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.

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 2021

AIA ANNOUNCES VERY STRONG FINANCIAL RESULTS FOR 2021 AND A US$10.0 BILLION SHARE BUY-BACK PROGRAMME

VALUE OF NEW BUSINESS UP 18 PER CENT
EV EQUITY UP 13 PER CENT TO US$75.0 BILLION
TOTAL DIVIDEND UP 8 PER CENT

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 2021.

Growth rates are shown on a constant exchange rate basis:

New business performance

- Value of new business (VONB) up 18 per cent to US$3,366 million
- VONB growth in all reportable segments on a like-for-like basis(1)
- Annualised new premiums (ANP) up 6 per cent to US$5,647 million
- VONB margin up 6.3 pps to 59.3 per cent

Earnings and capital

- Underlying free surplus generation (UFSG) of US$6,451 million, up 8 per cent
- Embedded value (EV) operating profit up 7 per cent to US$7,896 million
- Operating profit after tax (OPAT) increased by 6 per cent to US$6,409 million
- Free surplus up US$3.6 billion to US$17.0 billion; US$24.8 billion on a pro forma basis(2)
- EV Equity reached a new high of US$75.0 billion, up 13 per cent
- Shareholders' allocated equity of US$52.1 billion, up 11 per cent
- Group Local Capital Summation Method (LCSM) cover ratio(3) of 399 per cent

Dividends and share buy-back programme

- Final dividend of 108.00 Hong Kong cents per share
- Total dividend of 146.00 Hong Kong cents per share, up 8 per cent
- Share buy-back programme of US$10.0 billion(4)

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

"AIA has delivered very strong results in 2021 with VONB up by 18 per cent and growth in all of our key financial metrics including a new high for EV Equity of US$75.0 billion. On a like-for-like basis, VONB for the Group outside Hong Kong exceeded pre-pandemic levels and all of our reportable segments grew VONB year-on-year. Our financial position continues to be very strong with pro forma free surplus of US$24.8 billion.

"The Board has recommended a final dividend of 108.00 Hong Kong cents per share which increases the total dividend by 8 per cent. This follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

"As a result of our very strong financial position, the Board has approved a return of capital to shareholders of up to US$10.0 billion to be conducted through a share buy-back programme over the next three years. The share buy-back represents capital accumulated over time that is surplus to our needs, allowing for capital market stress conditions and retention of capital for strategic and financial flexibility. This capital return programme enhances shareholder returns while retaining the financial strength that allows AIA to continue investing in the significant growth opportunities available to us with confidence.

“Our focus on profitable growth continued to deliver attractive returns and, since our IPO, our new business investment of US$16.2 billion has increased the value of future distributable earnings for shareholders by US$44.5 billion. In 2021, we also committed US$2.4 billion to additional growth opportunities, further increasing our exposure to the highly attractive Chinese life insurance market through our investment in China Post Life Insurance Co., Ltd. (China Post Life) and extending our distribution by partnering with The Bank of East Asia, Limited (BEA). In addition, we are investing up to US$1.5 billion by 2023 as we transform our use of technology, digital and analytics across the Group to support our future growth ambitions.

“AIA China was again the largest contributor to the Group’s VONB and delivered a 10 per cent increase on a like-for-like basis, driven by a very strong double-digit increase in agent productivity in 2021. While active agent numbers declined slightly in the first half, our initiatives successfully supported a significant increase in recruitment and returned our differentiated agency to growth in the second half. The Chinese life insurance market remains significantly underpenetrated, offering tremendous growth potential for AIA. We see significant additional opportunities to help customers save for their long-term financial needs including retirement. Our new suite of long-term savings propositions are helping us to attract new customers and to deepen our share of wallet with existing customers.

“AIA China is uniquely positioned to leverage the growth potential of the Chinese life insurance market. Following the launch of our Sichuan branch in March 2021, our new branch in Hubei province opened for business in January 2022. We are making strong progress as we establish and grow our Premier Agency in new geographies with a 74 per cent increase in VONB on a like-for-like basis from Tianjin, Shijiazhuang and Sichuan compared to 2020. AIA China is taking advantage of changes to bancassurance models in Mainland China and we launched our exclusive partnership with BEA in 2021. We have also signed a new bancassurance partnership with Postal Savings Bank of China Co., Ltd. in February 2022.

“Our business in Hong Kong delivered excellent VONB growth of 37 per cent in 2021, driven by our domestic customer segment. While the Individual Visit Scheme with Mainland China remained suspended for Hong Kong throughout 2021, the scheme has resumed for Macau supporting excellent growth in sales to Mainland Chinese visitors for our Macau branch compared to 2020. Supported by momentum from the launch of new flagship products, AIA Hong Kong achieved very strong growth from both our agency and bancassurance channels. Our new partnership with BEA has delivered a strong performance since launching in July 2021 and contributed to the excellent growth of our bancassurance channel. In March 2022, we announced the deepening of our partnership with BEA and the acquisition of Blue Cross (Asia-Pacific) Insurance Limited to accelerate our health and wellness strategy in Hong Kong.

“AIA Thailand delivered 34 per cent growth in VONB for 2021, reflecting a proactive shift in product mix to regular premium unit-linked and protection products and double-digit growth in both our agency and partnership distribution channels. Our business in Singapore reported 6 per cent VONB growth for 2021 as increased adoption of digital tools by agents helped mitigate the impact from tighter pandemic restrictions in the second half.

“AIA Malaysia achieved a 26 per cent increase in VONB, supported by double-digit growth in both agency and partnership distribution channels and excellent growth from our Takaful business. Other Markets delivered higher VONB in 2021 on a like-for-like basis as double-digit growth in the first half was offset by strict pandemic containment measures in the second half.

"In 2021, we accelerated the delivery of our key strategic priorities as we transform AIA into a simpler, faster, more connected organisation. Rapid adoption and scaling of technology, digital and analytics throughout the Group has been critical in our successful navigation through the pandemic and enables us to create significant new growth opportunities through digitally-led models, drive higher productivity of our distribution channels and deliver greater efficiency and improved customer experience.

"I am delighted that we have completed our investment in a 24.99 per cent equity stake of China Post Life, a leading bank-affiliated life insurer focused on bringing financial protection to the mass and emerging mass-affluent segments in Mainland China. This is a significant step for AIA and further increases our exposure to the highly attractive Chinese life insurance market. This investment is complementary to AIA China's strategy that focuses on middle-class and affluent customers, and will allow AIA to benefit from growth in Mainland China more broadly across customer segments.

"In February 2022, we announced the establishment of an innovative digital Health InsurTech and services business called Amplify Health, in partnership with Discovery Limited (Discovery), our long-standing partner in AIA Vitality. There are tremendous opportunities for Amplify Health with total healthcare expenditure in our markets expected to exceed US$4 trillion in 2030. We are bringing together the best of both companies – AIA's strong brand, unrivalled distribution platform and execution capabilities with Discovery's proven technology, and more than three decades of intellectual property and health expertise. Our vision is for Amplify Health to transform how individuals, corporates, payors and providers experience and manage health insurance and healthcare delivery, improving the health and wellness outcomes of patients and communities across Asia.

"AIA aims to be a global industry leader in environmental, social and governance (ESG) as we shape a more sustainable future for our communities in Asia. In 2021, we made significant progress towards our ambition with the announcement of our new ESG strategy and the entire divestment of our directly-managed listed equity and fixed income exposure to coal mining and coal-fired power businesses, seven years ahead of schedule. In December, we also committed to achieving net-zero greenhouse gas emissions by 2050.

"Our dedicated teams have made excellent progress in 2021, further strengthening AIA's position and competitive advantages. I am confident that the long-term prospects for all of our businesses remain exceptionally bright, driven by the strong domestic drivers of demand and major demographic trends in Asia. We will remain focused on the delivery of our Purpose to help people live Healthier, Longer, Better Lives as we execute our strategic priorities to generate long-term sustainable value for all our stakeholders."

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(5), Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei and Macau SAR(6), 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$340 billion as of 31 December 2021.

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 39 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").

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Notes:

(1) Growth on a like-for-like basis refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China following subsidiarisation and the exclusion of the one-off contribution from Commonwealth Bank of Australia (CBA) in the first quarter of 2020 for Other Markets.

(2) Pro forma free surplus as at 31 December 2021 assumes immediate adoption of the new Hong Kong Risk-based Capital regime and the release of existing additional resilience margins held by the Group.

(3) In 2021, the Hong Kong Insurance Authority implemented the new group-wide supervision (GWS) framework. On 14 May 2021, AIA Group Limited became a designated insurance holding company and is therefore subject to the GWS framework in Hong Kong, including the Insurance (Group Capital) Rules. The Group LCSM cover ratio is the ratio of group available capital to group minimum capital requirement based on the Local Capital Summation Method (LCSM).

(4) Please refer to our separate announcement on the share buy-back programme for details.

(5) Hong Kong SAR refers to the Hong Kong Special Administrative Region.

(6) Macau SAR refers to the Macau Special Administrative Region.

FINANCIAL SUMMARY

PERFORMANCE HIGHLIGHTS

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
New Business				
Value of new business (VONB)	**3,366**	2,765	**18%**	22%
VONB margin	**59.3%**	52.6%	**6.3 pps**	6.7 pps
Annualised new premiums (ANP)	**5,647**	5,219	**6%**	8%
EV Operating Profit				
Embedded value (EV) operating profit	**7,896**	7,243	**7%**	9%
Operating return on EV	**12.1%**	11.7%	**0.4 pps**	0.4 pps
Basic EV operating earnings per share (US cents)	**65.44**	60.06	**7%**	9%
IFRS Earnings				
Operating profit after tax (OPAT)	**6,409**	5,942	**6%**	8%
Operating return on shareholders' allocated equity	**12.8%**	13.0%	**(0.6) pps**	(0.2) pps
Total weighted premium income (TWPI)	**36,859**	35,408	**2%**	4%
Operating earnings per share (US cents)				
– Basic	**53.12**	49.27	**6%**	8%
– Diluted	**53.02**	49.19	**6%**	8%
Underlying Free Surplus Generation				
Underlying free surplus generation	**6,451**	5,843	**8%**	10%
Dividends				
Dividend per share (HK cents)				
– Final	**108.00**	100.30	**n/a**	8%
– Total	**146.00**	135.30	**n/a**	8%

US$ millions, unless otherwise stated	As at 31 Dec 2021	As at 31 Dec 2020	Change CER	Change AER
Embedded Value				
EV Equity	**75,001**	67,185	**13%**	12%
Embedded value	**72,987**	65,247	**13%**	12%
Free surplus	**17,025**	13,473	**19%**	26%
EV Equity per share (US cents)	**620.00**	555.48	**13%**	12%
Equity and Capital				
Shareholders' allocated equity	**52,060**	48,030	**11%**	8%
Group LCSM cover ratio*	**399%**	374%	**n/a**	25 pps
Shareholders' allocated equity per share (US cents)	**430.35**	397.11	**11%**	8%

* Please refer to Note 8.

NEW BUSINESS PERFORMANCE BY SEGMENT

US$ millions, unless otherwise stated	2021			2020			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Mainland China**	**1,108**	**78.9%**	**1,404**	968	80.9%	1,197	**7%**	14%
Hong Kong	**756**	**64.0%**	**1,106**	550	44.7%	1,138	**37%**	37%
Thailand	**609**	**90.0%**	**677**	469	71.0%	661	**34%**	30%
Singapore	**356**	**64.7%**	**549**	330	63.4%	520	**6%**	8%
Malaysia	**283**	**57.3%**	**491**	222	59.9%	369	**26%**	27%
Other Markets	**511**	**35.9%**	**1,420**	514	38.4%	1,334	**(4)%**	(1)%
Subtotal	**3,623**	**63.2%**	**5,647**	3,053	57.7%	5,219	**15%**	19%
Adjustment to reflect consolidated reserving and capital requirements	**(57)**	**n/m**	**n/m**	(103)	n/m	n/m	**n/m**	n/m
After-tax value of unallocated Group Office expenses	**(167)**	**n/m**	**n/m**	(161)	n/m	n/m	**n/m**	n/m
Total before non-controlling interests	**3,399**	**59.3%**	**5,647**	2,789	52.6%	5,219	**18%**	22%
Non-controlling interests	**(33)**	**n/m**	**n/m**	(24)	n/m	n/m	**n/m**	n/m
Total	**3,366**	**59.3%**	**5,647**	2,765	52.6%	5,219	**18%**	22%

** Please refer to Note 10.

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 2021 and 2020, other than for balance sheet items that use CER as at 31 December 2021 and as at 31 December 2020.

(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) In 2021, the Hong Kong Insurance Authority implemented the new group-wide supervision (GWS) framework. On 14 May 2021, AIA Group Limited became a designated insurance holding company and is therefore subject to the GWS framework in Hong Kong, including the Insurance (Group Capital) Rules. The Group LCSM cover ratio is the ratio of group available capital to group minimum capital requirement based on the Local Capital Summation Method (LCSM).

The comparative figure as at 31 December 2020, as previously disclosed in our Annual Report 2020, was based on our understanding of the likely application of the GWS framework to the Group at the time. The 2020 figure excluded US$5,822 million of senior notes which was not approved at the time as contributing to Group available capital.

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

(10) Following the conversion of AIA Company Limited's Shanghai branch into a wholly-owned subsidiary, VONB from AIA China is reported after the deduction of 5 per cent withholding tax since July 2020. Excluding the impact of the withholding tax, VONB from AIA China increased by 10 per cent year-on-year on a CER basis.

(11) The results of Tata AIA Life are accounted for using the twelve-month period ended 30 September 2021 and the twelve-month period ended 30 September 2020 in AIA's consolidated results for the year ended 31 December 2021 and the year ended 31 December 2020, 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 2021, unless otherwise stated.

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CHAIRMAN'S STATEMENT

AIA is deeply rooted within Asia and our growth strategy is fully aligned with its vast potential and evolving needs. Despite the profound global challenges from the ongoing COVID-19 pandemic, I am incredibly proud of how our colleagues have responded with dedication and care for our customers and delivered very strong results for our shareholders.

As the world continues to adapt to new ways of working and living, 2021 proved to be another complex year. I believe the life and health insurance industry plays a vital role in helping people cope with the challenges and uncertainty they encounter. I am incredibly proud of our exceptional company and AIA's outstanding people who have continued to provide much-needed support for our communities throughout the prolonged difficulties created by the COVID-19 pandemic. AIA is a multi-generational business, spanning more than 100 years, during which we have operated through many market cycles. The trust that is placed in us by our customers is the foundation of our Purpose to help people live Healthier, Longer, Better Lives.

The execution of our growth strategy in 2021 delivered a very strong financial performance with an increase in all of our key financial metrics. Value of new business (VONB) grew by 18 per cent to US$3,366 million, reflecting our geographical diversification and market-leading positions across Asia. Operating profit after tax (OPAT) increased by 6 per cent to US$6,409 million, while underlying free surplus generation (UFSG) grew by 8 per cent to US$6,451 million. EV Equity reached a new high of US$75.0 billion. Our financial discipline ensured our capital position remained very strong with the Group Local Capital Summation Method (LCSM) cover ratio at 399 per cent as at 31 December 2021.

The board of Directors (Board) has recommended a final dividend of 108.00 Hong Kong cents per share, which is an increase of 8 per cent, reflecting the strength and resilience of our financial results and the Board's continued confidence in the future prospects of the Group. This brings the total dividend for 2021 to 146.00 Hong Kong cents per share. The Board continues to follow AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

Since our historic initial public offering (IPO) in 2010, the Group has adhered to a strategy that is focused on delivering superior profitable growth that in turn drives strong earnings and cash flow generation. We believe this is a key point of differentiation for AIA. The direct outcome of the execution of our growth strategy is a substantial increase in AIA's free surplus since our IPO to US$24.8 billion on a pro forma basis(1) at 31 December 2021.

As a result of our very strong financial position and free surplus accumulated over time, the Board has approved a return of capital to shareholders of up to US$10.0 billion through a share buy-back programme. The share buy-back represents capital that is surplus to our needs, allowing for capital market stress conditions and retention of capital for strategic and financial flexibility. It is our intention to undertake the share buy-back over a three-year period with the quantum and pace of implementation subject to market and geopolitical conditions. Profitable new business growth will continue to be AIA's primary focus given the attractive returns on capital we can generate and we believe that this return of capital will further enhance returns to shareholders.

It is a tremendous honour and privilege to serve this outstanding company alongside Board members who are dedicated to maintaining the highest standards of corporate governance. All of our non-executive directors are independent and contribute extensive leadership experience from the public and private sectors. We work together to provide oversight of the Group's governance framework and risk management activities by holding regular external reviews of our relevant principles and practices. In this way, we embed a robust risk culture across the organisation that is fundamental for successfully managing through an increasingly complex operating environment.

AIA is the largest pan-Asian life and health insurer with a long-established legacy of trust, scale and influence in the region. We have a responsibility to help our communities by addressing material Environmental, Social and Governance (ESG) issues and play a leading role in the transition to a more sustainable future. As a major owner of investment assets, we recognise the influence our investment decisions and proactive engagement efforts can have on the region. We believe that the integration of ESG considerations throughout our investment process is essential for driving this transition while effectively managing risk and generating sustained returns for our customers and shareholders.

We are well positioned to encourage positive change and I am pleased that our efforts in 2021 have been recognised. Sustainalytics, a global leader in ESG and Corporate Governance research and ratings, ranked AIA in the second percentile and a top performer for the insurance industry. Our "Prime" ESG Corporate Rating score from Institutional Shareholder Services Inc. (ISS) reaffirms our position among the best in our industry for our sustainability performance. MSCI upgraded AIA's rating from A to AA, supported by the Group's performance on human capital development and we have been included in the FTSE4Good Index Series for the fifth consecutive year.

Although the unpredictable nature of the COVID-19 pandemic and increasing global geopolitical tensions have created near-term uncertainty, the major demographic trends and strong domestic drivers of demand in Asia underpin the powerful long-term prospects for AIA's business. The combination of rising wealth, ageing populations, low levels of private insurance penetration and limited social welfare coverage, create a compelling need for AIA's insurance products. Asian consumers are acutely aware of the importance of financial security and protecting the well-being of their families, making our Purpose and propositions even more relevant. The long-term opportunities available to AIA are truly exceptional.

I would like to thank Yuan Siong and his senior management team for their exemplary leadership during these extraordinary times. Across the organisation and through our culture of empowerment, our people demonstrate the highest professional standards set out in our Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People and the Right Results will come".

AIA's proven growth strategy, as demonstrated by our financial results in 2021, and our consistent execution since our IPO give us great confidence in our ability to achieve sustainable long-term value for all of our stakeholders.

Finally, our performance would not have been possible without the enduring trust of our customers and shareholders.

On behalf of the Board, I remain very grateful for your ongoing support.

Edmund Sze-Wing Tse
Independent Non-executive Chairman
11 March 2022

Notes:

(1) Pro forma free surplus as at 31 December 2021 assumes immediate adoption of the new Hong Kong Risk-based Capital regime and the release of existing additional resilience margins held by the Group.

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.

GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

AIA has achieved a very strong set of results in 2021 with growth in all of our key financial metrics. I am confident that the focused execution of our clear and ambitious strategy by our extraordinary people will continue to capture the significant growth opportunities in Asia and extend AIA's track record of value creation for all our stakeholders.

AIA is an exceptional company with outstanding employees and distributors who embody our Purpose of helping people live Healthier, Longer, Better Lives, each and every day. I am enormously grateful for the professionalism and dedication they have shown in serving our communities while delivering financial security to millions of people.

As the largest pan-Asian life and health insurer, we are uniquely placed to use our scale and influence to meaningfully contribute to the economic and social development of the region. The long-term nature of our products places sustainability at the forefront of how we operate and means we have a vital role to play in addressing material Environmental, Social and Governance (ESG) issues to safeguard a better future for society. In 2021, we committed to achieving net-zero greenhouse gas emissions by 2050 using the latest climate science to set ambitious emissions reduction targets in conjunction with the Science Based Targets initiative (SBTi). Critical to this ambition is the sustainable deployment of our investment portfolio and I am proud that we have completed the divestment of our directly-managed listed equity and fixed income exposure to coal mining and coal-fired power businesses, seven years ahead of schedule.

