**	**51.4%**	**9%**
Three months ended 30 September 2020	**706**	**1,359**	**51.6%**	**9%**
Three months ended 31 December 2020	**649**	**1,281**	**50.2%**	**9%**
Values for 2019				
Three months ended 31 March 2019[1]	1,169	1,827	63.6%	11%
Three months ended 30 June 2019[1]	1,106	1,616	67.9%	11%
Three months ended 30 September 2019[1]	980	1,444	67.0%	12%
Three months ended 31 December 2019[1]	899	1,698	54.1%	9%

Note:

(1) The VONB, ANP, VONB margin and PVNBP margin for the three-month periods up to 30 September 2019 are presented without the Group's share of Tata AIA Life and before deducting the amount attributable to non-controlling interests. The VONB, ANP, VONB margin and PVNBP margin in the three months and the twelve months ended 31 December 2019 are presented including the Group's share of Tata AIA Life for 2019 full year and, where relevant, after deducting the amount attributable to non-controlling interests for 2019 full year.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the VONB (excluding pension business), ANP, and VONB margin by Business Unit.

Summary of VONB Excluding Pension, ANP and VONB Margin by Business Unit (US$ millions)

	Year ended 31 December 2020			Year ended 31 December 2019		
Business Unit	VONB Excluding Pension	ANP	VONB Margin	VONB Excluding Pension	ANP	VONB Margin
AIA Hong Kong	509	1,138	**44.7%**	1,583	2,393	66.1%
AIA Thailand	469	661	**71.0%**	494	729	67.7%
AIA Singapore	330	520	**63.4%**	352	538	65.5%
AIA Malaysia	221	369	**59.9%**	256	406	63.1%
AIA China	968	1,197	**80.9%**	1,167	1,248	93.5%
Other Markets	512	1,334	**38.4%**	533	1,271	41.9%
Total before unallocated Group Office expenses (Business Unit)	3,009	5,219	**57.7%**	4,385	6,585	66.6%
Adjustment to reflect consolidated reserving and capital requirements	(102)	–		(87)	–	
Total before unallocated Group Office expenses (Consolidated)	2,907	5,219	**55.7%**	4,298	6,585	65.3%
After-tax value of unallocated Group Office expenses	(161)	–		(154)	–	
Total	**2,746**	**5,219**	**52.6%**	4,144	6,585	62.9%

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of EV Movement (US$ millions)

	Year ended 31 December 2020			Year ended 31 December 2019			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
Opening EV	28,241	33,744	**61,985**	24,637	29,880	54,517	14%
Purchase price[2]	(18)	–	**(18)**	(1,454)	–	(1,454)	n/m[1]
Acquired EV[3]	–	–	**–**	790	417	1,207	n/m
Effect of acquisition	(18)	–	**(18)**	(664)	417	(247)	n/m
Value of new business	(726)	3,491	**2,765**	(702)	4,856	4,154	(33)%
Expected return on EV	5,591	(1,415)	**4,176**	5,072	(967)	4,105	2%
Operating experience variances	538	(5)	**533**	394	206	600	n/m
Operating assumption changes	(31)	47	**16**	(18)	52	34	n/m
Finance costs	(247)	–	**(247)**	(208)	–	(208)	19%
EV operating profit	5,125	2,118	**7,243**	4,538	4,147	8,685	(17)%
Investment return variances	(3,446)	1,578	**(1,868)**	(942)	1,459	517	n/m
Effect of changes in economic assumptions	35	(1,048)	**(1,013)**	65	(319)	(254)	n/m
Other non-operating variances	160	(490)	**(330)**	2,491	(2,569)	(78)	n/m
Total EV profit	1,874	2,158	**4,032**	6,152	2,718	8,870	n/m
Dividends	(1,997)	–	**(1,997)**	(1,961)	–	(1,961)	2%
Other capital movements	81	–	**81**	136	–	136	(40)%
Effect of changes in exchange rates	322	842	**1,164**	(59)	729	670	n/m
Closing EV	**28,503**	**36,744**	**65,247**	28,241	33,744	61,985	5%

Notes:

(1) Not meaningful (n/m).

(2) The purchase price in 2020 refers to the purchase price adjustments for the alternative arrangements with Commonwealth Bank of Australia (CBA) in relation to The Colonial Mutual Life Assurance Society Limited (CMLA) as per note 5 to the IFRS consolidated financial statements.

(3) The acquired EV for CMLA is calculated as at 1 November 2019 net of the related reinsurance agreement.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV grew to US$65,247 million at 31 December 2020, an increase of 3 per cent over the year from US$61,985 million at 31 December 2019.

EV operating profit was US$7,243 million (2019: US$8,685 million), reflecting VONB of US$2,765 million (2019: US$4,154 million), an expected return on EV of US$4,176 million (2019: US$4,105 million), operating experience variances and operating assumption changes which were again positive and amounted to US$549 million (2019: US$634 million), net of finance costs of US$247 million (2019: US$208 million).