Since the onset of the pandemic, our local businesses have been proactively helping to alleviate the impact on our communities. Our primary focus is to ensure uninterrupted service to our customers through our enhanced digital capabilities, easy access to health services and expedited claim payments across our businesses. In 2021, benefits and claims exceeded US$16 billion, assuring our customers and their families that we are always there for them, particularly in these most uncertain times.

2021 FINANCIAL PERFORMANCE HIGHLIGHTS

Our very strong financial results demonstrate the strength of our profitable growth model, built on high-quality and differentiated distribution, personalised and valuable propositions for our customers, and all backed by exceptional technology and digital platforms to deliver outstanding service. Value of new business (VONB) grew by 18 per cent to US$3,366 million and EV Equity reached a new high of US$75.0 billion. On a like-for-like basis(1), VONB for the Group outside Hong Kong exceeded the pre-pandemic level of 2019 and all of our reportable segments grew year-on-year.

Our large and growing in-force portfolio with high-quality, recurring sources of earnings supported an increase of 6 per cent in operating profit after tax (OPAT) to US$6,409 million and underlying free surplus generation (UFSG) grew by 8 per cent to US$6,451 million.

The Board has recommended an 8 per cent increase in final dividend to 108.00 Hong Kong cents per share which brings the total dividend for 2021 to 146.00 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 significant opportunities to invest capital in superior profitable growth that generates increased shareholder value. With such attractive reinvestment economics, our ability to invest in new business growth remains an important priority and differentiator for AIA. As we have consistently demonstrated over time, our financial discipline and strategic focus on profitable new business growth support substantial free surplus generation that, in turn, funds further capital investment in organic new business and inorganic opportunities while optimising cash returns to shareholders.

The direct outcome of our profitable growth strategy is the substantial increase in free surplus since our IPO to US$24.8 billion on a pro forma basis[(2)] at 31 December 2021. As a result of our very strong financial position, the Board has approved a return of capital to shareholders of up to US$10.0 billion to be conducted through a share buy-back programme over the next three years. The quantum and pace of implementation will be subject to market and geopolitical conditions. The share buy-back represents capital accumulated over time that is surplus to our needs, allowing for capital market stress conditions and retention of capital for strategic and financial flexibility. This capital return programme enhances shareholder returns while retaining the financial strength that allows AIA to continue investing capital in the significant growth opportunities available to us with confidence.

TRANSFORMING OUR COMPETITIVE ADVANTAGES

Asia plays a pivotal role in driving global economic progress. Around 40 per cent of all global goods flow through the region and, by 2040, Asia is expected to generate 50 per cent of global GDP and account for 40 per cent of global consumption. It is the most dynamic region for life and health insurance, underpinned by strong fundamental drivers of growth. Compounding wealth creation and the expanding need for protection generate growing demand for our products. Wellness, healthcare and higher expectations of quality of life into old age are increasingly front of mind. Understanding rapidly shifting consumer behaviour is critical in turning this potential for increased life and health insurance coverage into a reality for millions of customers. I am confident that the focused execution of our strategic priorities will build on AIA's substantial competitive advantages and generate profitable growth for the future.

Our industry leadership in the use of **Technology, Digital and Analytics** to enhance our business is a core strategic priority. More than 70 per cent of our infrastructure was hosted in the cloud at the end of December 2021, well ahead of the global financial services and insurance industry averages and a significant increase from 39 per cent a year ago. In addition to reducing operating expenses, our transformation is supporting a substantial improvement in straight-through-processing rates with close to 60 per cent of all customer transactions processed without any human intervention and more than 95 per cent of all new policies issued electronically. We have an increasing ability to deploy analytics platforms and drive automation, supporting our large-scale business growth including our geographical expansion in Mainland China. Over the year, we delivered more than 100 major projects that employ artificial intelligence and analytics, enhancing every aspect of our business, including recruitment, training, underwriting and claims handling.

Our **Unrivalled Distribution** benefits from cutting-edge digital tools that support the provision of high-quality advice, driving customer engagement and sales, even during periods of movement restrictions. Our proprietary Premier Agency delivered excellent VONB growth of 20 per cent and the persistent execution of our strategy achieved an increase in both productivity and the number of active agents. In 2021, we were the number one Million Dollar Round Table (MDRT) company globally, extending our record of leadership to seven consecutive years and demonstrating the success of the Group's Premier Agency strategy.

The adoption of remote sales processes has strengthened the resilience of our bancassurance distribution in response to disruptions from intermittent branch closures to control the spread of COVID-19 throughout 2021. Our initiatives supported double-digit VONB growth in aggregate from our strategic bancassurance partnerships across our ASEAN markets. We also expanded our network of leading digital platform partnerships with companies that have significant active user bases, including with Tiki Corporation in Vietnam and TNG Digital Sdn. Bhd. (TNGD) in Malaysia. Our focus in this channel is to capture new customer segments at scale through innovative lifestyle benefits and scenario-based propositions, using new models to drive growth.

At the heart of our **Compelling Propositions** is our Health and Wellness Ecosystem combining AIA Vitality, customised incentive-based rewards and leading services that help keep our customers healthier for longer. We reward customers for taking actions that positively impact their health and help them to access the best treatment, accumulate funds to pay for services and save more effectively. Demand continued to grow for our protection propositions and the combined membership of AIA Vitality and our wellness programme in Mainland China increased to close to 2 million members at 31 December 2021. Our telemedicine services are now available through our network in 10 markets and demand continued to grow with a 73 per cent increase in online consultations compared to 2020. We offer Personal Case Management services in 12 markets and the AIA Regional Health Passport is supported by our new regional service centre.

In 2021, we made great progress in delivering a **Leading Customer Experience** that is based on the core principles of simplicity, timeliness and reliability. We are transforming our interactions with customers through digital applications, greater automation and increased use of analytics while delivering enhanced operational efficiencies. Customer engagement through digital channels continued to grow with 75 per cent of claims and 73 per cent of all service requests submitted digitally. Our investments in technology, digital and analytics are driving significant turnaround time improvements with close to 60 per cent of all customer transactions across the Group completed on the same day. We are also demonstrating that increased automation and the use of artificial intelligence achieve more personalised and consistent service, with higher customer engagement and retention.

I am extremely proud of our achievements despite the extraordinary operating environment since early 2020. Our very strong results demonstrate the execution of our clear and ambitious strategy to further develop AIA's significant competitive advantages.

OUR PEOPLE

AIA's strong track record of performance has been achieved through a culture of local empowerment with accountability. Our strategy leverages our unique culture with simpler structures, agile ways of working and enhanced people capabilities. In the past twelve months, we have focused on designing new working models across our businesses with processes that support a human-centric workplace, new centres of excellence to advance critical capabilities and the sharing of best practices. Our technology, digital and analytics talent has increased by 29 per cent since we began our transformation to become a simpler, faster, more connected organisation in July 2020.

Despite 2021 posing a challenging operating environment, our employee engagement levels have reached new highs. 97 per cent of our staff responded to the annual Gallup Q12 employee engagement survey and our results place us in the 90th percentile of the global finance and insurance industry benchmark. We were also once again recognised in the Forbes "World's Best Employers" list. We have exceptional people and these achievements reflect their successes and combined efforts across our markets.

INVESTING IN ADDITIONAL GROWTH OPPORTUNITIES

Mainland China is AIA's largest market by VONB and offers tremendous growth potential both within our existing geographies and by increasing our reach into new cities as we enlarge our addressable target market. Following the successful launch of our new operation in Chengdu, Sichuan in March 2021, we received approval from the China Banking and Insurance Regulatory Commission (CBIRC) and began operations in Wuhan, Hubei. This approval marks another milestone as we progressively replicate our Premier Agency in new geographies and capture AIA's unique opportunity to access a base of potential customers five times the reach of our existing geographical footprint. I am also very pleased that the CBIRC has recently granted us approval to upgrade our operations in Tianjin and Shijiazhuang, enabling us to expand our presence through additional sales offices.

Also in Mainland China, we completed the investment of a 24.99 per cent equity stake in China Post Life Insurance Co., Ltd. (China Post Life), a leading bank-affiliated life insurer that is focused on bringing financial protection to the mass and emerging mass-affluent segments in Mainland China. This investment is highly complementary to our strategy for AIA China and further increases the Group's exposure to the significant growth prospects in this market. In February 2022, we agreed a new distribution partnership between AIA China and Postal Savings Bank of China Co., Ltd.

In July 2021, we launched our exclusive 15-year bancassurance partnership with The Bank of East Asia, Limited (BEA) covering Hong Kong and Mainland China. Our partnership provides access to more than 1.2 million domestic customers in Hong Kong, a top-three foreign bank franchise in Mainland China and additional capabilities to harness the immense potential for AIA across the Greater Bay Area.

In March 2022, we announced the acquisition of 100 per cent of Blue Cross (Asia-Pacific) Insurance Limited (Blue Cross) and 80 per cent of Blue Care JV (BVI) Holdings Limited (Blue Care) from BEA. Blue Cross is a well-established insurer in Hong Kong providing leading health insurance products and Blue Care operates medical centres with a large medical network in Hong Kong. We have also agreed to extend the scope of our existing bancassurance partnership through the addition of personal lines general insurance products to BEA's personal banking customers in Hong Kong. This transaction accelerates AIA's health and wellness strategy, deepens the distribution partnership with BEA and brings new product expertise to support all of AIA's distribution channels in Hong Kong.

Amplify Health is our new pan-Asian Health InsurTech business in partnership with Discovery Limited (Discovery). This is an opportune time to play a leading role in transforming healthcare delivery across the region with total healthcare expenditure in our markets expected to exceed US$4 trillion in 2030. The unprecedented combination of ageing demographics, accelerated digital adoption, new advancements in HealthTech and significant unmet consumer demand underpin the tremendous strategic potential for this new venture.

Our shared vision is that Amplify Health will transform how individuals, corporates, payors and providers experience and manage health insurance and healthcare delivery, improving the health and wellness outcomes of patients and communities across Asia. Amplify Health brings together the best of both partners: AIA's strong brand, unrivalled distribution platform and execution capabilities, together with Discovery's proven technology, intellectual property and health expertise. I am confident that Amplify Health will provide yet another key competitive advantage for AIA, attracting new customers and helping grow new business value and deliver increased financial benefits.

OUTLOOK

The global economy continued to recover in 2021 on the back of accommodative monetary and fiscal policies alongside gradual economic reopening. Short-term supply-chain disruptions, labour shortages, high energy prices and greater demand for consumer goods are fuelling rising consumer inflation expectations, particularly in the United States. As a result, a growing number of central banks have started normalising their monetary policies with the Federal Reserve deciding to terminate its asset purchase programme and raise interest rates. The current geopolitical tensions are also creating uncertainty in global capital markets.

Inflationary pressures in Asia are relatively more stable and current account surpluses are supported by an economic recovery led by export growth and investment. Fiscal easing policies have been more restrained than in other parts of the world and Mainland China stands out in this context as its monetary and fiscal policies are likely to be eased rather than tightened.

New COVID-19 variants such as Omicron are causing short-term volatility in new business sales as sharp rises in infections and containment measures disrupt activity and distribution productivity, particularly in the first quarter of 2022. We are cautiously optimistic that with a wider roll-out of vaccines and new therapeutics, severity of illness will reduce further, and the ability of health and social systems to cope will continue to improve over time. As the worst effects of the pandemic subside, we expect to see a strong recovery in activity levels and consumer demand. I am confident that the long-term prospects for AIA's businesses remain exceptional.

The strong domestic drivers of demand and major demographic trends in Asia will continue to generate an increasing need for our products. As we focus on delivering our strategic priorities, we will build on AIA's substantial competitive advantages to generate profitable growth and increasing returns for our shareholders while achieving our Purpose of helping people live Healthier, Longer, Better Lives.

Lee Yuan Siong
Group Chief Executive and President
11 March 2022

Notes:

(1) Growth on a like-for-like basis refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China following subsidiarisation and the exclusion of the one-off contribution from Commonwealth Bank of Australia (CBA) in the first quarter of 2020 for Other Markets.

(2) Pro forma free surplus as at 31 December 2021 assumes immediate adoption of the new Hong Kong Risk-based Capital regime and the release of existing additional resilience margins held by the Group.

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 has delivered a very strong and broad-based financial performance. Our results demonstrate the power of AIA's unique business model that enables us to capture the immense growth opportunities across Asia and deliver superior shareholder value.

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

SUMMARY AND KEY FINANCIAL HIGHLIGHTS

AIA is exceptionally positioned to leverage the immense opportunities for life and health insurance across Asia and drive growth in our key financial metrics of value of new business (VONB), operating profit after tax (OPAT), embedded value (EV) and underlying free surplus generation (UFSG). AIA's very strong performance in 2021 demonstrate these growth opportunities, our differentiated business model and our financial discipline in action delivering a broad-based performance with increases in all of our key financial metrics. VONB growth of 18 per cent was very strong, EV Equity was up by 16 per cent before the payment of shareholder dividends, and the Board has declared a final dividend of 108.00 Hong Kong cents per share which increases the total dividend by 8 per cent. The Board has also approved a return of capital to shareholders of up to US$10.0 billion to be conducted through a share buy-back programme over the next three years. AIA's business is unique, enabling sustained maintenance of a very strong financial position, investment of increasing amounts of capital in the huge growth opportunities available to us, while also delivering progressive cash returns to shareholders.

We delivered very strong VONB growth of 18 per cent to US$3,366 million, powered by our unrivalled, multi-channel distribution and reflecting our geographical diversification and market-leading positions across Asia. On a like-for-like basis[1], all of our reportable segments grew VONB year-on-year and VONB for the Group outside Hong Kong exceeded the pre-pandemic level of 2019. While ongoing travel restrictions continued to affect sales to Mainland Chinese visitors, AIA Hong Kong returned to growth with a 37 per cent increase in VONB, driven by the excellent performance of our domestic customer segment.

VONB margin increased by 6.3 pps to 59.3 per cent alongside 6 per cent growth in ANP to US$5,647 million. The increase in VONB margin was driven by a significant positive shift in product mix, particularly in Hong Kong and Thailand, higher government bond yields, and a reduction in acquisition expense overruns.

EV Equity grew by 16 per cent before payment of shareholder dividends of US$2,147 million and reached a new record high of US$75,001 million at 31 December 2021. EV operating profit increased by 7 per cent to US$7,896 million and included US$437 million from positive operating variances, as our overall experience has continued to outperform our EV assumptions. Investment return variances were also positive at US$1,293 million and more than offset negative exchange rate movements of US$810 million.

Our high-quality, recurring sources of earnings and the proactive management of our growing in-force portfolio underpinned a 6 per cent increase in OPAT to US$6,409 million and a 0.6 pps increase in operating margin to 17.5 per cent. Successive cohorts of new business are the primary driver of our OPAT growth as VONB translates into earnings over time. OPAT growth was 9 per cent after normalising for the exceptional claims experience during the COVID-19 pandemic and excluding the impact of withholding tax for AIA China post subsidiarisation.

The Group's financial position remained very strong at 31 December 2021 with a Group LCSM cover ratio of 399 per cent and a very strong increase in free surplus of US$8,129 million, before the BEA agreement and China Post Life Insurance Co., Ltd. (China Post Life) investments of US$2,430 million in aggregate and the payment of US$2,147 million of shareholder dividends. Free surplus was US$17,025 million at 31 December 2021.

AIA has proactively engaged with the Hong Kong Insurance Authority (HKIA) to early adopt the new Hong Kong Risk-based Capital (HKRBC) regime. As at 11 March 2022, we have submitted an application for early adoption and expect to receive approval before the end of the first half of 2022, subject to meeting all of the necessary conditions. Further details of the adoption of the HKRBC regime and its impact are included later in this review.

In September 2021, AIA completed the acquisition of 100 per cent of BEA Life Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA). The completion of the acquisition signifies another key achievement in the long-term relationship with BEA, following the successful commencement of the 15-year strategic bancassurance partnership in July 2021. BEA Life Limited was subsequently renamed AIA Everest Life Company Limited (AIA Everest).

Following regulatory approval from the China Banking and Insurance Regulatory Commission, the Group completed its investment of RMB12,033 million (approximately US$1,860 million) through AIA Company Limited (AIA Co.) for a 24.99 per cent equity stake (post investment) in China Post Life, increasing the Group's exposure to the growth opportunities in Mainland China.

The board of Directors (Board) has recommended a final dividend of 108.00 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2021 to 146.00 Hong Kong cents per share, an increase of 8 per cent compared with the total dividend for 2020. This follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

We have an established capital management framework that delivers sustainable value for our shareholders. Our first priority is to ensure a strong and resilient balance sheet to cover regulatory requirements, absorb capital market stress and meet all of our liabilities as they fall due. We invest capital in high-quality profitable new business as demonstrated by a cumulative investment of US$16.2 billion that has generated an increase in value of future distributable earnings of US$44.5 billion from VONB since our IPO. In turn, VONB growth drives increasing UFSG and cash generation, enabling us to invest further capital in organic new business and inorganic opportunities and pay a prudent, sustainable and progressive dividend.

AIA's unique business model and financial discipline have supported a substantial increase in free surplus since our IPO to a pro forma[2] US$24.8 billion at 31 December 2021. Our capital management framework is fundamental to our consistent financial discipline and we will periodically assess the Group's ongoing capital needs to deliver sustainable and optimal shareholder returns.

With clarity on the Group's regulatory capital requirements and our very strong free surplus position, the Board has approved a return of capital to shareholders of up to US$10.0 billion to be conducted through a share buy-back programme over the next three years. The quantum and pace of implementation will be subject to market and geopolitical conditions. The share buy-back represents capital accumulated over time that is surplus to our needs, allowing for capital market stress conditions and retention of capital for strategic and financial flexibility. This capital return programme enhances shareholder returns while retaining the financial strength that allows AIA to continue investing capital in the significant growth opportunities available to us with confidence. We expect to commence the programme as soon as practical following the publication of this announcement.

AIA's unique business and enormous growth opportunities, combined with continued financial discipline enable us to maintain a very strong financial position, while continuing to leverage our competitive advantages, invest in growing profitable new business and deliver cash returns to shareholders.

Notes:

(1) Growth on a like-for-like basis refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China following subsidiarisation and the exclusion of the one-off contribution from Commonwealth Bank of Australia (CBA) in the first quarter of 2020 for Other Markets.

(2) Pro forma free surplus as at 31 December 2021 assumes the immediate adoption of the new HKRBC regime and the release of existing additional resilience margins held by the Group.

NEW BUSINESS PERFORMANCE

VONB, ANP and Margin by Segment

	2021			2020			VONB Change	
US$ millions, unless otherwise stated	**VONB**	**VONB Margin**	**ANP**	VONB	VONB Margin	ANP	**YoY CER**	YoY AER
Mainland China	**1,108**	**78.9%**	**1,404**	968	80.9%	1,197	**7%**	14%
Hong Kong	**756**	**64.0%**	**1,106**	550	44.7%	1,138	**37%**	37%
Thailand	**609**	**90.0%**	**677**	469	71.0%	661	**34%**	30%
Singapore	**356**	**64.7%**	**549**	330	63.4%	520	**6%**	8%
Malaysia	**283**	**57.3%**	**491**	222	59.9%	369	**26%**	27%
Other Markets	**511**	**35.9%**	**1,420**	514	38.4%	1,334	**(4)%**	(1)%
Subtotal	**3,623**	**63.2%**	**5,647**	3,053	57.7%	5,219	**15%**	19%
Adjustment to reflect consolidated reserving and capital requirements	**(57)**	**n/m**	**n/m**	(103)	n/m	n/m	**n/m**	n/m
After-tax value of unallocated Group Office expenses	**(167)**	**n/m**	**n/m**	(161)	n/m	n/m	**n/m**	n/m
Total before non-controlling interests	**3,399**	**59.3%**	**5,647**	2,789	52.6%	5,219	**18%**	22%
Non-controlling interests	**(33)**	**n/m**	**n/m**	(24)	n/m	n/m	**n/m**	n/m
Total	**3,366**	**59.3%**	**5,647**	2,765	52.6%	5,219	**18%**	22%

We delivered very strong VONB growth of 18 per cent to US$3,366 million, powered by our unrivalled, multi-channel distribution and reflecting our geographical diversification and market-leading positions across Asia. On a like-for-like basis[1], all of our reportable segments grew VONB year-on-year and VONB for the Group outside Hong Kong exceeded the pre-pandemic level of 2019. While ongoing travel restrictions continued to affect sales to Mainland Chinese visitors, AIA Hong Kong returned to growth with a 37 per cent increase in VONB, driven by the excellent performance of our domestic customer segment.

VONB margin increased by 6.3 pps to 59.3 per cent alongside 6 per cent growth in ANP to US$5,647 million. The increase in VONB margin was driven by a significant positive shift in product mix, particularly in Hong Kong and Thailand, higher government bond yields and a reduction in acquisition expense overruns.

AIA China delivered VONB growth of 10 per cent after excluding the impact of withholding tax that has applied following the subsidiarisation of our business. Our differentiated Premier Agency strategy, coupled with the increased level of digital tool adoption, supported an improvement in agency activity and productivity. Following the successful launch of our new operation in Chengdu, Sichuan, in March, we received approval from the China Banking and Insurance Regulatory Commission to begin operations in Wuhan, Hubei, with sales commencing from January 2022.

AIA Hong Kong achieved excellent VONB growth of 37 per cent in 2021. Both our agency and bancassurance channels delivered very strong performances, underpinned by an improvement in both agency activity and productivity and supported by the launch of our new partnership with BEA in July. The resumption of Macau's Individual Visit Scheme with Mainland China drove excellent growth in sales to Mainland Chinese visitors through our Macau branch during the year.

AIA Thailand achieved VONB growth of 34 per cent in 2021 with a 19.4 pps increase in VONB margin, driven by a proactive shift towards the sale of regular premium unit-linked and protection products. Both our market-leading agency business and our strategic bancassurance partner, Bangkok Bank Public Company Limited (Bangkok Bank), delivered strong VONB growth for the year as we continued to improve the productivity of our agency new recruits and bank insurance specialists.

AIA Singapore achieved 6 per cent VONB growth in 2021, as double-digit growth in our agency channel was partly offset by a reduction in new business from our partnership distribution channel. We continued to support our Premier Agency by enhancing our digital tools and platforms, leading to an increase in the number of active agents and improvements in agent productivity.

AIA Malaysia reported VONB growth of 26 per cent, supported by strong performances in both our agency and partnership distribution channels. Our Takaful business also delivered excellent growth in 2021.

Our Other Markets segment delivered growth on a like-for-like basis(1) in 2021. A strong performance in the first half was offset by reduced sales volumes in the second half as stricter containment measures were imposed in a number of markets due to a resurgence of COVID-19.

Note:

(1) Growth on a like-for-like basis refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China following subsidiarisation and the exclusion of the one-off contribution from CBA in the first quarter of 2020 for Other Markets.

EV EQUITY

EV OPERATING PROFIT

EV operating profit was US$7,896 million in 2021, an increase of 7 per cent compared with 2020, mainly driven by growth in VONB and an increase in expected return on EV. Operating return on EV (operating ROEV) was 12.1 per cent, compared with 11.7 per cent in 2020. Basic EV operating earnings per share grew by 7 per cent to 65.44 US cents.

Operating variances contributed US$437 million to EV operating profit 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$3.6 billion to EV Equity.

EV Operating Earnings Per Share – Basic

	2021	2020	**YoY CER**	YoY AER
EV operating profit (US$ millions)	**7,896**	7,243	**7%**	9%
Weighted average number of ordinary shares (millions)	**12,066**	12,060	**n/a**	n/a
Basic EV operating earnings per share (US cents)	**65.44**	60.06	**7%**	9%

EV Operating Earnings Per Share – Diluted

	2021	2020	**YoY CER**	YoY AER
EV operating profit (US$ millions)	**7,896**	7,243	**7%**	9%
Weighted average number of ordinary shares(1) (millions)	**12,087**	12,080	**n/a**	n/a
Diluted EV operating earnings per share(1) (US cents)	**65.33**	59.96	**7%**	9%

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 Equity grew by 16 per cent before payment of shareholder dividends of US$2,147 million and reached a new high of US$75,001 million at 31 December 2021. EV grew by US$7,740 million, after the payment of shareholder dividends of US$2,147 million, to US$72,987 million at 31 December 2021. The increase in EV was mainly driven by EV operating profit of US$7,896 million and positive investment return variances of US$1,293 million, which more than offset negative exchange rate movement of US$810 million. The effect of acquisition of US$123 million relates to the acquisition of AIA Everest and the BEA upfront payment of US$258 million refers to the strategic bancassurance partnership. The investment of US$1,860 million in China Post Life is included at cost with no resulting impact to adjusted net worth (ANW) and EV.

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

	2021		
US$ millions, unless otherwise stated	ANW	VIF	EV
Opening EV	28,503	36,744	65,247
Purchase price[1]	(397)	–	(397)
Acquired EV[2]	266	254	520
Effect of acquisition	(131)	254	123
BEA Upfront Payment[3]	(258)	–	(258)
Value of new business	(810)	4,176	3,366
Expected return on EV	5,156	(754)	4,402
Operating experience variances	626	(175)	451
Operating assumption changes	64	(78)	(14)
Finance costs	(309)	–	(309)
EV operating profit	4,727	3,169	7,896
Investment return variances	1,636	(343)	1,293
Effect of changes in economic assumptions	(26)	460	434
Other non-operating variances	1,163	37	1,200
Total EV profit	7,500	3,323	10,823
Dividends	(2,147)	–	(2,147)
Other capital movements	9	–	9
Effect of changes in exchange rates	(174)	(636)	(810)
Closing EV	33,302	39,685	72,987

	2020		
US$ millions, unless otherwise stated	ANW	VIF	EV
Opening EV	28,241	33,744	61,985
Purchase price[1]	(18)	–	(18)
Acquired EV	–	–	–
Effect of acquisition	(18)	–	(18)
BEA Upfront Payment	–	–	–
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

EV Equity

US$ millions, unless otherwise stated	As at 31 December 2021	As at 31 December 2020
EV	**72,987**	65,247
Goodwill and other intangible assets[4]	**2,014**	1,938
EV Equity	**75,001**	67,185
Number of ordinary shares (millions)	**12,097**	12,095
EV Equity per share (US cents)	**620.00**	555.48

Notes:
(1) The purchase price in 2021 refers to the cost of acquiring AIA Everest as per note 5 to the consolidated financial statements, and the purchase price in 2020 refers to the purchase price adjustments for the alternative arrangements with CBA in relation to The Colonial Mutual Life Assurance Society Limited (CMLA) as per note 5 to the consolidated financial statements in the Company's Annual Report 2020.
(2) As at 31 August 2021.
(3) Refers to the consideration for the strategic bancassurance partnership.
(4) Consistent with 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 inclusive of strategic hedging programmes, 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. Interest rate sensitivities to both increasing and reducing interest rates overall are small, and primarily driven by the market interest rate level and the characteristics of the underlying assets and liabilities by business unit.

	As at 31 December 2021		As at 31 December 2020	
US$ millions, unless otherwise stated	EV	% Change	EV	% Change
Central value	**72,987**		65,247	
Impact of equity price changes				
10 per cent increase in equity prices	**1,878**	**2.6%**	1,099	1.7%
10 per cent decrease in equity prices	**(1,871)**	**(2.6)%**	(1,095)	(1.7)%
Impact of interest rate changes				
50 basis points increase in interest rates	**(330)**	**(0.5)%**	652	1.0%
50 basis points decrease in interest rates	**279**	**0.4%**	(1,294)	(2.0)%

	2021		2020	
US$ millions, unless otherwise stated	VONB	% Change	VONB	% Change
Central value	**3,366**		2,765	
Impact of interest rate changes				
50 basis points increase in interest rates	**74**	**2.2%**	193	7.0%
50 basis points decrease in interest rates	**(108)**	**(3.2)%**	(298)	(10.8)%

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	2021	2020	YoY CER	YoY AER
Mainland China	**1,371**	1,220	**4%**	12%
Hong Kong	**2,143**	2,059	**4%**	4%
Thailand	**960**	987	**(1)%**	(3)%
Singapore	**723**	621	**13%**	16%
Malaysia	**392**	326	**17%**	20%
Other Markets	**784**	687	**10%**	14%
Group Corporate Centre	**36**	42	**n/m**	n/m
Total	**6,409**	5,942	**6%**	8%

Note:
(1) Attributable to shareholders of the Company only, excluding non-controlling interests.

Our high-quality, recurring sources of earnings and the proactive management of our growing in-force portfolio underpinned a 6 per cent increase in OPAT to US$6,409 million and a 0.6 pps increase in operating margin to 17.5 per cent. Successive cohorts of new business are the primary driver of our OPAT growth as VONB translates into earnings over time. OPAT growth was 9 per cent after normalising for the exceptional claims experience during the COVID-19 pandemic and excluding the impact of withholding tax for AIA China post subsidiarisation.

Mainland China reported 4 per cent growth in OPAT as strong underlying business growth was partly offset by the impact of withholding tax following subsidiarisation and the normalisation of medical claims relative to the low levels experienced in 2020. Underlying OPAT growth was 10 per cent excluding these items.

Hong Kong's OPAT increased by 4 per cent, as underlying business growth and higher investment returns that resulted from an increase in equity asset balances were partly offset by a normalisation of medical claims experience relative to the low levels of 2020 and a small number of unusually large death claims. Underlying OPAT growth was 8 per cent excluding the low levels of medical claims in 2020. Underlying business growth continues to be affected by the lower absolute levels of total new business from all segments in aggregate in 2020 and 2021 relative to 2019 levels.

Thailand's OPAT remained broadly stable as adverse lapse experience from our in-force portfolio and lower investment returns offset underlying business growth.

OPAT in Singapore increased by 13 per cent, driven by growth in our in-force portfolio and increased investment returns.

Malaysia's OPAT grew by 17 per cent in 2021. As previously highlighted, a one-off provision for an industry-wide initiative to identify and pay accumulated unreported death claims was made in the first half of 2020. Excluding this provision, OPAT increased by 11 per cent.

OPAT in Other Markets increased by 10 per cent, as strong underlying business growth across a number of markets was partially offset by increased mortality claims from markets affected by the resurgence of COVID-19.

Average shareholders' allocated equity grew by 10 per cent to US$50 billion, while operating return on shareholders' allocated equity (operating ROE) was 12.8 per cent, compared with 13.0 per cent in 2020.

TWPI by Segment

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
Mainland China	**6,999**	5,622	**16%**	24%
Hong Kong	**11,904**	13,042	**(9)%**	(9)%
Thailand	**4,428**	4,462	**2%**	(1)%
Singapore	**3,433**	3,088	**8%**	11%
Malaysia	**2,479**	2,216	**10%**	12%
Other Markets	**7,616**	6,978	**4%**	9%
Total	**36,859**	35,408	**2%**	4%

TWPI increased by 2 per cent to US$36,859 million compared with 2020. In Hong Kong, TWPI reduced as significant cohorts of long-term participating policies started to reach the end of their premium payment terms and became fully paid up; these in-force policies have continued to generate OPAT though they no longer contribute to TWPI. Total recurring premiums accounted for over 90 per cent of premiums received in 2021.

IFRS Operating Profit Investment Return

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
Interest income	**7,536**	7,051	**5%**	7%
Expected long-term investment return for equities and real estate	**3,095**	2,347	**30%**	32%
Total	**10,631**	9,398	**12%**	13%

International Financial Reporting Standards (IFRS) operating profit investment return increased by 12 per cent to US$10,631 million compared with 2020. The growth was primarily driven by the increase in the size of our investment portfolio, with higher equities and real estate balances.

Operating Expenses

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
Operating expenses	**3,031**	2,695	**10%**	12%

Operating expenses grew by 10 per cent to US$3,031 million, driven by growth in our headcount and increased technology, digital and analytics related spending. The expense ratio was 8.2 per cent compared with 7.6 per cent in 2020.

Net Profit[1]

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
OPAT	**6,409**	5,942	**6%**	8%
Short-term fluctuations in investment return related to equities and real estate, net of tax[2]	**(276)**	(406)	**n/m**	n/m
Reclassification of revaluation (gains)/losses for property held for own use, net of tax[2]	**(66)**	52	**n/m**	n/m
Corporate transaction related costs, net of tax	**(49)**	(56)	**n/m**	n/m
Implementation costs of new accounting standards, net of tax	**(43)**	(30)	**n/m**	n/m
Other non-operating investment return and other items, net of tax	**1,452**	277	**n/m**	n/m
Total	**7,427**	5,779	**28%**	29%

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.

IFRS NON-OPERATING MOVEMENT

IFRS net profit was US$7,427 million in 2021, compared with US$5,779 million in 2020, an increase of 28 per cent.

AIA's net profit includes mark-to-market movements from our equity and investment property portfolios. Other non-operating items in 2021 included corporate transaction related costs of US$49 million, implementation costs of new accounting standards of US$43 million and other non-operating items of US$1,452 million, mainly driven by realised gains from our available for sale debt securities.

Movement in Shareholders' Allocated Equity

US$ millions, unless otherwise stated	2021	2020
Opening shareholders' allocated equity	**48,030**	43,278
Net profit	**7,427**	5,779
Purchase of shares held by employee share-based trusts	**(106)**	(16)
Dividends	**(2,147)**	(1,997)
Revaluation gains/(losses) on property held for own use	**42**	(46)
Foreign currency translation adjustments	**(1,301)**	931
Other capital movements	**115**	101
Total movement in shareholders' allocated equity	**4,030**	4,752
Closing shareholders' allocated equity	**52,060**	48,030
Average shareholders' allocated equity	**50,045**	45,654

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 debt securities.

Shareholders' allocated equity increased by 11 per cent to US$52,060 million as a result of net profit of US$7,427 million, partly offset by the payment of shareholder dividends of US$2,147 million and the impact of depreciation of local currencies against our US dollar reporting currency of US$1,301 million.

Average shareholders' allocated equity grew by 10 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 6 per cent to 53.12 US cents in 2021.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, increased by 27 per cent to 61.55 US cents in 2021.

IFRS EPS – Basic

	Net Profit[1]		OPAT[1]	
	2021	2020	**2021**	2020
Profit (US$ millions)	**7,427**	5,779	**6,409**	5,942
Weighted average number of ordinary shares (millions)	**12,066**	12,060	**12,066**	12,060
Basic earnings per share (US cents)	**61.55**	47.92	**53.12**	49.27

IFRS EPS – Diluted

	Net Profit[1]		OPAT[1]	
	2021	2020	**2021**	2020
Profit (US$ millions)	**7,427**	5,779	**6,409**	5,942
Weighted average number of ordinary shares[2] (millions)	**12,087**	12,080	**12,087**	12,080
Diluted earnings per share[2] (US cents)	**61.45**	47.84	**53.02**	49.19

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.

IFRS BALANCE SHEET

Consolidated Statement of Financial Position

US$ millions, unless otherwise stated	As at 31 December 2021	As at 31 December 2020	Change AER
Assets			
Financial investments	**281,876**	271,467	4%
Investment property	**4,716**	4,639	2%
Cash and cash equivalents	**4,989**	5,619	(11)%
Deferred acquisition and origination costs	**28,708**	27,915	3%
Other assets	**19,585**	16,481	19%
Total assets	**339,874**	326,121	4%
Liabilities			
Insurance and investment contract liabilities	**251,283**	235,952	6%
Borrowings	**9,588**	8,559	12%
Other liabilities	**18,069**	17,942	1%
Less total liabilities	**278,940**	262,453	6%
Equity			
Total equity	**60,934**	63,668	(4)%
Less non-controlling interests	**467**	468	–
Total equity attributable to shareholders of AIA Group Limited	**60,467**	63,200	(4)%
Shareholders' allocated equity	**52,060**	48,030	8%

Movement in Shareholders' Equity

US$ millions, unless otherwise stated	2021	2020
Opening shareholders' equity	**63,200**	54,947
Net profit	**7,427**	5,779
Fair value (losses)/gains on assets	**(6,763)**	3,501
Purchase of shares held by employee share-based trusts	**(106)**	(16)
Dividends	**(2,147)**	(1,997)
Revaluation gains/(losses) on property held for own use	**42**	(46)
Foreign currency translation adjustments	**(1,301)**	931
Other capital movements	**115**	101
Total movement in shareholders' equity	**(2,733)**	8,253
Closing shareholders' equity	**60,467**	63,200
Number of ordinary shares (millions)	**12,097**	12,095
Shareholders' equity per share (US cents)	**499.85**	522.53

Total Investments

US$ millions, unless otherwise stated	As at 31 December 2021	Percentage of total	As at 31 December 2020	Percentage of total
Total policyholder and shareholder	**253,585**	**86%**	247,408	87%
Total unit-linked contracts and consolidated investment funds	**40,059**	**14%**	36,302	13%
Total investments	**293,644**	**100%**	283,710	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 2021	Percentage of total	As at 31 December 2020	Percentage of total
Unit-linked contracts and consolidated investment funds				
Debt securities	**6,660**	**17%**	6,403	18%
Loans and deposits	**365**	**1%**	395	1%
Equity shares and interests in investment funds	**31,909**	**80%**	28,232	78%
Cash and cash equivalents	**1,076**	**2%**	1,219	3%
Derivatives	**49**	**–**	53	–
Total unit-linked contracts and consolidated investment funds	**40,059**	**100%**	36,302	100%

Policyholder and Shareholder Investments

US$ millions, unless otherwise stated	As at 31 December 2021	Percentage of total	As at 31 December 2020	Percentage of total
Participating funds and Other participating business with distinct portfolios[(1)]				
Government bonds	**11,092**	**4%**	9,324	4%
Other government and government agency bonds	**11,372**	**5%**	11,701	5%
Corporate bonds and structured securities	**55,697**	**22%**	54,947	22%
Loans and deposits	**2,699**	**1%**	2,519	1%
Subtotal – Fixed income investments	**80,860**	**32%**	78,491	32%
Equity shares and interests in investment funds	**29,185**	**12%**	23,892	10%
Investment property and property held for own use	**1,081**	**–**	1,054	–
Cash and cash equivalents	**1,317**	**1%**	565	–
Derivatives	**1,190**	**–**	335	–
Subtotal Participating funds and Other participating business with distinct portfolios	**113,633**	**45%**	104,337	42%
Other policyholder and shareholder				
Government bonds	**44,901**	**18%**	46,939	19%
Other government and government agency bonds	**19,345**	**8%**	18,918	7%
Corporate bonds and structured securities	**51,013**	**20%**	53,649	22%
Loans and deposits	**6,247**	**2%**	6,421	3%
Subtotal – Fixed income investments	**121,506**	**48%**	125,927	51%
Equity shares and interests in investment funds	**9,923**	**4%**	7,058	3%
Investment property and property held for own use	**5,698**	**2%**	5,570	2%
Cash and cash equivalents	**2,596**	**1%**	3,835	2%
Derivatives	**229**	**–**	681	–
Subtotal other policyholder and shareholder	**139,952**	**55%**	143,071	58%
Total policyholder and shareholder	**253,585**	**100%**	247,408	100%

Note:
(1) 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, 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.

ASSETS

Total assets increased by US$13,753 million to US$339,874 million at 31 December 2021, compared with US$326,121 million at 31 December 2020 due to positive net revenues and mark-to-market gains on equities, partly offset by negative fair value movements from our debt securities.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US$202,366 million at 31 December 2021 compared with US$204,418 million at 31 December 2020 as the inflow of new money was more than offset by changes in market values.

Government bonds and other government and government agency bonds represented 43 per cent of fixed income investments at 31 December 2021 and 31 December 2020. Corporate bonds and structured securities accounted for 53 per cent of fixed income investments at 31 December 2021 and 31 December 2020. The average credit rating of our fixed income portfolio, excluding government bonds, remained stable at A- compared to the position at 31 December 2020. Our corporate bond portfolio is well diversified with over 2,000 issuers and an average holding size of US$47 million. At 31 December 2021, we held US$4.0 billion of bonds rated below investment grade or not rated, representing 2 per cent of our total bond portfolio. We had under US$140 million of our bonds, representing 0.1 per cent of our total bond portfolio, downgraded to below investment grade during the year and there were no impairments in 2021, reflecting the quality of our investment portfolio.

Equity shares and interests in investment funds held in respect of policyholders and shareholders totalled US$39,108 million at 31 December 2021, compared with US$30,950 million at 31 December 2020. The US$8,158 million increase in carrying value was mainly attributable to new purchases driven by underlying business growth, market movements and greater asset allocation. Within this figure, equity shares and interests in investment funds of US$29,185 million were held in participating funds and other participating business with distinct portfolios.