The VONB for the year ended 31 December 2020 is calculated at the point of sale for business written during the year. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB up to 31 December 2020. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the year and that expected based on the operating assumptions.

The operating experience variances, net of tax, increased EV by US$533 million (2019: increased by US$600 million), driven by:

- Expense variances of US$6 million (2019: US$28 million), partially offset by development costs of US$5 million (2019: US$24 million);
- Mortality and morbidity claims variances of US$384 million (2019: US$212 million); and
- Persistency and other variances of US$148 million (2019: US$384 million) including persistency variances of US$(49) million (2019: US$77 million) and other variances arising from management actions of US$197 million (2019: US$307 million).

The effect of changes in operating assumptions during the year was an increase in EV of US$16 million (2019: increase in EV of US$34 million).

The EV profit of US$4,032 million (2019: US$8,870 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances, reflecting short-term fluctuations in investment returns, arise from the impact of differences between the actual investment returns in the year and the expected investment returns. This amounted to a decrease in EV of US$1,868 million (2019: an increase in EV of US$517 million) driven by the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns.

The effect of changes in economic assumptions was a decrease in EV of US$1,013 million (2019: a decrease in EV of US$254 million).

Other non-operating variances reduced EV by US$330 million (2019: reduced EV by US$78 million) which comprised negative impacts from the application of withholding tax and other impacts due to the subsidiarisation of AIA China as described in Section 4.1, provisions for uncertain tax positions as disclosed in note 12 to the IFRS consolidated financial statements, and other items including modelling-related enhancements and certain non-operating expenses. These were partially offset by positive impacts from the subsidiarisation of New Zealand, the implementation of Risk-Based Capital 2 in Singapore, and adjustments to capital requirements on consolidation.

The Group paid total shareholder dividends of US$1,997 million (2019: US$1,961 million). Other capital movements increased EV by US$81 million (2019: increased EV by US$136 million).

Foreign exchange movements increased EV by US$1,164 million (2019: increased EV by US$670 million).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

Operating ROEV (US$ millions)

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 11.7 per cent (2019: 15.9 per cent) for the year ended 31 December 2020.

	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
EV operating profit	**7,243**	8,685	(17)%	(17)%
Opening EV	**61,985**	54,517	12%	14%
Operating ROEV	**11.7%**	15.9%	(4.1) pps	(4.2) pps

2.7 EV Equity

The EV Equity grew to US$67,185 million at 31 December 2020, an increase of 3 per cent from US$63,905 million as at 31 December 2019.

Derivation of EV Equity from EV (US$ millions)

	As at 31 December 2020	As at 31 December 2019	Change CER	Change AER
EV	**65,247**	61,985	3%	5%
Goodwill and other intangible assets(1)	**1,938**	1,920	(3)%	1%
EV Equity	**67,185**	63,905	3%	5%

Note:

(1) Consistent with the IFRS consolidated financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

2. EMBEDDED VALUE RESULTS (continued)

2.8 Free Surplus Generation

Free Surplus Generation (US$ millions)

	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
Opening free surplus	**14,917**	14,751	1%	1%
Effect of acquisition[1]	**(18)**	(1,045)	n/m	n/m[2]
Underlying free surplus generation	**5,843**	5,501	7%	6%
Free surplus used to fund new business	**(1,428)**	(1,477)	(2)%	(3)%
Investment return variances and other items	**(3,505)**	(588)	n/m	n/m
Unallocated Group Office expenses	**(173)**	(192)	(10)%	(10)%
Dividends	**(1,997)**	(1,961)	2%	2%
Finance costs and other capital movements	**(166)**	(72)	n/m	n/m
Closing free surplus	**13,473**	14,917	(11)%	(10)%

Notes:

(1) The effect of acquisition in 2020 refers to the purchase price adjustments for the alternative arrangements with CBA in relation to CMLA as per note 5 to the IFRS consolidated financial statements.

(2) Not meaningful (n/m).

Free surplus decreased by US$1,444 million (2019: increased by US$166 million) to US$13,473 million (2019: US$14,917 million) as of 31 December 2020.

Underlying free surplus generation, as defined in Section 4.8, increased by 7 per cent, to US$5,843 million (2019: US$5,501 million). Investment in writing new business reduced free surplus by US$1,428 million (2019: US$1,477 million).

Investment return variances and other items amounted to US$(3,505) million (2019: US$(588) million), reflecting the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns and other items, including the free surplus impacts arising from other non-operating variances as described in Section 2.6.

Unallocated Group Office expenses amounted to US$173 million (2019: US$192 million) in 2020.