Cash and cash equivalents decreased by US$630 million to US$4,989 million at 31 December 2021 compared to US$5,619 million at 31 December 2020. The reduction largely reflected the payments for acquisitions.

Other assets increased to US$19,585 million at 31 December 2021 compared with US$16,481 million at 31 December 2020, reflecting an increase in prepaid expenses, reinsurance recoveries and intangible assets.

LIABILITIES

Total liabilities increased to US$278,940 million at 31 December 2021 from US$262,453 million at 31 December 2020.

Insurance and investment contract liabilities grew to US$251,283 million at 31 December 2021 compared with US$235,952 million at 31 December 2020, reflecting the underlying growth of the in-force portfolio.

Borrowings increased to US$9,588 million at 31 December 2021, of which US$3,768 million are subordinated, due to the net proceeds from the issuances of medium-term notes and securities totalling US$2,079 million less the redemption of medium-term notes of US$1,002 million upon maturity. The leverage ratio, which is defined as borrowings expressed as a percentage of total borrowings and equity, was at 13.6 per cent, compared with 11.9 per cent at 31 December 2020.

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

EQUITY

Total equity attributable to shareholders was US$60,467 million at 31 December 2021, compared with US$63,200 million at 31 December 2020, as earnings for 2021 were offset by the decrease in fair value reserve driven by the increase in some key government bond yields in 2021. The fair value reserve reflects unrealised gains on our available for sale debt securities and is excluded from shareholders' allocated equity to represent the underlying position more clearly.

CAPITAL

FREE SURPLUS

The Group's free surplus is the excess of adjusted net worth over required capital, including consolidated reserving and capital requirements, adjusted for certain assets not eligible for regulatory capital purposes. The Group holds free surplus to enable it to invest in organic new business growth, 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$6,451 million increased by 8 per cent, driven by continued growth and active management of our in-force portfolio. Free surplus invested in writing new business was US$1,712 million, 18 per cent higher than 2020 and in line with VONB growth. Basic UFSG per share grew by 8 per cent to 53.46 US cents.

Underlying Free Surplus Generation Per Share – Basic

	2021	2020	YoY CER	YoY AER
UFSG (US$ millions)	**6,451**	5,843	**8%**	10%
Weighted average number of ordinary shares (millions)	**12,066**	12,060	**n/a**	n/a
Basic UFSG per share (US cents)	**53.46**	48.45	**8%**	10%

Underlying Free Surplus Generation Per Share - Diluted

	2021	2020	YoY CER	YoY AER
UFSG (US$ millions)	**6,451**	5,843	**8%**	10%
Weighted average number of ordinary shares (millions)	**12,087**	12,080	**n/a**	n/a
Diluted UFSG per share (US cents)	**53.37**	48.37	**8%**	10%

The Group remained financially very strong at 31 December 2021 with free surplus of US$17,025 million, after the payment of US$2,147 million of shareholder dividends. The BEA arrangement and our shareholding in China Post Life together accounted for an investment of US$2,430 million of free surplus. While the investment in China Post Life is an asset within the IFRS consolidated financial statements, it does not contribute to the eligible asset value for regulatory capital purposes under both the Group LCSM and the Hong Kong Insurance Ordinance (HKIO) bases, and is therefore excluded from free surplus. Free surplus per share grew by 19 per cent to 140.74 US cents.

The following table summarises the change in free surplus:

US$ millions, unless otherwise stated	2021	2020
Opening free surplus	**13,473**	14,917
Effect of acquisition[(1)]	**(312)**	(18)
BEA Upfront Payment[(2)]	**(258)**	–
Investment in China Post Life	**(1,860)**	–
UFSG	**6,451**	5,843
Free surplus used to fund new business	**(1,712)**	(1,428)
Unallocated Group Office expenses	**(273)**	(173)
Finance costs and other capital movements	**(300)**	(166)
Free surplus before investment return variances and dividends	**15,209**	18,975
Investment return variances and other items	**3,963**	(3,505)
Free surplus before dividends	**19,172**	15,470
Dividends	**(2,147)**	(1,997)
Closing free surplus	**17,025**	13,473

Notes:
(1) The effect of acquisition in 2021 refers to the cost of acquiring AIA Everest of US$397 million as per note 5 to the consolidated financial statements, less the acquired free surplus of US$85 million. 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 consolidated financial statements in the Company's Annual Report 2020.
(2) Refers to the consideration for the strategic bancassurance partnership.

Free Surplus Per Share

	2021	2020	YoY CER	YoY AER
Free surplus (US$ millions)	**17,025**	13,473	**19%**	26%
Number of ordinary shares (millions)	**12,097**	12,095	**n/a**	n/a
Free surplus per share (US cents)	**140.74**	111.39	**19%**	26%

GROUP LCSM SOLVENCY POSITION

Our Group supervisor is the HKIA and the Group is in compliance with its group capital adequacy requirements. In 2021, the HKIA implemented the new group-wide supervision (GWS) framework, under which the HKIA has direct regulatory powers over Hong Kong incorporated holding companies of designated insurance groups. On 14 May 2021, AIA Group Limited became a designated insurance holding company and is therefore subject to the GWS framework in Hong Kong, including the GWS Capital Rules. The GWS Capital Rules set out the capital requirements of the Group under the GWS framework that define the Group's overall solvency position. These requirements are based on a "summation approach" and are referred to as the Local Capital Summation Method (LCSM).

Under the LCSM, AIA's published group-level total available capital and minimum capital requirement are calculated as the sum of the available and applicable minimum required capital according to the respective regulatory requirements for each entity within the Group, subject to any variation considered necessary by the HKIA. 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.

At 31 December 2021, the Group LCSM surplus was US$50,663 million, with a very strong Group LCSM cover ratio of 399 per cent. Group available capital within these figures includes:

(i) US$3,768 million(1) of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20 per cent per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and

(ii) US$5,820 million(1) of senior notes issued before designation that have been approved by the HKIA. Prior to maturity, the approved senior notes receive full capital credit until 14 May 2031, after which the capital credit reduces at the rate of 20 per cent per annum until 14 May 2036.

The comparative figures as at 31 December 2020 were based on the Group's understanding of the likely application of the GWS framework to the Group at the time and included US$1,735 million of subordinated securities, while excluding US$5,822 million carrying amount of senior notes not then approved as contributing to Group available capital. This is largely consistent with the basis of calculation of the Group LCSM solvency position as at 31 December 2021 with the key difference being the treatment of senior notes.

A summary of the Group LCSM solvency position is as follows:

US$ millions, unless otherwise stated	**As at 31 December 2021**	As at 31 December 2020
Group available capital	**67,611**	59,830
Group minimum capital requirement	**16,948**	16,013
Group LCSM surplus	**50,663**	43,817
Group LCSM cover ratio	**399%**	374%
Senior notes approved as contributing to Group available capital(1)	**5,820**	–

Note:
(1) The amounts represented the carrying value of medium-term notes and securities contributing to Group available capital. These are counted as tier 2 group capital under the GWS Capital Rules.

GROUP LCSM COVER RATIO SENSITIVITIES

Group LCSM cover ratio sensitivities arising from changes to the central assumptions from equity price and interest rate movements and applied consistently with those in EV, are shown below. The interest rate sensitivities apply a 50 basis points movement in current bond yields and the corresponding movement on discount rates applied to the calculation of liabilities. The amount of eligible debt capital is equal to the carrying value and is unchanged in the sensitivity calculations.

US$ millions, unless otherwise stated	**As at 31 December 2021**	As at 31 December 2020
Central value	**399%**	374%
Impact of equity price changes		
10 per cent increase in equity prices	**4 pps**	1 pps
10 per cent decrease in equity prices	**(4) pps**	(2) pps
Impact of interest rate changes		
50 basis points increase in interest rates	**12 pps**	13 pps
50 basis points decrease in interest rates	**(6) pps**	(18) pps

RECONCILIATION BETWEEN GROUP LCSM SURPLUS AND FREE SURPLUS

AIA considers free surplus on a consolidated basis a more representative view of the capital position of the Group from a shareholder perspective than the LCSM. The table below shows a reconciliation between the Group LCSM surplus and free surplus.

US$ millions, unless otherwise stated	**As at 31 December 2021**	As at 31 December 2020
Group LCSM surplus	**50,663**	43,817
Adjustments for:		
Eligible debt capital	**(9,588)**	(1,735)
Different capital requirements under EV for AIA China[(1)]	**(7,733)**	(7,675)
Reflecting shareholders' view of capital[(2)]	**(9,902)**	(10,314)
Free surplus on business unit basis	**23,440**	24,093
Adjustment to reflect consolidated reserving and capital requirements	**(6,415)**	(10,620)
Free surplus on consolidated basis	**17,025**	13,473

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 2021.

The HKIA is in the process of developing amendments to the HKIO to cater for the new HKRBC regime with an effective date of 1 January 2024. On 28 December 2021 the HKIA released a circular setting out requirements for insurers that are "sufficiently advanced" in their preparations to adopt the HKRBC regime at an early date and the Group has submitted an application for early adoption of the HKRBC regime for AIA International Limited, our principal operating entity in Hong Kong. Our application is currently under review by the HKIA and we expect to receive approval before the end of the first half of 2022, subject to meeting all of the necessary conditions.

The current HKIO basis uses assumptions including an implicit margin for risk above the best estimate basis in the calculation of liabilities plus a non-economic capital requirement. The HKRBC basis prescribes an economic approach that uses best estimate assumptions for the calculation of liabilities plus an explicit capital requirement to allow for various risks. While the required capital for our business increases under the HKRBC basis, the corresponding reduction in liabilities results in an increase in both EV and free surplus.

The HKIO calculation basis does not adequately reflect the benefit of our long-standing approach of matching our assets and liabilities, particularly under volatile capital market conditions. We therefore hold additional resilience margins to smooth non-economic movements between assets and liabilities which will no longer be required on the adoption of the HKRBC regime.

The table below shows the pro forma impact on the Group's EV and free surplus of the adoption of the HKRBC basis and release of these additional resilience margins no longer required relating to the current HKIO basis as at 31 December 2021, subject to the outcome of the early adoption application currently under review by the HKIA:

US$ millions, unless otherwise stated	Embedded Value	Free Surplus
Closing Balance as at 31 December 2021	**72,987**	**17,025**
Release of resilience margins	**885**	**3,400**
Impact of HKRBC	**2,379**	**4,403**
Pro forma Closing Balance as at 31 December 2021	**76,251**	**24,828**

HOLDING COMPANY FINANCIAL RESOURCES

At 31 December 2021, holding company financial resources were US$13,136 million compared with US$12,388 million at 31 December 2020. The increase of US$748 million was mainly driven by capital flows to the holding company from subsidiaries of US$3,976 million and net proceeds of the issuances and redemption of medium-term notes and securities totalling US$1,077 million during the year, offset by the investment in China Post Life of US$1,860 million and the payment of shareholder dividends of US$2,147 million. Issuances of medium-term notes and securities totalled US$2,079 million while US$1,002 million were redeemed upon maturity.

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

US$ millions, unless otherwise stated	2021	2020
Opening holding company financial resources	**12,388**	8,630
Capital flows from subsidiaries	**3,976**	2,354
Corporate activity including acquisitions	**(1,860)**	–
Net capital flows to holding company	**2,116**	2,354
Increase in borrowings(1)	**1,077**	2,792
Interest payments on borrowings(1)	**(322)**	(245)
Investment income, mark-to-market movements in debt securities and others	**24**	854
Closing holding company financial resources before dividends	**15,283**	14,385
Dividends paid	**(2,147)**	(1,997)
Closing holding company financial resources	**13,136**	12,388

Assets recoverable and liabilities repayable within 12 months as follows:

US$ millions, unless otherwise stated	As at 31 December 2021	As at 31 December 2020
Loans to/amounts due from subsidiaries(2)	**103**	90
Medium-term notes and securities(3)	**(167)**	(1,002)
Net other assets and other liabilities	**(46)**	(14)

Notes:

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

(2) As at 31 December 2021, loans to/amounts due from subsidiaries was US$1,917 million (2020: US$1,904 million). US$103 million was recoverable within the 12 months after the year ended 31 December 2021 (2020: US$90 million).

(3) As at 31 December 2021, medium-term notes and securities placed to the market was US$9,588 million (2020: US$8,559 million). US$167 million was repayable within the 12 months after the year ended 31 December 2021 (2020: US$1,002 million). Details of the medium-term notes and securities placed to the market are included in note 30 to the consolidated financial statements.

GLOBAL MEDIUM-TERM NOTE AND SECURITIES PROGRAMME

In March 2021, we increased our Global Medium-term Note (GMTN) and Securities Programme from US$10 billion to US$12 billion.

During the year, the Company issued two fixed rate resettable subordinated perpetual securities and two fixed rate resettable subordinated dated securities. On 7 April 2021, the Company issued US$750 million of resettable subordinated perpetual securities at an annual rate of 2.7 per cent. On 11 June 2021, the Company issued Singapore dollar (SGD) 500 million of resettable subordinated perpetual securities at an annual rate of 2.9 per cent. On 9 September 2021, the Company issued Euro (EUR) 750 million of 12-year resettable subordinated dated securities at an annual rate of 0.88 per cent. On 19 October 2021, the Company issued Singapore dollar (SGD) 105 million of 30-year resettable subordinated dated securities at an annual rate of 3.0 per cent. These securities are all listed on The Stock Exchange of Hong Kong Limited.

At 31 December 2021, the aggregate carrying amount of the debt issued to the market under the GMTN and Securities Programme was US$9,588 million.

CREDIT RATINGS

At 31 December 2021, 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 S&P Global Ratings.

At 31 December 2021, the Company had issuer credit ratings of A1 (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 stable outlook from S&P Global Ratings.

DIVIDENDS

The Board has recommended a final dividend of 108.00 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2021 to 146.00 Hong Kong cents per share, an increase of 8 per cent compared with the total dividend for 2020. 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 2021, AIA delivered a strong performance with an 18 per cent increase in VONB and growth in all of our key financial metrics. Our diversification is a key competitive advantage for AIA, and the execution of our strategic priorities has driven broad-based growth across our geographical markets and distribution channels as all our reportable segments delivered VONB growth on a like-for-like basis. VONB for the Group outside Hong Kong exceeded pre-pandemic levels after excluding the impact of withholding tax following our subsidiarisation in China. We have continued to accelerate the use of technology, digital and analytics (TDA) throughout our business to provide uninterrupted service to our customers, agents and partners even as the COVID-19 pandemic continued to impact the region throughout the year.

DISTRIBUTION

Our **agency** channel delivered 20 per cent VONB growth in 2021, demonstrating our ongoing commitment to enhancing the quality of our agency distribution through our highly differentiated Premier Agency strategy. As a result of the successful execution of our strategy and our rapid digitalisation of the entire agency value chain, we grew the number of active agents and raised their productivity levels, demonstrating our commitment to quality recruitment. AIA was once again the number one Million Dollar Round Table (MDRT) company globally in 2021, extending our track record to seven years in the top ranked position globally and affirming the effectiveness of our Premier Agency strategy.

VONB for our **partnership** channels grew by 4 per cent after excluding the impact of the one-off contribution from Commonwealth Bank of Australia (CBA) in the first quarter of 2020, as previously reported. Our focus on increasing referral leads from our bank partners through customer analytics, digital marketing platforms and social media enabled us to reach previously untapped customer segments and address their needs through our seamless omnichannel experience.

GEOGRAPHICAL MARKETS

AIA China delivered VONB growth of 10 per cent after excluding the impact of withholding tax that has applied following the subsidiarisation of our business. Our differentiated Premier Agency strategy, coupled with the increased level of digital tool adoption, supported an improvement in agency activity and productivity. Following the successful launch of our new operation in Chengdu, Sichuan, in March, we received approval from the China Banking and Insurance Regulatory Commission to begin operations in Wuhan, Hubei, with sales commencing from January 2022.

AIA Hong Kong achieved excellent VONB growth of 37 per cent in 2021. Both our agency and bancassurance channels delivered very strong performances, underpinned by an improvement in both agency activity and productivity and supported by the launch of our new partnership with BEA in July. The resumption of Macau's Individual Visit Scheme with Mainland China drove excellent growth in sales to Mainland Chinese visitors through our Macau branch during the year.

AIA Thailand achieved VONB growth of 34 per cent in 2021 with a 19.4 pps increase in VONB margin, driven by a proactive shift towards the sale of regular premium unit-linked and protection products. Both our market-leading agency business and our strategic bancassurance partner, Bangkok Bank Public Company Limited (Bangkok Bank), delivered strong VONB growth for the year as we continued to improve the productivity of our agency new recruits and bank insurance specialists.

AIA Singapore achieved 6 per cent VONB growth in 2021, as double-digit growth in our agency channel was partly offset by a reduction in new business from our partnership distribution channel. We continued to support our Premier Agency by enhancing our digital tools and platforms, leading to an increase in the number of active agents and improvements in agent productivity.

AIA Malaysia reported VONB growth of 26 per cent, supported by strong performances in both our agency and partnership distribution channels. Our Takaful business also delivered excellent growth in 2021.

Our **Other Markets** segment delivered growth on a like-for-like basis in 2021. A strong performance in the first half was partly offset by reduced sales volumes in the second half as stricter containment measures were imposed in a number of markets due to a resurgence of COVID-19.

UNRIVALLED DISTRIBUTION

AGENCY

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**2,877**	2,333	**20%**	23%
VONB margin	**74.3%**	67.5%	**6.5 pps**	6.8 pps
ANP	**3,872**	3,455	**10%**	12%

Our proprietary Premier Agency is a core competitive advantage that distinguishes AIA as the pre-eminent life and health insurance company in Asia. Our strategy is to attract and select high-quality new recruits and help them build sustainable and successful full-time careers by supporting their sales and recruitment activities with best-in-class training, award-winning digital tools and clear career paths. This differentiated long-term strategy is the foundation of our professional, resilient and productive agency force that holds market-leading positions across the region. Our unparalleled Premier Agency platform enables us to reach millions of customers across Asia and meet their diverse and evolving needs with personalised advice and our comprehensive suite of propositions.

The consistent execution of our Premier Agency strategy in 2021 delivered excellent VONB growth of 20 per cent to US$2,877 million. ANP grew by 10 per cent to US$3,872 million and VONB margin increased to 74.3 per cent, primarily driven by favourable shifts in product mix in Hong Kong and Thailand and a reduction in acquisition expense overruns.

AIA's commitment to providing customers with high-quality advice through our professional agency force and continued deployment of new technology supported growth in the number of active agents across the Group as well as an increase in the productivity of these agents. Quality recruitment remains a key strategic priority for our Premier Agency platform as demonstrated by a strong increase in the productivity of new agents. For example, new agents from our quality recruitment programmes in Malaysia and Thailand were four times more active than standard agent recruits during the year.

Our investments in TDA capabilities for our agency force are proving invaluable in a challenging operating environment. New functionality enables our agents to leverage their social media networks systematically and with curated content, helping to reach new customer segments even during strict lockdowns. Our expanded social media integrated leads management platform helped to generate over 2 million new customer leads and close to US$280 million of ANP for the Group in 2021. The remote sales functionality integrated into our digital tools makes it easier for agents to switch from in-person to digital remote sales models when needed. For example, in Singapore, the proportion of cases closed through remote sales exceeded 75 per cent during the period when stringent pandemic restrictions were in-force.

In 2021, AIA once again achieved excellent growth in MDRT membership with over 16,000 registered members across the Group, representing an increase of 25 per cent compared with 2020. AIA is now the number one MDRT company globally for the last seven years with the largest number of MDRT-registered members, demonstrating the effectiveness of our Premier Agency strategy.

PARTNERSHIPS

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**695**	676	**0%**	3%
VONB margin	**39.1%**	38.4%	**0.6 pps**	0.7 pps
ANP	**1,775**	1,764	**(2)%**	1%

AIA's extensive network of market-leading strategic distribution partners provides us with a unique opportunity to engage and meet the protection, health, wellness and long-term savings needs of hundreds of millions of potential customers across Asia. Our key priorities for this channel are to strengthen collaboration with our strategic bancassurance and other partners to deliver digital-led personalised propositions and insurance advice for their customers, as well as continue to expand our network of digital platform partnerships.

Our partnership distribution business delivered stable VONB of US$695 million in 2021, as ANP declined by 2 per cent and VONB margin increased slightly to 39.1 per cent. After excluding the impact of the one-off purchase by CBA in the first quarter of 2020, as previously reported, VONB increased by 4 per cent.

BANCASSURANCE, INTERMEDIATED CHANNELS AND DIRECT MARKETING

Activity management was an important focus in 2021 as we continued to develop our bancassurance business. Bank insurance specialists benefitted from greater adoption of digital tools, enhanced customer segmentation with analytics and new propositions to meet evolving customer needs. The adoption of remote sales processes has strengthened the resilience of our bancassurance sales model as branches were intermittently closed by government mandates to control the spread of COVID-19. Our initiatives supported double-digit VONB growth in aggregate across our strategic bancassurance partnerships in the ASEAN markets. We also launched our strategic bancassurance partnership with BEA in Hong Kong and Mainland China, and the regional partnership has already become a material contributor to our overall bancassurance results in the second half of 2021.

Our focus on increasing referral leads from our bank partners through customer analytics, digital marketing platforms and social media delivered over 2.8 million leads in 2021. This enabled us to reach previously untapped customer segments and address their needs through our seamless omnichannel experience.

In April 2021, Citibank, N.A. (Citibank) announced that it intends to exit its consumer banking business in Asia except for Hong Kong and Singapore. We have amended our bancassurance agreement with Citibank to deepen our partnership in these two markets, which have contributed the large majority of VONB to the existing regional partnership.

DIGITAL PLATFORMS

In 2021, we continued to expand our network of strategic partnerships with technology companies that have significant active user bases, including with Tiki Corporation in Vietnam and TNG Digital Sdn. Bhd. (TNGD) in Malaysia. In this channel, we are focusing on accessing new customer segments at scale through innovative lifestyle benefits and scenario-based propositions. For example, we launched WalletSafe with TNGD in October, a first-in-market e-wallet balance protection plan integrated with personal accident and COVID-19 coverage. Since launch, this product attracted over 200,000 customers in less than three months. In South Korea, we brought together SK Telecom, Samsung Card and AIA Vitality to launch a range of new joint propositions targeting a combined customer base of 40 million people. We also continued to activate our digital platform partnerships as we set up dedicated teams in eight markets and expanded the geographical coverage of ZA Tech Global Limited (ZA Tech)'s leading digital insurance platform to Hong Kong, Indonesia and Vietnam.

GEOGRAPHICAL MARKET HIGHLIGHTS

MAINLAND CHINA

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**1,108**	968	**7%**	14%
VONB margin	**78.9%**	80.9%	**(1.9) pps**	(2.0) pps
ANP	**1,404**	1,197	**9%**	17%
TWPI	**6,999**	5,622	**16%**	24%
OPAT	**1,371**	1,220	**4%**	12%

AIA China delivered VONB growth of 7 per cent and a 9 per cent increase in ANP in 2021. Excluding the impact of 5 per cent withholding tax following the subsidiarisation of our business, VONB increased by 10 per cent. Very strong double-digit growth in agency productivity more than offset a slight reduction in active agent numbers for the full year. Our successful recruitment initiatives supported a return to growth in active agent numbers in the second half. VONB margin remained stable for the year, even as strong demand for our new suite of long-term savings propositions drove an increased proportion of savings business and a lower VONB margin in the second half. Traditional protection products accounted for the majority of VONB in 2021 as a regulatory change that took effect in February 2021 accelerated demand and nearly half of the year's total VONB was recorded in the first quarter.

AIA's commitment to our long-established and differentiated Premier Agency strategy provides a significant competitive advantage for AIA China and positions us for long-term sustainable growth as shifting consumer preferences and regulations drive increased demand for high-quality propositions backed by professional advice. Through our new initiatives and an enhanced recruitment platform, we achieved a very strong double-digit increase in new recruits in the second half compared to the first half, while maintaining our stringent quality requirements. Powerful new digital tools supported higher agency activity and productivity as well as very strong double-digit growth in agent incomes in 2021 compared to 2020.

The Chinese life insurance market remains significantly underpenetrated, offering tremendous growth potential for AIA. In July 2021, we launched our Family Insurance Consulting service application which analyses a customer's existing insurance coverage in real time and generates a personal needs analysis, supporting our agents to provide tailored product recommendations to customers. Over 350,000 clients have benefitted from this tool.

We continue to strengthen our compelling customer propositions with new integrated value-added services tailored to the evolving needs and increasing demands of consumers. Our new long-term savings products have helped attract new customers and deepen our share of wallet with our existing customers. For example, *You Zi Zai*, our new retirement proposition, provides customers with medical coverage and concierge services, through which we connect customers to a large number of high-quality partner institutions offering a variety of retirement and rehabilitation services across our geographical footprint.

AIA China reported OPAT growth of 4 per cent as strong underlying business growth was partly offset by the impact of withholding tax following subsidiarisation and the normalisation of medical claims relative to the low levels experienced in 2020. Excluding these items, OPAT grew by 10 per cent.

Following the successful launch of our new operation in Chengdu, Sichuan, in March, we received approval from the China Banking and Insurance Regulatory Commission to begin operations in Wuhan, Hubei, with sales commencing from January 2022. Hubei province has a population of nearly 60 million and is a centre of excellence for higher education in Mainland China. This approval marks another milestone as we replicate our Premier Agency in new geographies and capture AIA's unique opportunity to access a base of potential customers five times the reach of our existing footprint.

HONG KONG

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**756**	550	**37%**	37%
VONB margin	**64.0%**	44.7%	**19.3 pps**	19.3 pps
ANP	**1,106**	1,138	**(3)%**	(3)%
TWPI	**11,904**	13,042	**(9)%**	(9)%
OPAT	**2,143**	2,059	**4%**	4%

AIA Hong Kong delivered an excellent result in 2021 with VONB growth of 37 per cent. ANP returned to positive growth in the second half of the year after a reduction in the first half. A favourable product mix shift combined with higher government bond yields and reduced acquisition expense overruns led to an increase of 19.3 pps in VONB margin. While the Individual Visit Scheme with Mainland China remained suspended for Hong Kong throughout 2021, the scheme has resumed for Mainland Chinese visitors to Macau. This has supported excellent growth in sales to Mainland Chinese visitors for our Macau branch compared to 2020.

AIA's Premier Agency remained the clear market leader in agency distribution in Hong Kong and achieved strong double-digit VONB growth, underpinned by an improvement in both activity and productivity. Our bancassurance channel also achieved excellent VONB growth in 2021, supported by the launch of our new partnership with BEA in July. We launched a flagship innovative long-term savings product in June, which provides customers with the flexibility to switch between multiple currencies as their needs evolve.

OPAT grew by 4 per cent, as underlying business growth and higher investment returns that resulted from an increase in equity asset balances were partly offset by a normalisation of medical claims experience relative to the low levels of 2020 and a small number of unusually large death claims. TWPI reduced as significant cohorts of long-term participating policies started to reach the end of their premium payment terms and became fully paid; these in-force policies have continued to generate OPAT.

THAILAND

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**609**	469	**34%**	30%
VONB margin	**90.0%**	71.0%	**19.4 pps**	19.0 pps
ANP	**677**	661	**5%**	2%
TWPI	**4,428**	4,462	**2%**	(1)%
OPAT	**960**	987	**(1)%**	(3)%

AIA Thailand achieved 34 per cent VONB growth in 2021. ANP increased by 5 per cent and VONB margin improved by 19.4 pps due to a proactive shift in product mix to regular premium unit-linked and protection products.

Our market-leading agency business delivered excellent VONB growth, as we continued to focus on quality recruitment and achieved double-digit growth in the productivity of agents from our differentiated Financial Adviser programme. Our strategic bancassurance partner, Bangkok Bank, delivered double-digit VONB growth for the year, driven by higher productivity of bank insurance specialists as well as increased sales of unit-linked products.

OPAT remained broadly stable as adverse lapse experience from our in-force portfolio and lower investment returns offset underlying business growth.

SINGAPORE

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**356**	330	**6%**	8%
VONB margin	**64.7%**	63.4%	**1.4 pps**	1.3 pps
ANP	**549**	520	**3%**	6%
TWPI	**3,433**	3,088	**8%**	11%
OPAT	**723**	621	**13%**	16%

AIA Singapore delivered 6 per cent VONB growth in 2021. ANP grew by 3 per cent, as double-digit growth in our agency channel was partly offset by a reduction in new business from our partnership distribution channel. VONB margin improved by 1.4 pps as a result of reduced acquisition expense overruns compared to last year.

Leveraging our powerful digital tools, our differentiated Premier Agency strategy delivered an increase in the number of active agents and improvements in agent productivity. The increased adoption of iSMART, our mobile application supporting agents to leverage social media for leads generation, has helped generate over US$70 million of ANP since launch. Our digital sales platform enables agents to convert leads seamlessly and has supported higher agent productivity with a double-digit increase in average case size in 2021.

OPAT increased by 13 per cent, driven by growth in our in-force portfolio and increased investment returns.

MALAYSIA

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**283**	222	**26%**	27%
VONB margin	**57.3%**	59.9%	**(2.5) pps**	(2.6) pps
ANP	**491**	369	**32%**	33%
TWPI	**2,479**	2,216	**10%**	12%
OPAT	**392**	326	**17%**	20%

AIA Malaysia achieved very strong VONB growth of 26 per cent, supported by double-digit growth in both our agency and partnership distribution channels. ANP grew by 32 per cent, driven by excellent growth in our Takaful business, and VONB margin remained strong at 57.3 per cent.

In agency, we continued to focus on quality recruitment and achieved excellent double-digit growth in new recruits in 2021. We have improved both the activity and productivity of our agents, with over 85 per cent of active agents utilising our digital tools to manage their day-to-day activities. Our partnership channel delivered strong double-digit VONB growth, driven by our exclusive bancassurance partnership with Public Bank Berhad.

OPAT grew by 17 per cent in 2021. As previously highlighted, a one-off provision for an industry-wide initiative to identify and pay accumulated unreported death claims was made in the first half of 2020. Excluding this provision, OPAT increased by 11 per cent.

OTHER MARKETS

US$ millions, unless otherwise stated	2021	2020	YoY CER	YoY AER
VONB	**511**	514	**(4)%**	(1)%
VONB margin	**35.9%**	38.4%	**(2.9) pps**	(2.5) pps
ANP	**1,420**	1,334	**4%**	6%
TWPI	**7,616**	6,978	**4%**	9%
OPAT	**784**	687	**10%**	14%

Overview

Our Other Markets segment recorded a 4 per cent reduction in VONB. After excluding the large one-off contribution from CBA in Australia in the first quarter of 2020, VONB growth was positive in 2021, with growth in the first half partly offset by a weaker performance in the second half, as stricter containment measures were imposed in a number of markets due to a resurgence of COVID-19. OPAT increased by 10 per cent, as strong underlying business growth across a number of markets was partially offset by increased mortality claims in Indonesia and the Philippines.

Geographical Market Highlights

Australia and **New Zealand:** In 2021, AIA Australia delivered double-digit VONB growth on a like-for-like basis excluding the one-off contribution from CBA in the first quarter of 2020. Our group insurance business delivered strong ANP growth as we renewed several large group insurance schemes.

AIA New Zealand reported excellent VONB growth, driven by a very strong performance from our IFA channel and a reduction in acquisition expense overruns.

Cambodia: AIA Cambodia continued to execute its multi-channel distribution strategy. Our partnership distribution delivered double-digit ANP growth despite disruptions from COVID-19 containment measures that were in place for most of the year. In 2021, we entered into a new partnership with Prince Bank Plc and extended our partnership with Cambodian Public Bank.

India: Tata AIA Life maintained our industry leading position in the pure retail protection market and achieved strong VONB growth in 2021. We continued to grow our high quality differentiated Premier Agency as we expanded our agency's geographical footprint by opening 100 new digitally-enabled branches that operate completely without paper. Our bancassurance channel delivered excellent growth as we enhanced our digital and remote-selling tools. Our digital capabilities enabled us to engage and service the customers of our partners with seamless end-to-end experiences. For example, our partnership with PolicyBazaar increased sales by 40 per cent in 2021 with over 50,000 cases sold by way of an end-to-end digital journey with tele-assistance.

Indonesia: AIA Indonesia's VONB remained stable in 2021 compared to last year as the pandemic continued to cause disruption to new business sales. As restrictions eased in the fourth quarter, we saw business momentum return with positive month-on-month growth in VONB for both agency and our strategic bancassurance partnership with Bank Central Asia. Our agency channel delivered very strong double-digit growth for the year, driven by a significant increase in new recruits and higher utilisation of digital tools.

Myanmar: AIA Myanmar continued to build strong foundations for the long-term expansion of our business in this market. Momentum began to return in the second half of the year as we focused on growing our distribution. In 2021, we became the market leader by MDRT membership.

Philippines: AIA Philippines' VONB reduced slightly compared with last year as a decline in the first half was partly offset by year-on-year growth in both our agency and bancassurance channels in the second half of the year. In agency, high adoption of iRecruit, our digital end-to-end recruitment platform, supported strong double-digit growth in new recruits and we drove increased utilisation of digital tools amongst our agents. The increased adoption of remote selling tools in our bancassurance channel also supported an improvement in productivity of our bank insurance specialists.

South Korea: AIA Korea achieved double-digit VONB growth in 2021. Our direct marketing channel delivered strong growth, underpinned by an increase in sales representatives compared to last year. We continued to enhance our omnichannel distribution with SK Telecom, SK Inc. C&C and Samsung Card, resulting in an excellent increase in sales in the second half compared to the first half.

Sri Lanka: AIA Sri Lanka delivered excellent VONB growth, driven by very strong performances across both our agency and bancassurance channels. Our continued focus on supporting our agency force with enhanced digital tools drove a strong growth in the number of active agents.

Taiwan (China): AIA Taiwan recorded a double-digit decline in VONB in 2021, as stringent containment measures were implemented for the first time since the start of the pandemic and remained in place for the majority of the year affecting sales across all channels.

Vietnam: AIA Vietnam's VONB declined in 2021 as the implementation of strict mobility restrictions for the first time since the beginning of the pandemic affected sales in the second half of the year, which more than offset growth in the first half. We continued to enhance and drive adoption of our digital tools among our agents, resulting in a double-digit increase in remote sales adoption. Our strategic bancassurance partnership with VPBank achieved excellent VONB growth for the year and we launched our partnership with Tiki Corporation, a leading comprehensive e-commerce platform in Vietnam, in December.

TECHNOLOGY, DIGITAL AND ANALYTICS

Our goal is to position AIA as the industry leader in the use of technology, digital and analytics (TDA), enabling us to capture new growth opportunities, increase productivity, better connect with our customers and drive greater efficiencies across the business. Rapid adoption and scaling of TDA throughout the organisation has been critical in AIA's successful navigation of the pandemic, helping us to continuously support our employees, customers, distributors and partners.

AIA's comprehensive investment programme in TDA is upgrading the capabilities of our business units to achieve our vision as a simpler, faster and more connected organisation. Our progress accelerated in 2021, continuing our shift to a world-class technology infrastructure that is efficient, scalable and agile. We are investing in digital enablement tools and embedding data analytics throughout our business. Our TDA transformation is significantly enhancing the experience of our stakeholders as they interact with AIA.

WORLD-CLASS TECHNOLOGY

AIA is adopting cloud technology at pace and by the end of 2021 over 70 per cent of our information technology infrastructure was hosted in the public cloud, compared with 39 per cent a year ago. As we progress towards our ambitious goal of 90 per cent cloud adoption, we are already well ahead of the global financial services and insurance industry averages.

Our businesses in Mainland China, Hong Kong, Thailand and Singapore have all exceeded 70 per cent cloud adoption, while our relatively young operation in Vietnam has reached 99 per cent, up from 54 per cent in January 2021. Across our markets we are achieving our key objectives of stability, efficiency and security as well as seeing cost benefits emerge. Our ability to deploy big data and analytics platforms and drive automation at scale is increasing, supporting our business growth in general and our geographical expansion in Mainland China in particular.

We continue to focus on increasing the straight-through processing (STP) of buy, service and claim customer journeys as we improve digitalisation and automation of operational processes. In December 2021, we processed 58 per cent of transactions automatically for the Group. Artificial intelligence (AI), robotic process automation solutions and digitalisation of processes have supported impressive STP results in some of our markets. For example, in December 2021, STP levels for customer service requests reached 91 per cent in Mainland China; full end-to-end STP of new business processing in the Philippines was close to 70 per cent; and our Australia business processed 75 per cent of minor health claims automatically.

DIGITAL ENABLEMENT

We have made significant enhancements to our agency digital platforms, driving increased adoption by agency leaders and agents, supporting agency recruitment and raising agent productivity. We have deployed iRecruit, our digital recruitment application, in all of our agency markets, and in 2021, rolled out significant enhancements in Thailand, Indonesia, the Philippines and Vietnam. Overall adoption of iRecruit increased to 63 per cent among agents and leaders. The upgraded functionality and content of our eLearning platforms have helped us deliver innovative, engaging and tailored learning experiences for our agents with an adoption rate of 96 per cent.

We launched our integrated social media prospecting and content sharing capabilities in four markets in 2021, embedded into our digital platforms to streamline the use of online channels for new customer lead generation. Through this new platform, our agents delivered strong results with close to US$280 million of ANP generated from more than two million sales leads for the Group. We plan to build on this success with further enhancements and deployment across our other markets in 2022.

We continue to build digital and data-driven solutions to deliver a seamless end-to-end sales experience for our bancassurance partners. We are enhancing their ability to generate leads digitally, contact customers online and complete the sales journey either digitally or face-to-face with in-branch specialists. In 2021, over 2.8 million leads were digitally generated through our strategic bank partners, enabling us to reach previously untapped customers.

We are improving our self-service and digital claims capabilities for customers. In 2021, we launched nine new customer-facing apps across our markets as we increased the number of services and features available online to over 9.2 million registered customers across the Group. Customer engagement through digital channels has continued to grow with 75 per cent of claims and 73 per cent of service requests submitted digitally in 2021. Our focus on improving the customer service and digital experience has seen our apps achieve an app store rating of 4 or higher across all of our key markets.

In December, we launched One Experience in Mainland China, our integrated digital platform that combines policy servicing with AIA's Health and Wellness Ecosystem of services and curated content. The platform will transform our customers' experience through more personalised and targeted engagement as we build a lifetime affinity with them. One Experience is also integrated into our agency digital platforms, providing enhanced leads and sales opportunities for agents and more relevant and personalised recommendations for customers.

Our progress in digital enablement is delivering strong results for our customers, agents, partners and employees and our achievements have helped AIA to be named Digital Insurer of the Year in 2021 by *InsuranceAsia News*.

ANALYTICS POWERING EVERYTHING WE DO

In 2021, we implemented over 100 individual use cases of analytics across our businesses as we develop and industrialise the Group's capabilities.

Our high-quality Premier Agency force is a key competitive advantage for AIA and we are enhancing its capabilities with analytics embedded into the end-to-end agency management lifecycle. Our AI-driven career aptitude test generates a comprehensive assessment and enables systematic identification of high-potential agents early in their careers. This allows us to provide targeted and personalised career development programmes and support the development of more high-performing agents more quickly. The increasing power of our analytics will help to extend our agency differentiation, driving higher productivity and improved agent retention. We have seen strong success in Mainland China, Hong Kong and Thailand and plan to extend these capabilities to other markets in 2022.

In Mainland China, *Xiao Bang*, our AI-powered personal assistant, handles outbound calls and more complex two-way conversations with a growing portfolio of applications. *Xiao Bang* allows us to systematically engage customers on a personal level at scale, delivering direct financial benefits such as supporting the collection of nearly RMB2 billion in overdue premiums in the last two years. *Xiao Bang* won the 2021 Insurtech Initiative of the Year in Mainland China awarded by *Insurance Asia*.

In Singapore we launched Claims EZ, a claims platform allowing customers to submit medical claims digitally. Using AI and machine learning for automatic claims assessment, the engine auto-assessed almost all of AIA HealthShield electronically-submitted claims, processed 60 per cent with no human intervention and paid over 55 per cent of minor claims within 24 hours. Claims EZ has won several industry awards and has helped deliver a 20 per cent improvement in Customer Effort Score for claims within one year.