3. SENSITIVITY ANALYSIS

The EV as at 31 December 2020 and the VONB for the year ended 31 December 2020 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 31 December 2020 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 December 2020); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 December 2020).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 December 2020 and the values of debt instruments and derivatives held at 31 December 2020 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 31 December 2020 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 31 December 2020 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

3. SENSITIVITY ANALYSIS (continued)

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV (US$ millions)

	As at 31 December 2020		As at 31 December 2019	
Scenario	EV	Ratio	EV	Ratio
Central value	**65,247**		61,985	
Impact of:				
200 bps increase in risk discount rates	**(9,098)**	**(13.9)%**	(8,500)	(13.7)%
200 bps decrease in risk discount rates	**14,409**	**22.1%**	13,696	22.1%
10% increase in equity prices	**1,099**	**1.7%**	968	1.6%
10% decrease in equity prices	**(1,095)**	**(1.7)%**	(967)	(1.6)%
50 bps increase in interest rates	**652**	**1.0%**	719	1.2%
50 bps decrease in interest rates	**(1,294)**	**(2.0)%**	(797)	(1.3)%
5% appreciation in the presentation currency	**(1,906)**	**(2.9)%**	(1,837)	(3.0)%
5% depreciation in the presentation currency	**1,906**	**2.9%**	1,837	3.0%
10% increase in lapse/discontinuance rates	**(891)**	**(1.4)%**	(999)	(1.6)%
10% decrease in lapse/discontinuance rates	**1,049**	**1.6%**	1,087	1.8%
10% increase in mortality/morbidity rates	**(4,556)**	**(7.0)%**	(4,627)	(7.5)%
10% decrease in mortality/morbidity rates	**4,665**	**7.1%**	4,540	7.3%
10% decrease in maintenance expenses	**882**	**1.4%**	699	1.1%
Expense inflation set to 0%	**1,063**	**1.6%**	868	1.4%

Sensitivity of VONB (US$ millions)

	Year ended 31 December 2020		Year ended 31 December 2019	
Scenario	VONB	Ratio	VONB	Ratio
Central value	**2,765**		4,154	
Impact of:				
200 bps increase in risk discount rates	**(655)**	**(23.7)%**	(956)	(23.0)%
200 bps decrease in risk discount rates	**963**	**34.8%**	1,527	36.8%
50 bps increase in interest rates	**193**	**7.0%**	151	3.6%
50 bps decrease in interest rates	**(298)**	**(10.8)%**	(207)	(5.0)%
5% appreciation in the presentation currency	**(116)**	**(4.2)%**	(129)	(3.1)%
5% depreciation in the presentation currency	**116**	**4.2%**	129	3.1%
10% increase in lapse/discontinuance rates	**(176)**	**(6.4)%**	(209)	(5.0)%
10% decrease in lapse/discontinuance rates	**182**	**6.6%**	224	5.4%
10% increase in mortality/morbidity rates	**(357)**	**(12.9)%**	(362)	(8.7)%
10% decrease in mortality/morbidity rates	**337**	**12.2%**	348	8.4%
10% decrease in maintenance expenses	**89**	**3.2%**	97	2.3%
Expense inflation set to 0%	**54**	**2.0%**	61	1.5%

4. METHODOLOGY

4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Co., a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International, a company incorporated in Bermuda and an indirect subsidiary of the Company. Furthermore, AIA Co. has branches located in Thailand and AIA International has branches located in Hong Kong, Macau and Taiwan.

The following is a list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co., and the business acquired by the Group from CBA via a contractual joint cooperation agreement (CMLA), and AIA Sovereign Limited, a subsidiary of AIA International;
- AIA Cambodia refers to AIA (Cambodia) Life Insurance Plc., a subsidiary of AIA International;
- AIA China refers to AIA Life Insurance Company Limited, a subsidiary of AIA Co.(1);
- AIA Hong Kong refers to the total of the following three entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong and Macau business written by AIA Co.; and
  - AIA Pension and Trustee Co. Ltd., a subsidiary of AIA Co.;
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to AIA Life Insurance Co. Ltd., a subsidiary of AIA International;
- AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co. and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Bhd., and AIA General Bhd.;
- AIA Myanmar refers to AIA Myanmar Life Insurance Co. Ltd., a subsidiary of AIA Co.;
- AIA Philippines refers to The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance (BPLAC) Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and its Brunei branch;
- AIA Sri Lanka refers to AIA Insurance Lanka Limited, a subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.;
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International; and
- Tata AIA Life refers to Tata AIA Life Insurance Company Limited, an associate 49 per cent owned by AIA International.