CYBERSECURITY AND RESPONSIBLE USE OF ARTIFICIAL INTELLIGENCE

As we continue to leverage cloud technology and AI, and increase our use of digital and analytics across the Group, we also continue to focus on the governance of their use, data protection and cybersecurity.

In 2021, AIA promulgated a Responsible Use of Artificial Intelligence Standard which details our principles on the use and application of AI in both internally-developed or externally-sourced solutions. The standard has also prescribed clear roles and responsibilities to effectively cascade requirements throughout the Group.

We maintained ISO 27001 certification in 2021 for our identity access management and cybersecurity operations services on our security controls, including our data security and encryption standards. The scope of our certification was also extended to cover cloud security operations.

COMPELLING PROPOSITIONS

AIA's Purpose to help people live Healthier, Longer, Better Lives underpins everything that we do. Through our compelling propositions we aim to create shared economic value, tying our financial success to community success. We look to reward customers for taking actions that positively impact their health, help them seek the best treatment and save more effectively to meet their financial needs through different life stages.

HIGH-QUALITY ADVICE IS CORE TO OUR PROPOSITIONS

The foundation of AIA's compelling propositions is the high-quality advice that helps our customers select the right products and services. Customers form a trusted advisory relationship with our Premier Agents and the professional sales teams of our distribution partners, and this is a critical success factor underpinning our long-term track record of delivery. We train and equip our advisers to provide ongoing and personalised advice as they help our customers and their dependants with their evolving needs.

BEST-IN-CLASS HEALTH AND WELLNESS SERVICES INTEGRATED IN OUR PROPOSITIONS

Our customers also have access to services across the four components of AIA's Health and Wellness Ecosystem, covering all stages of their health journeys from prediction, through prevention and diagnosis, to treatment and recovery.

AIA Vitality is fundamental to our shared-value insurance model, rewarding customers for living more healthily and transforming the way they perceive life and health insurance. AIA Vitality is now active in 10 of our markets following its launch in Indonesia in 2021. The relevance of AIA Vitality to our customers is reflected in the 45 per cent growth in VONB from protection products integrated with AIA Vitality to US$633 million in 2021. The combined membership of AIA Vitality and our wellness programme in Mainland China increased further to almost 2 million members at 31 December 2021.

We also continue to expand the personalised services integrated within the programme. For example, we introduced an exclusive AI-powered food scoring and logging tool in five markets in partnership with Holmusk, a global data science and healthcare technology provider. This tool helps us deepen our regular engagement with and further improves our understanding of AIA Vitality members as they upload their daily nutrition. Since launch, AIA Vitality members have uploaded more than a million food logs.

Rapid advances in healthcare technology and the increasing consumer desire to use digital health services driven by the pandemic are combining to transform remote healthcare services. We are responding by making it easier for our customers to access quality services. **AIA Telemedicine**, our primary digital healthcare support tool, enables our customers to receive medical consultations by video on their mobile devices as well as prescription services, medication delivery and referral to healthcare provider networks. AIA Telemedicine services are available in 10 of our markets. In 2021, we continued to see a significant surge in the use of our services, with the overall number of initial online telemedicine consultations up by 73 per cent.

Following launches in Cambodia, Myanmar and New Zealand during 2021, AIA now offers its **Personal Case Management** in 12 markets, helping to manage serious medical conditions and support customers through difficult times. The service provides our customers with access to leading global specialists for medical advice and local medical teams for support. In 2021, 21 per cent of customers using this service in nine markets received a refined diagnosis, 56 per cent had their initial treatment plan amended, and 71 per cent of unnecessary treatment such as surgery was avoided, leading to an overall customer satisfaction rate of 94 per cent.

The **AIA Regional Health Passport** builds on our pan-Asian presence to provide customers with access to a wide network of leading international hospitals across multiple healthcare hubs. Our customers enjoy the convenience of a region-wide referral and appointment service and cross-border cashless payments. In 2021, we established a regional service centre to enhance customer support across the seven markets where the AIA Regional Health Passport services are available, following launches in Indonesia and Sri Lanka.

INTEGRATED SOLUTIONS TO MEET CUSTOMER NEEDS

We believe a key component of success in delivering our compelling propositions is making it easier for customers to access our solutions and services. In December 2021, we launched the first release of One Experience, the Mainland China version of our lifestyle super app. Since launch, One Experience has received a very high app store rating of 4.8 and over 1.4 million users have registered on the platform.

Across Asia, we design our propositions based on our deep understanding of the evolving needs of our existing and potential customers. For example, we have developed a wide range of solutions to meet the increasing needs for retirement savings driven by ageing societies. A key element of these retirement propositions is the integration of health and wellness services to address their pre- and post-retirement needs.

In July 2021, AIA China launched its new total retirement solution, *You Zi Zai*, that combines insurance solutions, support services and planning tools to deliver a unique and compelling proposition. With a design driven by our in-depth customer research, *You Zi Zai* aims to change how Chinese families plan for their retirement. Prior to launch, we equipped our Premier Agents with new digital planning tools that identify retirement risk exposures, compile personalised gap analysis and deliver tailored recommendations for our customers. This total retirement solution has been well received by our customers and it has generated a strong uplift to our VONB in Mainland China since launch.

Our new retirement income proposition in Singapore provides peace of mind to customers looking to protect their savings. This new unit-linked product leverages our top-performing funds on the AIA Regional Funds Platform, powered by leading global fund managers and oversight from AIA's experienced investment team. We have enhanced our digital planning tools to support our Premier Agents as they tailor these solutions to each customer.

ONGOING TRANSFORMATION FROM PAYOR TO PARTNER

As a pan-Asian life and health insurer, AIA is uniquely positioned to deploy our technology, digital and analytics capabilities to deliver healthcare solutions with greater convenience, expanded access and lower costs to customers while easing pressure on traditional healthcare delivery models.

In February 2022, we announced the establishment of new business, Amplify Health, in partnership with Discovery Limited (Discovery), our long-standing partner in AIA Vitality. Our vision is for Amplify Health to be a leading digital health technology and integrated solutions business, transforming how individuals, corporates, payors and providers experience and manage health insurance and healthcare delivery, improving the health and wellness outcomes of patients and communities across Asia. Amplify Health will accelerate AIA's health and wellness strategy, leveraging an array of health technology assets, proprietary data analytics and extensive health expertise transferred from Discovery, a global leader in value-based healthcare.

LEADING CUSTOMER EXPERIENCE

A key strategic priority for AIA is to deliver a seamless omnichannel customer experience with best-in-class engagement. We believe that distinctive, personalised and meaningful experiences for our customers will generate a range of business benefits, including significant improvements in customer retention, increased sales leads, cross-sales and conversion, and productivity gains for our distribution channels. To deliver a leading customer experience we are reorienting our business around customer journeys and leveraging the power of TDA.

A critical driver in our transformation is the feedback from our customers through a comprehensive Group-wide measurement framework, ensuring that we prioritise the changes that make the most difference.

DRIVING SATISFACTION WITH CUSTOMER INSIGHTS AND RAPID TURNAROUND

In Mainland China, insights from survey with around 300,000 customers over the past four years covering our buy, service and claim journeys have driven the transformation of our customer experience. Increasingly we are applying data analytics and AI in our key insurance processes, helping to simplify the underwriting process, automate the claims process and embed voicebots into both our inbound chat and outbound call services. These enhancements have supported AIA China to remain the insurance market leader for overall Net Promoter Score and Customer Effort Score for the last four years.

Customer research across the Group is clear that faster transaction turnaround times and claims experience are key drivers of customer satisfaction. Our TDA programme is driving significant improvements and, in December 2021, close to 60 per cent of all customer transactions across the Group were completed on the same day. Some of our markets have delivered outstanding performance. In December, AIA Korea completed 98 per cent of service requests and AIA Thailand resolved 76 per cent of minor health claims within the same day.

LEVERAGING OUR TRUSTED RELATIONSHIP WITH CUSTOMERS

Understanding our customers better allows us to deliver more targeted and personalised services and product propositions. AIA Hong Kong's AI-powered 3D Protection Index shows a holistic and engaging view of an individual's financial protection coverage and offers personalised recommendations through AIA Connect, our customer app. In April 2021, AIA Thailand helped address vaccination concerns with a free health insurance product for existing customers that covered side effects of COVID-19 vaccines and provided cover for loss of income and mortality. More than 17,000 customers signed up for this cover on the day of launch and, using this as a trigger to review protection coverage, we generated more than US$20 million of new premiums from cross-sales within three months.

Across the Group, our focus on offering additional solutions to new and recently-acquired customers generated more than US$250 million of incremental VONB in 2021, an increase of 10 per cent on the previous year.

The long-term relationships that our agents form with customers are an important source of new business for AIA as they help to address evolving protection needs. Our enhanced data-driven existing customer marketing helps us to connect with customers at the right time with personalised propositions. In 2021, data-driven leads accounted for 80 per cent of our total new business from cross-selling additional products to existing customers, up from 61 per cent in 2020. We also increased usage of social media and messaging by a factor of 10 in 2021, helping to generate more than three million leads digitally and more than 20 per cent growth in new business from cross-sales.

ORGANISATION OF THE FUTURE

AIA's strong track record of performance has been achieved through our unique culture of empowerment and focus on developing employee capabilities. To support our strategic ambitions, we are transforming AIA into a simpler, faster, more connected organisation to support the delivery of our future growth ambitions.

Our organisation and people strategy enables us to attract, retain and develop outstanding people, making AIA an employer-of-choice across our markets. Our annual employee engagement survey demonstrates our continued positive employee sentiment. In 2021, 97 per cent of our employees responded to the survey and the Group's employee engagement scores improved to place AIA in the 90th percentile of Gallup's global finance and insurance industry benchmark.

SHAPING A SIMPLER, FASTER, MORE CONNECTED AIA

To reinforce our empowerment culture and support the delivery of our strategic priorities, we are strengthening our operating models and evolving the way that we work. In the past twelve months we have focused on designing structures and working models across eight of our businesses to enable our employees to deliver on our strategic priorities. To enable faster execution and innovation, we are redesigning business processes to support a human-centric workplace, setting up new Centres of Excellence to advance critical capabilities and best practices, and adopting agile ways of working.

Agile working drives real impact in the way we deliver our most critical strategic priorities through empowered teams that are digitally-led, customer experience-driven and growth-oriented. These new ways of working are already helping us to realise value more rapidly, focus on customer needs and innovate at pace. In time, we expect hundreds of people across the Group will be part of these teams, spearheading a new way of working at AIA.

BUILDING A FUTURE READY WORKFORCE

The skills required in the life insurance industry and for the future of work are evolving quickly. We are focused on attracting talent with the critical skills we require, incubating capabilities in core business lines, strengthening our approach to capability building and designing new academies to reskill employees. In particular, between 1 July 2020 and 31 December 2021, we invested in technology, digital and analytics capability, resulting in an increase of 29 per cent in our overall number of employees in this area.

Notes:

(1) Throughout all sections of the Business Review, growth on a "like-for-like basis" refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China and the exclusion of the one-off contribution from CBA in the first quarter of 2020 for Other Markets.

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

(3) AIA's Other Markets VONB and ANP results include the results from our 49 per cent shareholding of Tata AIA Life Insurance Company Limited (Tata AIA Life). The IFRS results for Tata AIA Life are accounted for using the equity method. For clarity, TWPI does not include any contribution from Tata AIA Life. The results of Tata AIA Life are accounted for the twelve-month period ended 30 September 2021 and the twelve-month period ended 30 September 2020 in AIA's consolidated results for the full year of 2021 and the full year of 2020, respectively.

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

(5) Overall number of employees includes full-time and part-time as well as employees on contract, and excludes interns, agents of the Group and employees of our joint venture, Tata AIA Life.

REGULATORY AND INTERNATIONAL DEVELOPMENTS

COMFRAME AND INSURANCE CAPITAL STANDARD (ICS)

Since 2019, the International Association of Insurance Supervisors (IAIS) has applied ComFrame, the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). Pursuant to ComFrame, IAIGs are identified as insurance groups that meet minimum requirements with regard to the size and geographical footprint of their operations. The Group has accordingly been designated an IAIG.

In 2020 the IAIS began the first of two phases in the development and implementation of the 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. The IAIS is also collecting data on the "aggregation method" (AM), an alternative proposed by US regulators, that would define group solvency by referencing the local regimes to which a group is subject. The IAIS will make a determination by the end of the Monitoring Period whether the AM can be considered to produce "comparable outcomes" to the Reference ICS and therefore be used in its place.

GROUP-WIDE SUPERVISION (GWS)

The Company was designated a "designated insurance holding company" under the GWS framework on 14 May 2021. The GWS framework was developed to align with international standards and practices to supervise Hong Kong-domiciled IAIGs and is reflective of the requirements of ComFrame. Under the GWS framework, the Hong Kong Insurance Authority (HKIA) has direct regulatory powers over the Company including powers to approve a shareholder controller, a chief executive, a director and a key person in control function to hold a specified position, and powers to intervene, inspect and investigate.

HONG KONG RISK-BASED CAPITAL (HKRBC) REGIME

The HKIA is in the process of developing amendments to the Hong Kong Insurance Ordinance (HKIO) to cater for the new HKRBC regime with an effective date of 1 January 2024. On 28 December 2021, the HKIA released a circular setting out requirements for insurers that are "sufficiently advanced" in their preparations to adopt the HKRBC regime at an early date and the Group submitted an application for early adoption of the HKRBC regime for AIA International Limited, our principal operating entity in Hong Kong. The application is currently under review by the HKIA.

BEPS 2.0

AIA continues to closely monitor developments in respect of the tax policy work led by the Organisation for Economic Co-operation and Development (OECD) on the "Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy", a phase of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project that is commonly referred to as "BEPS 2.0", and constructively engages with governments and the OECD.

On 20 December 2021, the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework) published draft model rules to give effect to Pillar Two, which are intended to serve as a template that participating jurisdictions can translate into domestic law. The Inclusive Framework has agreed that participating jurisdictions should enact these rules into law in 2022, with the majority of the rules to be effective from 2023.

BEPS 2.0 is likely to adversely impact AIA's effective tax rate, however a number of material areas remain unclear.

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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"), which are set out on pages 55 to 171, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- 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 material accounting policy information and other explanatory information.

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 2021, 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.

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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 2.3 for related accounting policies, Note 3 for critical accounting estimates and judgements, Note 27 and Note 29.	

As at 31 December 2021, the Group has insurance contract liabilities of US$239,423 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;

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
a) Valuation of insurance contract liabilities (continued)	
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. • 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.

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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 2.3.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements, Note 11 and Note 20.	
As at 31 December 2021, the Group has reported DAC of US$28,385 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.

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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 2021 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 11 March 2022.

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.

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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.

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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.

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PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
11 March 2022

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US$m	Notes	Year ended 31 December 2021	Year ended 31 December 2020
REVENUE			
Premiums and fee income	6	**37,123**	35,780
Premiums ceded to reinsurers		**(2,679)**	(2,452)
Net premiums and fee income		**34,444**	33,328
Investment return	10	**12,748**	16,707
Other operating revenue	10	**333**	324
Total revenue		**47,525**	50,359
EXPENSES			
Insurance and investment contract benefits		**32,381**	36,865
Insurance and investment contract benefits ceded		**(2,326)**	(2,126)
Net insurance and investment contract benefits		**30,055**	34,739
Commission and other acquisition expenses		**4,597**	4,402
Operating expenses		**3,031**	2,695
Finance costs		**357**	292
Other expenses		**1,006**	944
Total expenses	11	**39,046**	43,072
Profit before share of losses from associates and joint ventures		**8,479**	7,287
Share of losses from associates and joint ventures		**(11)**	(17)
Profit before tax		**8,468**	7,270
Tax expense	12	**(991)**	(1,491)
Net profit		**7,477**	5,779
Net profit attributable to:			
Shareholders of AIA Group Limited		**7,427**	5,779
Non-controlling interests		**50**	–
EARNINGS PER SHARE (US$)			
Basic	13	**0.62**	0.48
Diluted	13	**0.61**	0.48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Net profit	**7,477**	5,779
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on available for sale financial assets (net of tax of: 2021: US$726m; 2020: US$(198)m)[2]	**(4,509)**	4,865
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: 2021: US$76m; 2020: US$98m)[2]	**(2,329)**	(1,345)
Foreign currency translation adjustments	**(1,304)**	951
Cash flow hedges	**(1)**	6
Share of other comprehensive income/(expense) from associates and joint ventures	**43**	(14)
Subtotal	**(8,100)**	4,463
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains/(losses) on property held for own use (net of tax of: 2021: US$1m; 2020: US$(1)m)	**43**	(46)
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: 2021: US$(4)m; 2020: US$1m)	**25**	(8)
Subtotal	**68**	(54)
Total other comprehensive (expense)/income	**(8,032)**	4,409
Total comprehensive (expense)/income	**(555)**	10,188
Total comprehensive (expense)/income attributable to:		
Shareholders of AIA Group Limited	**(571)**	10,163
Non-controlling interests	**16**	25

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$7,755m relates to the fair value losses (2020: US$8,212m relates to the fair value gains) on available for sale financial assets and US$2,405m (2020: US$1,443m) relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year.

US$m	Notes	As at 31 December 2021	As at 31 December 2020
ASSETS			
Intangible assets	15	**2,914**	2,634
Investments in associates and joint ventures	16	**679**	606
Property, plant and equipment	17	**2,744**	2,722
Investment property	18	**4,716**	4,639
Reinsurance assets	19	**4,991**	4,560
Deferred acquisition and origination costs	20	**28,708**	27,915
Financial investments:	21, 23		
Loans and deposits		**9,311**	9,335
Available for sale			
Debt securities		**161,087**	165,106
At fair value through profit or loss			
Debt securities		**38,993**	36,775
Equity shares		**30,822**	30,156
Interests in investment funds		**40,195**	29,026
Derivative financial instruments	22	**1,468**	1,069
		281,876	271,467
Deferred tax assets	12	**50**	23
Current tax recoverable		**120**	103
Other assets	24	**8,087**	5,833
Cash and cash equivalents	26	**4,989**	5,619
Total assets		**339,874**	326,121
LIABILITIES			
Insurance contract liabilities	27	**239,423**	223,071
Investment contract liabilities	28	**11,860**	12,881
Borrowings	30	**9,588**	8,559
Obligations under repurchase agreements	31	**1,588**	1,664
Derivative financial instruments	22	**1,392**	1,003
Provisions	33	**194**	230
Deferred tax liabilities	12	**5,982**	6,902
Current tax liabilities		**389**	346
Other liabilities	34	**8,524**	7,797
Total liabilities		**278,940**	262,453

US$m	Notes	As at 31 December 2021	As at 31 December 2020
EQUITY			
Share capital	35	**14,160**	14,155
Employee share-based trusts	35	**(225)**	(155)
Other reserves	35	**(11,841)**	(11,891)
Retained earnings		**49,984**	44,704
Fair value reserve	35	**8,407**	15,170
Foreign currency translation reserve	35	**(1,068)**	233
Property revaluation reserve	35	**1,069**	1,027
Others		**(19)**	(43)
Amounts reflected in other comprehensive income		**8,389**	16,387
Total equity attributable to:			
Shareholders of AIA Group Limited		**60,467**	63,200
Non-controlling interests	36	**467**	468
Total equity		**60,934**	63,668
Total liabilities and equity		**339,874**	326,121

Approved and authorised for issue by the Board of Directors on 11 March 2022.