Note:

(1) On 9 July 2020, AIA Life Insurance Company Limited was incorporated in Shanghai, following the approval from the China Banking and Insurance Regulatory Commission (CBIRC) to convert the existing Shanghai branch of AIA Co. to a wholly-owned subsidiary. Subsequently, the conversion process was completed on 1 October 2020. After the conversion, any future remittances from this new subsidiary to the Group are subject to withholding tax at the applicable rate in Mainland China (currently set at 5%). In addition, the new subsidiary is no longer subject to the Hong Kong statutory minimum solvency margin requirement. The impact of withholding tax on future remittances has been reflected in the EV and VONB since the date of incorporation, while the impact due to the change in capital requirement has been reflected in the EV and VONB since the completion of the conversion.

Results are presented consistently with the segment information in the IFRS consolidated financial statements. The summary of the EV of the Group by Business Unit in this report also includes the ANW for the "Group Corporate Centre" segment, which is derived from the IFRS equity for this segment plus mark-to-market adjustments less the value of intangible assets. In the presentation of EV and VONB, the present value of withholding tax payable on future remittances from local business units is presented under the appropriate operating segment.

4. METHODOLOGY (continued)

4.2 Embedded Value and Value of New Business

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB for all entities other than Tata AIA Life. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the Group is calculated based on assumptions applicable at the point of sale, after allowing for any acquisition expense overruns in excess of the relevant expense assumptions.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed as per note 23 to the Group's IFRS consolidated financial statements as at the valuation date.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company.

A deduction has been made from the EV and VONB for the present value of future after-tax unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated to the Business Units. These unallocated Group Office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India. The EV and VONB reported for Tata AIA Life are reported on a one-quarter-lag basis.

4. METHODOLOGY (continued)

4.3 Definition of New Business

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group renewable business including group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds the prior year's premiums. For individually significant group cases, the VONB is calculated over each premium rate guarantee period entered upon contract inception or renewal.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For pension business, sales of new contracts during the period and any new contributions, including assets transferred in, are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using annualised new premiums (ANP), which is an internal measure of new business sales.

4.4 Consolidation of Branches and Subsidiaries of AIA Co. and AIA International

The Group's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities and subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the BMA reserving and capital requirements. AIA operates in a number of territories as branches and subsidiaries of these entities. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

The EV and VONB results for the Group shown in Section 2 of this report have been adjusted to reflect the consolidated reserving and capital requirements. This approach was taken to reflect the distribution of profits from AIA Co. and AIA International after allowing for the Hong Kong, BMA, and local regulatory requirements, and other reserving and capital requirements as determined by the Group. The EV and VONB for each Business Unit reflect the local reserving and capital requirements, as discussed in Section 4.6 of this report, before a Group-level adjustment to reflect the consolidated reserving and capital requirements.

4.5 Valuation of Future Statutory Losses

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. There are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the consolidated reserving and capital requirements have the effect of reducing the level of any future projected statutory losses. Based on the assumptions described in Section 5 of this report, and allowing for the consolidated statutory reserving and capital requirements, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4. METHODOLOGY (continued)

4.6 Capital Requirements

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of local capital requirement for each Business Unit are set out in the table below:

Business Unit	Capital requirements
AIA Australia	
• Australia	100% of regulatory capital adequacy requirement
• New Zealand	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	Higher of 135% of capital adequacy requirement and 80% of Tier 1 capital requirement under the regulatory Risk-Based Capital framework
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement(1)
AIA Vietnam	100% of required minimum solvency margin
Tata AIA Life	175% of required minimum solvency margin

Note:

(1) The Capital Requirement ratio assumed in the EV calculation is 120% up to year-end of 2021, and 140% thereafter, in line with the regulatory requirement under Thailand RBC 2.

Capital Requirements on Consolidation

The Group has an undertaking to the Hong Kong Insurance Authority (HKIA) to maintain required capital not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of AIA Hong Kong and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong.

AIA International and its subsidiaries hold required capital of no less than 120% of the BMA regulatory capital requirements.

As described in Section 4.1, the existing Shanghai branch of AIA Co. was converted to a wholly-owned subsidiary on 1 October 2020. After the conversion, AIA China is no longer subject to the Hong Kong statutory minimum solvency margin requirement.

In addition to the above, the reserving and capital requirements for the purpose of consolidation allow for the local regulatory requirements outlined above and other reserving and capital requirements as determined by the Group.

4. METHODOLOGY (continued)

4.7 Foreign Exchange

The EV as at 31 December 2020 and 31 December 2019 have been translated into US dollars using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US dollars using the corresponding average exchange rates for each quarter. The other components of the EV profit shown in the analysis of EV movement have been translated using average exchange rates for the period.

Change on actual exchange rates (AER) is calculated based on the translated figures as described above. Change on constant exchange rates (CER) is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for EV as at the end of the current year and as at the end of the prior year, which are translated using the CER.

4.8 Underlying Free Surplus Generation

The free surplus is defined as the ANW in excess of the required capital after reflecting consolidated reserving and capital requirements. The underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items, and before free surplus used to fund new business, unallocated Group Office expenses, finance costs, investment return variances and other non-operating items. The underlying free surplus generation is also calculated after reflecting consolidated reserving and capital requirements.

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 31 December 2020 and the VONB for the year ended 31 December 2020 and highlights certain differences in assumptions between the EV as at 31 December 2019 and the EV as at 31 December 2020.

5.2 Economic Assumptions

Investment Returns

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve. Therefore, the risk discount rate and long-term investment returns are not provided for Tata AIA Life.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk. For 2020 and prior, the risk margins assumed in the VONB calculations are equal to those assumed in the EV calculations as at the beginning of the reporting period. Starting from 2021, the risk margins assumed in the VONB calculations will be determined at a product level to better reflect the risk associated with the mix of products sold during the reporting period. If product level risk margins were applied in 2020, the impact on the 2020 reported VONB for the Group overall would be immaterial.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

	Current market 10-year government bond yields referenced in EV calculations (%)	
Business Unit	**As at 31 December 2020**	As at 31 December 2019
AIA Australia		
• Australia	**0.97**	1.37
• New Zealand	**0.99**	1.65
AIA China	**3.15**	3.14
AIA Hong Kong[1]	**0.91**	1.92
AIA Indonesia	**5.89**	7.06
AIA Korea	**1.72**	1.67
AIA Malaysia	**2.65**	3.31
AIA Philippines	**3.00**	4.46
AIA Singapore	**0.84**	1.74
AIA Sri Lanka	**7.55**	10.07
AIA Taiwan	**0.32**	0.67
AIA Thailand	**1.28**	1.49
AIA Vietnam	**2.60**	3.56

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that the VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

	Risk discount rates assumed in EV calculations (%)			Long-term investment returns assumed in EV calculations (%)					
				10-year government bonds			Local equities		
Business Unit	**As at 31 Dec 2020**	**As at 30 Jun 2020 (Unaudited)**	As at 31 Dec 2019	**As at 31 Dec 2020**	**As at 30 Jun 2020 (Unaudited)**	As at 31 Dec 2019	**As at 31 Dec 2020**	**As at 30 Jun 2020 (Unaudited)**	As at 31 Dec 2019
AIA Australia									
• Australia	**6.45**	6.45	6.45	**2.30**	2.30	2.30	**6.60**	6.60	6.60
• New Zealand	**6.55**	6.85	6.85	**2.30**	2.60	2.60	**6.80**	7.10	7.10
AIA China	**9.75**	9.75	9.75	**3.70**	3.70	3.70	**9.30**	9.30	9.30
AIA Hong Kong(1)	**7.00**	7.00	7.20	**2.20**	2.20	2.70	**7.00**	7.00	7.50
AIA Indonesia	**13.00**	13.00	13.00	**7.50**	7.50	7.50	**12.00**	12.00	12.00
AIA Korea	**8.10**	8.10	8.10	**2.20**	2.20	2.20	**6.50**	6.50	6.50
AIA Malaysia	**8.55**	8.55	8.55	**4.00**	4.00	4.00	**8.60**	8.60	8.60
AIA Philippines	**11.80**	11.80	11.80	**5.30**	5.30	5.30	**10.50**	10.50	10.50
AIA Singapore	**6.60**	6.60	6.90	**2.20**	2.20	2.50	**6.70**	6.70	7.00
AIA Sri Lanka	**15.70**	15.70	15.70	**10.00**	10.00	10.00	**12.00**	12.00	12.00
AIA Taiwan	**7.25**	7.55	7.55	**1.00**	1.30	1.30	**5.60**	5.90	5.90
AIA Thailand	**7.80**	7.90	7.90	**2.70**	2.70	2.70	**7.70**	7.70	7.70
AIA Vietnam	**9.80**	9.80	10.80	**4.00**	4.00	5.00	**9.30**	9.30	10.30

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.3 Persistency

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

Assumptions have been developed by each of the Business Units based on their recent historical experience and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

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

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

5.4 Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

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

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

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

Group Office Expenses

Group Office expense assumptions have been set, after excluding non-operating expenses, based on actual acquisition and maintenance expenses in the year ended 31 December 2020. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

5. ASSUMPTIONS (continued)

5.5 Expense Inflation

The expected long-term expense inflation rates used by Business Units are set out below:

Expense Inflation Assumptions by Business Unit (%)

Business Unit	As at 31 December 2020	As at 31 December 2019
AIA Australia		
• Australia	**2.05**	2.05
• New Zealand	**2.00**	2.00
AIA China	**2.00**	2.00
AIA Hong Kong	**2.00**	2.00
AIA Indonesia	**3.50**	3.50
AIA Korea	**3.50**	3.50
AIA Malaysia	**3.00**	3.00
AIA Philippines	**3.50**	3.50
AIA Singapore	**2.00**	2.00
AIA Sri Lanka	**6.50**	6.50
AIA Taiwan	**1.20**	1.20
AIA Thailand	**2.00**	2.00
AIA Vietnam	**4.00**	4.00
Tata AIA Life(1)	**5.60**	7.25

Note:

(1) For Tata AIA Life, in accordance with the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, the inflation assumption is derived by applying a spread to the reference interest rate.