						Other comprehensive income					
US$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	Total equity
Balance at 1 January 2021		**14,155**	**(155)**	**(11,891)**	**44,704**	**15,170**	**233**	**1,027**	**(43)**	**468**	**63,668**
Net profit		**–**	**–**	**–**	**7,427**	**–**	**–**	**–**	**–**	**50**	**7,477**
Fair value losses on available for sale financial assets[(2)]		**–**	**–**	**–**	**–**	**(4,490)**	**–**	**–**	**–**	**(19)**	**(4,509)**
Fair value gains on available for sale financial assets transferred to income on disposal[(2)]		**–**	**–**	**–**	**–**	**(2,329)**	**–**	**–**	**–**	**–**	**(2,329)**
Foreign currency translation adjustments		**–**	**–**	**–**	**–**	**–**	**(1,289)**	**–**	**–**	**(15)**	**(1,304)**
Cash flow hedges		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Share of other comprehensive income/(expense) from associates and joint ventures		**–**	**–**	**–**	**–**	**56**	**(12)**	**(1)**	**–**	**–**	**43**
Revaluation gains on property held for own use		**–**	**–**	**–**	**–**	**–**	**–**	**43**	**–**	**–**	**43**
Effect of remeasurement of net liability of defined benefit schemes		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25**	**–**	**25**
Total comprehensive income/ (expense) for the year		**–**	**–**	**–**	**7,427**	**(6,763)**	**(1,301)**	**42**	**24**	**16**	**(555)**
Dividends	14	**–**	**–**	**–**	**(2,147)**	**–**	**–**	**–**	**–**	**(28)**	**(2,175)**
Shares issued under share option scheme and agency share purchase plan		**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**
Capital contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Share-based compensation		**–**	**–**	**86**	**–**	**–**	**–**	**–**	**–**	**–**	**86**
Purchase of shares held by employee share-based trusts		**–**	**(106)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(106)**
Transfer of vested shares from employee share-based trusts		**–**	**36**	**(36)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2021		**14,160**	**(225)**	**(11,841)**	**49,984**	**8,407**	**(1,068)**	**1,069**	**(19)**	**467**	**60,934**

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$7,755m relates to the fair value losses on available for sale financial assets and US$2,405m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year ended 31 December 2021.

						Other comprehensive income					
US$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	Total equity
Balance at 1 January 2020		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.

US$m	Notes	Year ended 31 December 2021	Year ended 31 December 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**8,468**	7,270
Adjustments for:			
Financial investments		**(22,637)**	(26,100)
Insurance and investment contract liabilities, and deferred acquisition and origination costs		**17,953**	23,159
Obligations under repurchase agreements	31	**(102)**	(280)
Reinsurance commission related to acquisition of subsidiaries		**–**	(131)
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items		**(7,434)**	(8,510)
Operating cash items:			
Interest received		**7,410**	7,054
Dividends received		**1,129**	961
Interest paid		**(47)**	(39)
Tax paid		**(831)**	(1,027)
Net cash provided by operating activities		**3,909**	2,357
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangible assets	15	**(640)**	(254)
Distribution or dividend from associates	16	**–**	3
Payments for increase in interest of joint ventures	16	**(27)**	(9)
Prepayment for investment in an associate	24	**(1,865)**	–
Proceeds from sales of investment property and property, plant and equipment	17, 18	**5**	–
Payments for investment property and property, plant and equipment	17, 18	**(238)**	(120)
Acquisition of subsidiaries, net of cash acquired	5	**(16)**	(839)
Net cash used in investing activities		**(2,781)**	(1,219)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of medium-term notes and securities	30	**2,079**	2,792
Redemption of medium-term notes	30	**(1,002)**	–
Proceeds from other borrowings	30	**1,959**	934
Repayment of other borrowings	30	**(1,959)**	(934)
Capital contributions from non-controlling interest		**11**	–
Acquisition of non-controlling interests		**–**	(3)
Payments for lease liabilities[(1)]		**(170)**	(180)
Interest paid on medium-term notes and securities		**(303)**	(225)
Dividends paid during the year		**(2,175)**	(2,002)
Purchase of shares held by employee share-based trusts		**(106)**	(16)
Shares issued under share option scheme and agency share purchase plan		**5**	26
Net cash (used in)/provided by financing activities		**(1,661)**	392
Net (decrease)/increase in cash and cash equivalents		**(533)**	1,530
Cash and cash equivalents at beginning of the financial year		**5,393**	3,753
Effect of exchange rate changes on cash and cash equivalents		**(165)**	110
Cash and cash equivalents at end of the financial year		**4,695**	5,393

Note:
(1) The total cash outflow for leases for the year ended 31 December 2021 was US$176m (2020: US$187m).

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 2021**	As at 31 December 2020
Cash and cash equivalents in the consolidated statement of financial position	26	**4,989**	5,619
Bank overdrafts		**(294)**	(226)
Cash and cash equivalents in the consolidated statement of cash flows		**4,695**	5,393

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. MATERIAL ACCOUNTING POLICY INFORMATION

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 11 March 2022.

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.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (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 2021, 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, an 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 International Accounting Standards Board (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. On 9 December 2021, the IASB issued the amendment of IFRS 17 relating to the presentation of comparative information of financial assets on initial application of IFRS 17. The amendment adds a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of IFRS 17. The overlay allows all financial assets to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9.

2. MATERIAL ACCOUNTING POLICY INFORMATION (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 2021, 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 2021			**Change in fair value for the year ended 31 December 2021**		
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	**189,353**	**10,727**	**200,080**	**(8,485)**	**(230)**	**(8,715)**
Other financial assets	**14,101**(1)	**71,370**(2)	**85,471**	**281**	**2,056**	**2,337**
Total(3)	**203,454**	**82,097**	**285,551**	**(8,204)**	**1,826**	**(6,378)**

	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

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 shares and interests in investment funds, 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$6,384m (2020: US$6,348m) 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. MATERIAL ACCOUNTING POLICY INFORMATION (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 2021, 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 2021 and have no material impact to the Group:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2; and
- Amendment to IFRS 16, Covid-19-Related Rent Concessions.

(c) The following relevant new amendments to standards have been issued and are required for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The Group has early adopted the amendments during the financial year ended 31 December 2021:

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

  The amendments to IAS 1, Presentation of Financial Statements, require the Group to disclose material accounting policy information rather than significant accounting policies. The amendments to IFRS Practice Statement 2, Making Materiality Judgements, provide guidance and examples on the application of materiality to accounting policies disclosures so as to help identifying accounting policies disclosures that provide material information to users of the financial statements. As a result the Group has refined the accounting policies disclosures to the consolidated financial statements to disclose material accounting policy information. Apart from the changes to the accounting policies disclosures in this note, the adoption of the amendments does not change any of the existing accounting policies application and has no financial impact to the Group.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.1 Basis of preparation and statement of compliance (continued)

(d) The following relevant new amendments to standards have been issued but are not effective for the financial year ended 31 December 2021 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:

- Amendments to IAS 1, Classification of Liabilities as Current or Non-Current (2023);
- Amendments to IAS 8, Definition of Accounting Estimates (2023);
- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction (2023);
- Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use (2022);
- Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract (2022);
- Amendment to IAS 41, Taxation in Fair Value Measurements (2022);
- Amendment to IFRS 1, First-time Adoption of International Financial Reporting Standards (2022);
- Amendments to IFRS 3, Reference to the Conceptual Framework (2022); and
- Amendment to IFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021 (2022).

(e) The following relevant new standard has been issued but is not effective for the financial year ended 31 December 2021 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. On 9 December 2021, the IASB amended IFRS 17 to add a transition option to address the possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. The HKICPA has issued the equivalent Amendment to HKFRS 17 in February 2022. The implementation of IFRS 17 is progressing well. The Group is assessing the impacts on the Group's consolidated financial statements.

The material 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 46 and financial instruments as set out in note 2.4.5.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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.

2.3 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 2.3.3).

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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 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	
Mainland China	70%
Singapore	90%
Malaysia	90%
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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 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]	Basis of accounting for: 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.

Product classification (continued)

The basis of accounting for insurance and investment contracts is discussed in notes 2.3.1 and 2.3.2 below.

2.3.1 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 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 2.3 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 Insurance and investment contracts (continued)

2.3.2 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 Insurance and investment contracts (continued)

2.3.2 Investment contracts (continued)

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.

2.3.3 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 Insurance and investment contracts (continued)

2.3.3 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.

2.4 Financial instruments

2.4.1 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 Financial instruments (continued)

2.4.1 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 Financial instruments (continued)

2.4.1 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.

2.4.2 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.

2.4.3 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 Financial instruments (continued)

2.4.3 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.

2.4.4 Derivative financial instruments

Derivative financial instruments primarily include foreign exchange and interest rate contracts 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 Financial instruments (continued)

2.4.5 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.4 Financial instruments (continued)

2.4.5 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.

2.5 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.

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 2.3.

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 2.3. 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 2.3, 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 2.3.1, 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 2.3.1, 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 2.3 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 2.3. 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 measurement 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 2021	Year ended 31 December 2020
Mainland China	**6.45**	6.90
Hong Kong	**7.77**	7.76
Thailand	**31.97**	31.27
Singapore	**1.34**	1.38
Malaysia	**4.14**	4.20

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

	US dollar exchange rates	
	As at 31 December 2021	As at 31 December 2020
Mainland China	**6.37**	6.53
Hong Kong	**7.80**	7.75
Thailand	**33.26**	29.95
Singapore	**1.35**	1.32
Malaysia	**4.17**	4.02

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

5. CHANGE IN GROUP COMPOSITION

In March 2021, the Group announced that it had reached an agreement to enter into a new exclusive 15-year strategic bancassurance partnership with The Bank of East Asia, Limited (BEA) covering Hong Kong and Mainland China, and that as part of the agreement, it would acquire 100 per cent of BEA Life Limited, (BEA Life), a life insurance company wholly owned by BEA.

On 1 September 2021, the Group paid in cash a total gross consideration with respect to these transactions of HK$5,098m (approximately US$655m) and acquired 100 per cent of the voting equity of BEA Life. Of this total consideration, HK$2,010m (US$258m) was attributable to the strategic bancassurance partnership and has been recognised as an intangible asset in the Group's consolidated statement of financial position. The remaining cost of HK$3,088m (US$397m) represented the cost of acquiring BEA life.

On 1 September 2021, the name of BEA Life was changed to AIA Everest Life Company Limited (AIA Everest).

The Group incurred US$11m of acquisition-related costs which were recognised as "other expenses" in the Group's consolidated income statement.

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

US$m	Final fair values as at the date of acquisition
Investment in securities	3,366
Other assets[1]	80
Cash and cash equivalents	381
Insurance and investment contract liabilities	(3,687)
Other liabilities	(17)
Net assets acquired	123
Final goodwill arising on acquisition	274
Fair value of consideration	397
Less:	
Cash and cash equivalents held in acquired subsidiaries	(381)
Net change in cash and cash equivalents	16

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.

Goodwill

The goodwill recognised is mainly attributable to the operational benefits and investment synergies from combining AIA Everest and the Group's operations in Hong Kong. The goodwill is not expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

AIA Everest contributed revenue of US$75m and profit before tax of US$63m to the Group's consolidated income statement for the year ended 31 December 2021. Had AIA Everest been consolidated from 1 January 2021, the Group's consolidated income statement would have reported revenue of US$570m and profit before tax of US$94m for the year ended 31 December 2021.

6. PREMIUMS AND FEE INCOME

Included in premium and fee income of US$178m (2020: US$191m) 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 2021**	Year ended 31 December 2020
Operating profit after tax	9	**6,455**	5,986
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]		**(273)**	(425)
Reclassification of revaluation (gains)/losses for property held for own use[1]		**(66)**	52
Corporate transaction related costs		**(49)**	(56)
Implementation costs for new accounting standards		**(43)**	(30)
Other non-operating investment return and other items[2]		**1,453**	252
Subtotal[3]		**1,022**	(207)
Net profit		**7,477**	5,779
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited		**6,409**	5,942
Non-controlling interests		**46**	44
Net profit attributable to:			
Shareholders of AIA Group Limited		**7,427**	5,779
Non-controlling interests		**50**	–

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 in the year ended 31 December 2020.

(3) The amount is net of tax of US$40m (2020: US$(360)m). The gross amount before tax is US$982m (2020: US$153m).

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 assumptions used to determine expected long-term investment return are the same, in all material respects, as those 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 2021**	Year ended 31 December 2020
TWPI by geography		
Mainland China	**6,999**	5,622
Hong Kong	**11,904**	13,042
Thailand	**4,428**	4,462
Singapore	**3,433**	3,088
Malaysia	**2,479**	2,216
Other Markets	**7,616**	6,978
Total	**36,859**	35,408
First year premiums by geography		
Mainland China	**1,355**	1,149
Hong Kong	**771**	910
Thailand	**596**	605
Singapore	**374**	342
Malaysia	**421**	321
Other Markets	**988**	1,013
Total	**4,505**	4,340
Single premiums by geography		
Mainland China	**236**	322
Hong Kong	**3,069**	1,891
Thailand	**538**	239
Singapore	**1,419**	1,319
Malaysia	**319**	243
Other Markets	**960**	924
Total	**6,541**	4,938

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

TWPI (continued) US$m	Year ended 31 December 2021	Year ended 31 December 2020
Renewal premiums by geography		
Mainland China	**5,620**	4,441
Hong Kong	**10,826**	11,943
Thailand	**3,778**	3,833
Singapore	**2,917**	2,614
Malaysia	**2,026**	1,871
Other Markets	**6,533**	5,872
Total	**31,700**	30,574

ANP US$m	Year ended 31 December 2021	Year ended 31 December 2020
ANP by geography		
Mainland China	**1,404**	1,197
Hong Kong	**1,106**	1,138
Thailand	**677**	661
Singapore	**549**	520
Malaysia	**491**	369
Other Markets	**1,420**	1,334
Total	**5,647**	5,219

9. SEGMENT INFORMATION

The Group's operating segments, based on the reports received by the Group's chief operating decision-maker, considered to be the Executive Committee (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 Mainland China, Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia, Cambodia, Indonesia, Myanmar, New Zealand, 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 intra-group transactions.

The acquired subsidiary and respective operations mentioned in note 5 are included under the operations in Hong Kong (including Macau).

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).

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. 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 2021 and 2020.

9. SEGMENT INFORMATION (continued)

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
Year ended 31 December 2021								
ANP	**1,404**	**1,106**	**677**	**549**	**491**	**1,420**	**–**	**5,647**
TWPI	**6,999**	**11,904**	**4,428**	**3,433**	**2,479**	**7,616**	**–**	**36,859**
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	6,799	13,004	4,109	3,613	2,010	5,155	80	34,770
Investment return	1,359	4,178	1,181	1,453	596	1,210	654	10,631
Total revenue	**8,158**	**17,182**	**5,290**	**5,066**	**2,606**	**6,365**	**734**	**45,401**
Net insurance and investment contract benefits	5,422	12,633	2,976	3,606	1,584	3,143	78	29,442
Commission and other acquisition expenses	464	1,568	806	418	274	1,052	15	4,597
Operating expenses	545	454	277	234	228	1,031	262	3,031
Finance costs and other expenses	59	192	55	42	18	90	299	755
Total expenses	**6,490**	**14,847**	**4,114**	**4,300**	**2,104**	**5,316**	**654**	**37,825**
Share of losses from associates and joint ventures	–	(1)	–	–	–	(10)	–	(11)
Operating profit before tax	**1,668**	**2,334**	**1,176**	**766**	**502**	**1,039**	**80**	**7,565**
Tax on operating profit before tax	(297)	(178)	(216)	(43)	(99)	(233)	(44)	(1,110)
Operating profit after tax	**1,371**	**2,156**	**960**	**723**	**403**	**806**	**36**	**6,455**
Operating profit after tax attributable to:								
Shareholders of AIA Group Limited	1,371	2,143	960	723	392	784	36	6,409
Non-controlling interests	–	13	–	–	11	22	–	46
Key operating ratios:								
Expense ratio	7.8%	3.8%	6.3%	6.8%	9.2%	13.5%	–	8.2%
Operating margin	19.6%	18.1%	21.7%	21.1%	16.3%	10.6%	–	17.5%
Operating return on shareholders' allocated equity	30.1%	15.9%	14.7%	17.9%	18.8%	8.8%	–	12.8%
Operating profit before tax includes:								
Finance costs	34	29	1	2	2	8	274	350
Depreciation and amortisation	106	95	23	30	23	101	29	407

9. SEGMENT INFORMATION (continued)

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
31 December 2021								
Total assets	**41,330**	**127,690**	**34,333**	**46,552**	**17,660**	**51,655**	**20,654**	**339,874**
Total liabilities	**35,289**	**108,980**	**26,386**	**41,488**	**15,449**	**41,690**	**9,658**	**278,940**
Total equity	**6,041**	**18,710**	**7,947**	**5,064**	**2,211**	**9,965**	**10,996**	**60,934**
Shareholders' allocated equity	**4,696**	**14,914**	**6,624**	**4,174**	**2,107**	**8,790**	**10,755**	**52,060**
Total assets include:								
Investments in associates and joint ventures	–	2	–	–	2	675	–	679

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 2021					
Net premiums, fee income and other operating revenue	34,770	-	7	34,777	Net premiums, fee income and other operating revenue
Investment return	10,631	(631)	2,748	12,748	Investment return
Total revenue	**45,401**	**(631)**	**2,755**	**47,525**	**Total revenue**
Net insurance and investment contract benefits	29,442	(340)	953	30,055	Net insurance and investment contract benefits
Other expenses	8,383	-	608	8,991	Other expenses
Total expenses	**37,825**	**(340)**	**1,561**	**39,046**	**Total expenses**
Share of losses from associates and joint ventures	(11)	-	-	(11)	Share of losses from associates and joint ventures
Operating profit before tax	**7,565**	**(291)**	**1,194**	**8,468**	**Profit before tax**

Note:

(1) Include unit-linked contracts.

9. SEGMENT INFORMATION (continued)

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

9. SEGMENT INFORMATION (continued)

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
31 December 2020								
Total assets	34,919	113,933	38,640	45,994	17,715	55,644	19,276	326,121
Total liabilities	29,989	95,598	28,730	40,640	15,445	44,369	7,682	262,453
Total equity	4,930	18,335	9,910	5,354	2,270	11,275	11,594	63,668
Shareholders' allocated equity	4,407	11,999	6,421	3,916	2,060	8,936	10,291	48,030
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.

10. REVENUE

Investment return

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Interest income	**7,344**	7,055
Dividend income	**1,150**	932
Rental income[1]	**166**	172
Investment income	**8,660**	8,159
Available for sale		
Net realised gains from debt securities	**2,405**	1,442
Net gains of available for sale financial assets reflected in the consolidated income statement	**2,405**	1,442
At fair value through profit or loss		
Net (losses)/gains of debt securities	**(960)**	1,192
Net gains of equity shares and interests in investment funds	**2,028**	5,436
Net fair value movement on derivatives	**28**	958
Net gains in respect of financial instruments at fair value through profit or loss	**1,096**	7,586
Net fair value movement of investment property	**65**	(292)
Net foreign exchange gains/(losses)	**579**	(132)
Other net realised losses	**(57)**	(56)
Investment experience	**4,088**	8,548
Investment return	**12,748**	16,707

Note:

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

Foreign currency movements resulted in the following gains/(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 2021	Year ended 31 December 2020
Foreign exchange gains/(losses)	**524**	(68)

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 2021	Year ended 31 December 2020
Insurance contract benefits	**16,194**	14,808
Change in insurance contract liabilities	**15,750**	20,752
Investment contract benefits	**437**	1,305
Insurance and investment contract benefits	**32,381**	36,865
Insurance and investment contract benefits ceded	**(2,326)**	(2,126)
Insurance and investment contract benefits, net of reinsurance ceded	**30,055**	34,739
Commission and other acquisition expenses incurred	**5,687**	5,566
Deferral and amortisation of acquisition costs	**(1,090)**	(1,164)
Commission and other acquisition expenses	**4,597**	4,402
Employee benefit expenses	**1,899**	1,727
Depreciation	**268**	265
Amortisation	**93**	92
Other operating expenses(1)	**771**	611
Operating expenses	**3,031**	2,695
Investment management expenses and others	**621**	580
Depreciation on property held for own use	**33**	32
Restructuring and other non-operating costs(2)	**338**	285
Change in third-party interests in consolidated investment funds	**14**	47
Other expenses	**1,006**	944
Finance costs	**357**	292
Total	**39,046**	43,072

Other operating expenses include auditors' remuneration of US$28m (2020: US$25m), an analysis of which is set out below:

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Audit services	**21**	20
Non-audit services, including:		
Audit-related services	**5**	4
Tax services	**1**	1
Other services	**1**	–
Total	**28**	25

Notes:

(1) Includes payments for short-term leases of US$6m (2020: US$7m).