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5. ASSUMPTIONS (continued)

5.6 Mortality

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Group.

For annuity products that are exposed to longevity risk, an allowance has been made for expected future improvements in mortality; otherwise no allowance has been made for mortality improvements.

5.7 Morbidity

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

5.8 Reinsurance

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in-force as at the valuation date and the recent historical and expected future experience.

5.9 Policyholder Dividends, Profit Sharing and Interest Crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's expectation of future policies, strategies and operations consistent with the investment return assumptions used in the EV results.

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

5. ASSUMPTIONS (continued)

5.10 Taxation

The EV and VONB presented in this report are net of tax based on current taxation legislation. The projected corporate income tax payable in any year allows for the benefits arising from any tax loss carried forward where relevant. Where applicable, tax payable on investment income has been reflected in the projected investment returns. Any withholding tax payable on future remittances from local business units are also reflected under the appropriate operating segment.

The local corporate income tax rates used by each Business Unit are set out below:

Local Corporate Income Tax Rates by Business Unit (%)

Business Unit	As at 31 December 2020	As at 31 December 2019
AIA Australia		
• Australia	**30.0**	30.0
• New Zealand	**28.0**	28.0
AIA China	**25.0**	25.0
AIA Hong Kong	**16.5**	16.5
AIA Indonesia(1)	**22.0**	25.0
AIA Korea(2)	**27.5**	27.5
AIA Malaysia	**24.0**	24.0
AIA Philippines	**30.0**	30.0
AIA Singapore	**17.0**	17.0
AIA Sri Lanka	**28.0**	28.0
AIA Taiwan	**20.0**	20.0
AIA Thailand	**20.0**	20.0
AIA Vietnam	**20.0**	20.0
Tata AIA Life	**14.6**	14.6

Notes:

(1) During the reporting period, a change in corporate income tax rate has been enacted in Indonesia from 25% to 22% for fiscal years 2020 and 2021 and to 20% from fiscal year 2022 onwards.

(2) From fiscal years 2019 to 2022 (extended from 2020 according to the latest tax regulation), AIA Korea is subject to an assumed corporate income tax of 27.5%, which includes an Accumulated Earnings Tax. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2023.

5. ASSUMPTIONS (continued)

5.11 Statutory Valuation Bases

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

5.12 Product Charges

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

6. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2021, a Committee appointed by the Board of Directors proposed a final dividend of 100.30 Hong Kong cents per share (2019: final dividend of 93.30 Hong Kong cents per share).

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2020, including the accounting principles and practices adopted by the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2020, with the exception of Code Provision F.1.3, the Company had applied the principles and complied with all applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Code Provision F.1.3 provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Group Company Secretary reports to the Group General Counsel, who is ultimately accountable for the company secretarial function of the Company and who in turn reports directly to the Group Chief Executive.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the purchase of 1,552,886 shares of the Company under the 2011 ESPP and the 2020 ESPP at a total consideration of approximately US$15 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020. These purchases were made by the trustees of the relevant share scheme/plan of the Company on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant scheme/plan and therefore have not been cancelled. Please refer to note 40 to the financial statements for details.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the year ended 31 December 2020 are set out in note 45 to the financial statements.

PUBLICATION OF CERTAIN FINANCIAL AND OTHER DATA PURSUANT TO LOCAL REGULATORY REQUIREMENTS

The Company and its subsidiaries or their respective branches are subject to local regulatory oversight in each of the countries or jurisdictions in which they operate. In a number of these jurisdictions, local insurance and other regulations require the publication of certain financial and other data primarily for policyholders' information and prudential supervisory purposes. Such local statutory data is often produced pursuant to regulations that are not designed with the protection or requirements of public shareholders as a primary objective.

The Company uses HKFRS and IFRS to prepare its consolidated financial information. The local statutory data may be prepared on bases different from HKFRS and IFRS and may be substantially different from the Company's HKFRS and IFRS financial information.

Accordingly, our shareholders and potential investors are advised that the local statutory data should not be relied on for an assessment of the Company's financial performance.

FINAL DIVIDEND

The Board has recommended an increase of 7.5 per cent in the payment of a final dividend to 100.30 Hong Kong cents per share for the year ended 31 December 2020 (2019: 93.30 Hong Kong cents per share), consistent with AIA's established prudent, sustainable and progressive dividend policy.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Thursday, 10 June 2021 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 26 May 2021, being the record date for determining the entitlements to the final dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 14 May 2021 to Thursday, 20 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 13 May 2021.

In order to qualify for the entitlement of the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 26 May 2021.

ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. (Hong Kong time) on Thursday, 20 May 2021 at the Grand Ballroom, Lower Level I, Kowloon Shangri-La, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. Details of the business to be transacted at the AGM are set out in the Company's circular to be issued to the shareholders of the Company for the AGM.

Details of voting results at the AGM can be found on the websites of both the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and the Company at www.aia.com on Thursday, 20 May 2021 after the AGM.

FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

When used in this document, the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions, as they relate to the Group or the Group's management, are intended to identify forward-looking statements. These forward-looking statements reflect the Group's views as of the date hereof with respect to future events and are not a guarantee of future performance or developments. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including any changes in the laws, rules and regulations relating to any aspects of the Group's business operations, general economic, market and business conditions, including capital market developments, changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the actions and developments of the Group's competitors and the effects of competition in the insurance industry on the demand for, and price of, the Group's products and services, various business opportunities that the Group may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, the Group's ability to identify, measure, monitor and control risks in the Group's business, including its ability to manage and adapt its overall risk profile and risk management practices, its ability to properly price its products and services and establish reserves for future policy benefits and claims, seasonal fluctuations and factors beyond the Group's control. Subject to the requirements of the Listing Rules, the Group does not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, forward-looking events and circumstances discussed in this document might not occur in the way the Group expects, or at all. Accordingly, you should not place reliance on any forward-looking information or statements. All forward-looking statements in this document are qualified by reference to the cautionary statements set forth in this section.

By Order of the Board

Lee Yuan Siong

Executive Director,

Group Chief Executive and President

Hong Kong, 12 March 2021

As at the date of this announcement, the Board comprises:

Independent Non-executive Chairman and Independent Non-executive Director:
Mr. Edmund Sze-Wing TSE

Executive Director, Group Chief Executive and President:
Mr. LEE Yuan Siong

Independent Non-executive Directors:
Mr. Jack Chak-Kwong SO, Mr. Chung-Kong CHOW, Mr. John Barrie HARRISON, Mr. George Yong-Boon YEO, Professor Lawrence Juen-Yee LAU, Ms. Swee-Lian TEO, Dr. Narongchai AKRASANEE and Mr. Cesar Velasquez PURISIMA

2010 RSU Scheme	Restricted Share Unit Scheme of the Company adopted on 28 September 2010 (as amended) under which the Company granted restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It was terminated with effect from 31 July 2020 prior to the adoption of the 2020 RSU Scheme.
2010 SO Scheme	Share Option Scheme of the Company adopted on 28 September 2010 (as amended), under which the Company granted share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It was terminated with effect from 29 May 2020 upon the adoption of the 2020 SO Scheme.
2011 ESPP	Employee Share Purchase Plan of the Company adopted on 25 July 2011 (as amended), a voluntary share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees. It was terminated with effect from 31 October 2020 (being the last day of the 2019/2020 plan year).
2012 ASPP	Agency Share Purchase Plan of the Company adopted on 23 February 2012, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents. It will be terminated with effect from 31 March 2021 (being the last day of the 2020/2021 plan year).
2020 ESPP	Employee Share Purchase Plan of the Company adopted on 1 August 2020, a voluntary share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees, and is effective for a period of 10 years from the date of adoption.
2020 RSU Scheme	Restricted Share Unit Scheme of the Company adopted on 1 August 2020, under which the Company may grant restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries, and is effective for a period of 10 years from the date of adoption.
2020 SO Scheme	Share Option Scheme of the Company adopted on 29 May 2020, under which the Company may grant share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries, and is effective for a period of 10 years from the date of adoption.
2021 ASPP	Agency Share Purchase Plan of the Company adopted on 1 February 2021, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents, and is effective for a period of 10 years from the date of adoption.
active agent	An agent who sells at least one policy per month.

active market	A market in which all the following conditions exist: • the items traded within the market are homogeneous; • willing buyers and sellers can normally be found at any time; and • prices are available to the public. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
adjusted net worth or ANW	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis.
AER	Actual exchange rates.
AGM	2021 Annual General Meeting of the Company to be held at 11:00 a.m. (Hong Kong time) on Thursday, 20 May 2021.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
ALC	The AIA Leadership Centre located in Bangkok, Thailand.
amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

annualised new premiums or ANP	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums.
Asia	Mainland China, Hong Kong SAR, Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei, Macau SAR, New Zealand and India.
available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
bancassurance	The distribution of insurance products through banks or other financial institutions.
BEPS 2.0	The common name for the Organisation for Economic Co-operation and Development's programme of work to develop a consensus based solution to the tax challenges arising from the digitalisation of the economy that has been agreed by the 139 jurisdictions that are members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting. This work contains two pillars. The first pillar deals with the allocation of taxing rights between jurisdictions, while the second pillar focuses on introducing a global minimum tax rate for multinational enterprises.
Board	The board of Directors.
CBA	Commonwealth Bank of Australia.
CER	Constant exchange rates. Change on constant exchange rates is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for balance sheet items as at the end of the current year and as at the end of the prior year, which is translated using the constant exchange rates.
CMLA	The Colonial Mutual Life Assurance Society Limited (including its affiliated companies), one of the largest life insurance providers in Australia.
Company	AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299).

consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.
COVID-19	COVID-19 is the infectious disease caused by a recently identified coronavirus.
deferred acquisition costs or DAC	Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. Such assets are tested for recoverability at least annually.
deferred origination costs or DOC	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
Director(s)	The director(s) of the Company.
embedded value or EV	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
EPS	Earnings per share.
equity attributable to shareholders of the Company on the embedded value basis or EV Equity	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.

ExCo	The Executive Committee of the Group.
fair value through profit or loss or FVTPL	Under IAS 39, Financial Instruments: Recognition and Measurement, financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.
first half	The six months from 1 January to 30 June.
first quarter	The three months from 1 January to 31 March.
first year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
fourth quarter	The three months from 1 October to 31 December.
free surplus	ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements.
group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group LCSM surplus	The difference between the Group available capital and the Group minimum capital requirement.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HKFRS	Hong Kong Financial Reporting Standards.
HKIA	Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance.
HKICPA	Hong Kong Institute of Certified Public Accountants.
Holding company financial resources	Debt and equity securities, deposits, cash and cash equivalents and dividends paid but not settled by subsidiaries, net of obligations under repurchase agreements, at the Group's listed holding company, AIA Group Limited. These are presented in note 46 to the consolidated financial statements.
Hong Kong	The Hong Kong Special Administrative Region (SAR) of the PRC; in the context of our reportable market segments, Hong Kong includes Macau SAR.

Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Ordinance or HKIO	Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
ICS	A risk-based global insurance capital standard being developed by the IAIS.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the IASB comprising: • International Financial Reporting Standards; • IAS; and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).
investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
investment income	Investment income comprises interest income, dividend income and rental income.
investment return	Investment return consists of investment income plus investment experience.
IPO	Initial Public Offering.
LCSM	Local Capital Summation Method is the method to be used by the HKIA as a measure of group capital under the new Group-wide Supervision (GWS) framework. Group available capital is the sum of available capital of each relevant regulated entity within the Group. Group minimum capital requirement (MCR) is the sum of the minimum required capital of those same entities. Adjustments are made to eliminate double counting. Group LCSM surplus is the excess of Group available capital over the Group MCR. The Group LCSM cover ratio is the ratio of Group available capital to the Group MCR.
liability adequacy testing	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.

Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Million Dollar Round Table or MDRT	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable market segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable market segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.
n/a	Not available.
n/m	Not meaningful.
operating profit after tax or OPAT	Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or operating ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or operating ROE	Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
OTC	Over-the-counter.
other participating business with distinct portfolios	Business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.
participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation.
persistency	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.

Philam Life	The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co.
policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
pps	Percentage points.
PRC	The People's Republic of China.
protection gap	The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.
puttable liabilities	A puttable financial instrument is one in which the holder of the instrument has the right to put the instrument back to the issuer for cash (or another financial asset). Units in investment funds such as mutual funds and open-ended investment companies are typically puttable instruments. As these can be put back to the issuer for cash, the non-controlling interests in any such funds which have to be consolidated by AIA are treated as financial liabilities.
PVNBP margin	VONB gross of non-controlling interests excluding pension business, expressed as a percentage of present value of new business premiums (PVNBP). PVNBP margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RSPUs	Restricted stock purchase units.
RSSUs	Restricted stock subscription units.
second half	The six months from 1 July to 31 December.
share(s)	For the Company, shall mean ordinary share(s) in the capital of the Company.
shareholders' allocated equity	Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve.

Singapore	The Republic of Singapore; in the context of our reportable market segments, Singapore includes Brunei.
single premium	A single payment that covers the entire cost of an insurance policy.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
Sovereign	ASB Group (Life) Limited (renamed AIA Sovereign Limited in July 2018) and its subsidiaries, including Sovereign Assurance Company Limited, a licensed insurer in New Zealand.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA Life	Tata AIA Life Insurance Company Limited.
total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
underlying free surplus generation or UFSG	Underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items. It excludes free surplus used to fund new business, unallocated group office expenses, investment variances and other non-operating items. UFSG for AIA is stated after reflecting consolidated reserving and capital requirements.
unit-linked investments	Financial investments held to back unit-linked contracts.
unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
universal life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.

value of business acquired or VOBA	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
value of new business or VONB	VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB gross of non-controlling interests excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.