(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 2021	Year ended 31 December 2020
Computer hardware, fixtures and fittings and others	**88**	86
Right-of-use assets		
Property held for own use	**180**	178
Fixtures and fittings and others	**–**	1
Total	**268**	265

Finance costs may be analysed as:

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Repurchase agreements	**34**	17
Medium-term notes and securities	**301**	248
Other loans	**8**	11
Lease liabilities	**14**	16
Total	**357**	292

Employee benefit expenses consist of:

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Wages and salaries	**1,548**	1,416
Share-based compensation	**80**	72
Pension costs – defined contribution plans	**121**	93
Pension costs – defined benefit plans	**11**	14
Other employee benefit expenses	**139**	132
Total	**1,899**	1,727

12. INCOME TAX

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Tax charged in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	**173**	158
Current income tax – overseas	**808**	901
Deferred income tax on temporary differences	**10**	432
Total	**991**	1,491

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 2021	Year ended 31 December 2020
Mainland China	**25%**	25%
Hong Kong	**16.5%**	16.5%
Thailand	**20%**	20%
Singapore	**17%**	17%
Malaysia	**24%**	24%
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.

In 2021, changes in the corporate income tax rates have been enacted in the Philippines and Sri Lanka. For the Philippines, the corporate income tax rate changed from 30 per cent to 25 per cent effective from 1 July 2020. For Sri Lanka, the corporate income tax rate changed from 28 per cent to 24 per cent effective from 1 January 2020.

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 1 January 2023.

Starting from 2020 onwards, the Indonesian government enacted a change in the corporate income tax rate from 25 per cent to 22 per cent.

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 2021	Year ended 31 December 2020
Income tax reconciliation		
Profit before income tax	**8,468**	7,270
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**1,559**	1,258
Reduction in tax payable from:		
Life insurance tax[1]	**(192)**	(55)
Exempt investment income	**(501)**	(330)
Utilisation of previously unrecognised deferred tax assets	**–**	(15)
Adjustments in respect of prior years	**(2)**	–
Change in tax rate and law	**(37)**	(8)
Others	**(2)**	–
	(734)	(408)
Increase in tax payable from:		
Withholding taxes	**132**	25
Disallowed expenses	**12**	66
Unrecognised deferred tax assets	**18**	–
Provisions for uncertain tax positions[2]	**4**	184
Adjustments in respect of prior years	**–**	106
Others	**–**	260
	166	641
Total income tax expense	**991**	1,491

Notes:

(1) Life insurance tax refers to the 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	Acquisition of a subsidiary[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 2021							
Revaluation of financial instruments	**(2,473)**	**(12)**	**(172)**	**779**	**(2)**	**–**	**(1,880)**
Deferred acquisition costs	**(3,608)**	**–**	**(171)**	**–**	**122**	**–**	**(3,657)**
Insurance and investment contract liabilities	**304**	**43**	**664**	**–**	**(25)**	**–**	**986**
Withholding taxes	**(202)**	**–**	**(84)**	**–**	**13**	**–**	**(273)**
Provision for expenses	**144**	**–**	**4**	**–**	**(5)**	**(4)**	**139**
Losses available for offset against future taxable income	**249**	**3**	**–**	**–**	**(7)**	**–**	**245**
Life surplus[1]	**(929)**	**–**	**(53)**	**–**	**33**	**(7)**	**(956)**
Others	**(364)**	**–**	**(198)**	**–**	**26**	**–**	**(536)**
Total	**(6,879)**	**34**	**(10)**	**779**	**155**	**(11)**	**(5,932)**

US$m	Net deferred tax asset/ (liability) at 1 January	Acquisition of a subsidiary[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 2020							
Revaluation of financial instruments	(2,435)	–	55	(96)	3	–	(2,473)
Deferred acquisition costs	(3,339)	–	(141)	–	(128)	–	(3,608)
Insurance and investment contract liabilities	626	–	(307)	–	(15)	–	304
Withholding taxes	(203)	–	9	–	(8)	–	(202)
Provision for expenses	215	–	(76)	–	4	1	144
Losses available for offset against future taxable income	170	–	71	–	8	–	249
Life surplus[1]	(760)	–	(152)	–	(17)	–	(929)
Others	(465)	–	109	–	(6)	(2)	(364)
Total	(6,191)	–	(432)	(96)	(159)	(1)	(6,879)

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 credit of US$779m for 2021 (2020: tax charge of US$96m), tax credit of US$703m (2020: tax charge of US$194m) relates to fair value gains or losses on available for sale financial assets and tax credit of US$76m (2020: tax credit of US$98m) relates to fair value gains on available for sale financial assets transferred to income on disposal.

(3) The amount of US$34m represents a one-time adjustment in respect of the acquisition of AIA Everest.

12. INCOME TAX (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.

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$56m (2020: US$65m) 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$277m (2020: US$295m) 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 Mainland China, Hong Kong, Macau, Thailand, Singapore, Malaysia, 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 2024 (Macau and Myanmar), 2026 (the Philippines, Sri Lanka, Thailand, Cambodia and Mainland China), 2028 (Malaysia), 2030 (Taiwan (China)) and 2031 (South Korea).

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 the purposes of computing basic and diluted earnings per share.

	Year ended 31 December 2021	Year ended 31 December 2020
Net profit attributable to shareholders of AIA Group Limited (US$m)	**7,427**	5,779
Weighted average number of ordinary shares in issue (million)	**12,066**	12,060
Basic earnings per share (US cents per share)	**61.55**	47.92

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 2021 and 2020, 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 2021	Year ended 31 December 2020
Net profit attributable to shareholders of AIA Group Limited (US$m)	**7,427**	5,779
Weighted average number of ordinary shares in issue (million)	**12,066**	12,060
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans (million)	**21**	20
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,087**	12,080
Diluted earnings per share (US cents per share)	**61.45**	47.84

At 31 December 2021, 1,839,793 share options (2020: 9,156,477) 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 2021 and 2020, 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 2021	Year ended 31 December 2020
Basic (US cents per share)	**53.12**	49.27
Diluted (US cents per share)	**53.02**	49.19

14. DIVIDENDS

Dividends to shareholders of the Company attributable to the year:

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Interim dividend declared and paid of 38.00 Hong Kong cents per share (2020: 35.00 Hong Kong cents per share)	**589**	545
Final dividend proposed after the reporting date of 108.00 Hong Kong cents per share (2020: 100.30 Hong Kong cents per share)[1]	**1,671**	1,561
Total	**2,260**	2,106

Notes:

(1) Based upon shares outstanding at 31 December 2021 and 2020 that are entitled to a dividend, other than those held by employee share-based trusts.

(2) 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.

The above final dividend was proposed by the Board on 11 March 2022 subject to shareholders' approval at the AGM to be held on 19 May 2022. 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 2021	Year ended 31 December 2020
Final dividend in respect of the previous financial year, approved and paid during the year of 100.30 Hong Kong cents per share (2020: 93.30 Hong Kong cents per share)	**1,558**	1,452

15. INTANGIBLE ASSETS

US$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 January 2020	1,555	687	895	3,137
Additions	–	130	3	133
Measurement period adjustment	18	–	–	18
Disposals	–	(22)	(2)	(24)
Foreign exchange movements	86	28	15	129
At 31 December 2020	**1,659**	**823**	**911**	**3,393**
Additions	**–**	**144**	**311**	**455**
Acquisition of a subsidiary	**274**	**1**	**–**	**275**
Disposals and derecognition	**–**	**(23)**	**(309)**	**(332)**
Foreign exchange movements	**(79)**	**(22)**	**(10)**	**(111)**
At 31 December 2021	**1,854**	**923**	**903**	**3,680**
Accumulated amortisation				
At 1 January 2020	(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)**
Amortisation charge for the year	**–**	**(93)**	**(46)**	**(139)**
Disposals and derecognition	**–**	**20**	**86**	**106**
Foreign exchange movements	**–**	**16**	**10**	**26**
At 31 December 2021	**(4)**	**(569)**	**(193)**	**(766)**
Net book value				
At 31 December 2020	1,655	311	668	2,634
At 31 December 2021	**1,850**	**354**	**710**	**2,914**

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

The Group holds other intangible assets for its long-term use and, accordingly, the annual amortisation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

As at 31 December 2020, the carrying amount of distribution and other rights was US$668m, a significant proportion of which was related to the bancassurance partnership with Citibank, N.A. (Citibank). In April 2021, Citibank announced publicly that it will pursue an exit from its consumer banking business in the markets covered by the bancassurance partnership except for Hong Kong and Singapore. During the year ended 31 December 2021, the Group and Citibank have signed an amendment agreement to amend certain terms of the bancassurance partnership agreement. As part of the amendment agreement and arrangement, the Group has recognised a receivable asset in relation to the remaining unamortised portion of the upfront payments for the exit markets. There was no resulting material impact on the Group's financial performance.

15. INTANGIBLE ASSETS (continued)

Impairment tests for 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 at the date of acquisition.

Goodwill arises primarily in respect of the Group's insurance businesses in Malaysia of US$704m (2020: US$731m), Australia of US$609m (2020: US$646m), Hong Kong of US$274m (2020: nil) and New Zealand of US$164m (2020: US$174m). 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.

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 7 per cent to 16 per cent (2020: 8 per cent to 16 per cent) and the perpetual growth rates for future new business cash flows of 3 per cent 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 methods 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 2021	As at 31 December 2020
Group		
Investments in associates	**646**	592
Investments in joint ventures	**33**	14
Total	**679**	606

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.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Goodwill arising on associates and joint ventures is included within the carrying value of those investments. These are held for their long-term contribution to the Group's performance, therefore 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 2021	As at 31 December 2020
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 income/(expense) of these associates and joint ventures.

US$m	Year ended 31 December 2021	Year ended 31 December 2020
Carrying amount in the statement of financial position	**679**	606
Losses from continuing operations	**(11)**	(17)
Other comprehensive income/(expense)	**43**	(14)
Total comprehensive income/(expense)	**32**	(31)

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 2020	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**
Additions	**196**	**28**	**45**	**269**
Disposals	**(94)**	**(15)**	**(27)**	**(136)**
Net transfer from investment property	**15**	**–**	**–**	**15**
Increase from valuation	**76**	**–**	**–**	**76**
Foreign exchange movements	**(47)**	**(8)**	**(17)**	**(72)**
At 31 December 2021	**2,899**	**254**	**621**	**3,774**
Accumulated depreciation				
At 1 January 2020	(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)**
Depreciation charge for the year	**(213)**	**(27)**	**(61)**	**(301)**
Disposals	**80**	**14**	**24**	**118**
Revaluation adjustment	**31**	**–**	**–**	**31**
Foreign exchange movements	**3**	**7**	**12**	**22**
At 31 December 2021	**(390)**	**(209)**	**(431)**	**(1,030)**
Net book value				
At 31 December 2020	2,462	46	214	2,722
At 31 December 2021	**2,509**	**45**	**190**	**2,744**

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 18 and 34). The depreciation charge for right-of-use assets, by class of underlying asset, and finance cost on lease liabilities are disclosed in note 11. Assets and liabilities arising from a lease are initially measured on a present value basis. A maturity analysis of the Group's lease liabilities is disclosed in note 38.

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.

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 2021	As at 31 December 2020
Property held for own use	**1,473**	1,438
Fixtures and fittings and others	**3**	4
Total	**1,476**	1,442

Additions to right-of-use assets for the year ended 31 December 2021 were US$171m (2020: US$103m).

Properties held for own use and 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 carried at fair value at the reporting date less accumulated depreciation. 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. All other property, plant and equipment and right-of-use assets in relation to other leased property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

During the year, US$46m expenditure (2020: US$22m) recognised in the carrying amount of property held for own use was in the course of its construction. Increase from revaluation on property held for own use of US$107m (2020: Decrease of US$77m) were taken to other comprehensive income, of which US$66m was related to right-of-use assets (2020: Decrease of US$66m).

If property held for own use (excluding right-of-use assets) were stated on a historical cost basis, the carrying value would be US$357m (2020: US$345m). 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$876m (2020: US$878m). 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 2020	4,834
Additions and capitalised subsequent expenditures	29
Disposals	(1)
Fair value losses	(292)
Foreign exchange movements	69
At 31 December 2020	**4,639**
Additions and capitalised subsequent expenditures	**139**
Disposals	**(4)**
Net transfers to property, plant and equipment	**(15)**
Fair value gains	**65**
Foreign exchange movements	**(108)**
At 31 December 2021	**4,716**

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. The fair values at the reporting date are 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 five 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$166m (2020: US$172m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US$32m (2020: US$27m).

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 2021**	As at 31 December 2020
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	**97**	99
Expiring later than two years and no later than three years	**75**	56
Expiring later than three years and no later than four years	**28**	44
Expiring later than four years and no later than five years	**10**	13
Expiring after five years or more	**17**	25
Total undiscounted lease receipts	**359**	369

19. REINSURANCE ASSETS

US$m	Note	As at 31 December 2021	As at 31 December 2020
Amounts recoverable from reinsurers		**992**	671
Ceded insurance and investment contract liabilities	27	**3,999**	3,889
Total(1)		**4,991**	4,560

Note:
(1) Including US$1,641m (2020: US$1,290m) 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 2021	As at 31 December 2020
Carrying amount		
Deferred acquisition costs on insurance contracts	**28,385**	27,549
Deferred origination costs on investment contracts	**229**	261
Value of business acquired	**387**	432
Less: Upfront reinsurance premium rebate	**(293)**	(327)
Total	**28,708**	27,915

	Year ended 31 December 2021	Year ended 31 December 2020
Movements in the year		
At beginning of financial year	**27,915**	26,328
Deferral and amortisation of acquisition and origination costs	**1,142**	1,220
Foreign exchange movements	**(822)**	559
Impact of assumption changes	**(52)**	(55)
Other movements	**525**	(137)
At end of financial year	**28,708**	27,915

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 securities, equity shares and interests in investment funds of participating funds. For other participating business with distinct portfolio, the Group has elected the fair value option for equity shares and interests in investment funds 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 at the date of the consolidated statement of financial position as described in note 2.3. 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 shares and interests in investment funds 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 2021								
Government bonds[2]								
Thailand	**–**	**–**	**–**	**13,857**	**13,857**	**–**	**–**	**13,857**
Mainland China	**5,819**	**–**	**–**	**15,914**	**21,733**	**55**	**–**	**21,788**
South Korea	**–**	**–**	**–**	**7,271**	**7,271**	**283**	**–**	**7,554**
Singapore	**3,716**	**–**	**–**	**1,549**	**5,265**	**718**	**–**	**5,983**
Philippines	**–**	**–**	**–**	**2,094**	**2,094**	**132**	**–**	**2,226**
Malaysia	**1,161**	**–**	**–**	**823**	**1,984**	**123**	**–**	**2,107**
Indonesia	**–**	**–**	**176**	**569**	**745**	**128**	**–**	**873**
Other	**396**	**–**	**1,016**	**1,632**	**3,044**	**88**	**–**	**3,132**
Subtotal	**11,092**	**–**	**1,192**	**43,709**	**55,993**	**1,527**	**–**	**57,520**

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 2021, 98 per cent are rated as investment grade.

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 2021								
Other government and government agency bonds[3]								
AAA	2,682	689	7	2,948	6,326	194	288	6,808
AA	284	1,272	20	3,455	5,031	120	315	5,466
A	3,375	1,580	3	8,694	13,652	155	105	13,912
BBB	589	852	50	3,840	5,331	37	–	5,368
Below investment grade	26	23	13	315	377	5	–	382
Not rated	–	–	–	–	–	29	24	53
Subtotal	6,956	4,416	93	19,252	30,717	540	732	31,989
Corporate bonds								
AAA	11	633	–	342	986	23	13	1,022
AA	335	3,218	817	2,603	6,973	7	311	7,291
A	4,746	20,235	237	20,872	46,090	245	1,451	47,786
BBB	4,624	20,988	140	21,507	47,259	650	556	48,465
Below investment grade	400	223	1,010	1,741	3,374	129	69	3,572
Not rated	–	–	18	–	18	221	25	264
Subtotal	10,116	45,297	2,222	47,065	104,700	1,275	2,425	108,400
Structured securities[4]								
AAA	60	–	122	20	202	95	–	297
AA	38	–	–	135	173	–	–	173
A	98	–	–	596	694	9	–	703
BBB	71	–	–	595	666	10	–	676
Below investment grade	–	–	–	1	1	–	–	1
Not rated	17	–	256	1	274	47	–	321
Subtotal	284	–	378	1,348	2,010	161	–	2,171
Total[5][6]	28,448	49,713	3,885	111,374	193,420	3,503	3,157	200,080

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$9,238m 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$160,465m with 98 per cent rated as investment grade.

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								
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
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

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 grade.

(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)

US$m	Policyholder and shareholder: Participating funds and other participating business with distinct portfolios FVTPL	AFS	Other policyholder and shareholder FVTPL	AFS	Subtotal	Unit-linked FVTPL	Consolidated investment funds[1] FVTPL	Total
31 December 2020								
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.

(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) The Group revisited the disclosure for AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9, which amounted to US$164,505m with 98 per cent rated as investment grade.

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 shares and interests in investment funds

Equity shares and interests in investment funds 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 2021						
Equity shares	**15,718**	**5,096**	**20,814**	**7,258**	**2,750**	**30,822**
Interests in investment funds	**13,467**	**4,827**	**18,294**	**20,605**	**1,296**	**40,195**
Total	**29,185**	**9,923**	**39,108**	**27,863**	**4,046**	**71,017**

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

Note:

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

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 2021		As at 31 December 2020	
US$m	Investment funds	Structured securities[1]	Investment funds	Structured securities[1]
Available for sale debt securities	**2,818[2]**	**1,348**	2,984[2]	936
Debt securities at fair value through profit or loss	**709[2]**	**823**	811[2]	1,026
Interests in investment funds at fair value through profit or loss	**40,195**	**–**	29,026	–
Total	**43,722**	**2,171**	32,821	1,962

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 2021	As at 31 December 2020
Policy loans	**3,625**	3,547
Mortgage loans on residential real estate	**525**	590
Mortgage loans on commercial real estate	**44**	49
Other loans	**732**	760
Allowance for loan losses	**(13)**	(14)
Loans	**4,913**	4,932
Term deposits	**2,850**	2,683
Promissory notes[1]	**1,548**	1,720
Total	**9,311**	9,335

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$1,905m (2020: US$2,057m).

Other loans include receivables from reverse repurchase agreements (reverse repos) 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. Reverse repos are initially recorded at the cost of the loan or collateral advanced. At 31 December 2021, the carrying value of such receivables is US$407m (2020: US$271m).

21. FINANCIAL INVESTMENTS (continued)

Effect of Inter-bank offered rate (IBOR) reform

The IASB published Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2 to address the implications on financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate. These amendments have been adopted for the first time for the year ended 31 December 2021 and have no material impact to the Group.

The Group currently holds a number of financial instrument contracts which reference USD London Interbank Offered Rate (LIBOR), Singapore Swap Offer Rate (SOR) and Thai Baht Interest Rate Fixing (THBFIX), that extend beyond 2021 (collectively "Original Benchmark Interest Rates") and have not yet transitioned to replacement benchmark interest rates.

The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to systems, processes, risk management procedures and valuation models that may arise as a consequence of the reform. Such reform has no impact on the Group's risk management strategy. Risks arising from instruments that are subject to such transition are not considered significant.

While the impact of IBOR reform on profit or loss and other comprehensive income is not considered significant to the Group, the following table contains the carrying value of relevant financial instruments that the Group holds at 31 December 2021.

	Carrying value at 31 December 2021 and have yet to transition to a replacement benchmark interest rate		
US$m	USD LIBOR	SOR	THBFIX
Non-derivative financial assets	2,110	909	–
Non-derivative financial liabilities	–	(359)	–
Net derivative financial liabilities	(243)	–	(127)

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative exposure was as follows:

		Fair value	
US$m	Notional amount	Assets	Liabilities
31 December 2021			
Foreign exchange contracts			
Cross-currency swaps	**7,191**	**79**	**(401)**
Forwards	**3,726**	**72**	**(10)**
Foreign exchange futures	**73**	**–**	**–**
Total foreign exchange contracts	**10,990**	**151**	**(411)**
Interest rate contracts			
Interest rate swaps	**9,174**	**326**	**(223)**
Other			
Warrants and options	**200**	**2**	**(1)**
Forward contracts	**35,233**	**973**	**(754)**
Swaps	**1,492**	**16**	**(3)**
Netting	**(73)**	**-**	**-**
Total	**57,016**	**1,468**	**(1,392)**
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)

The column "notional amount" in the above table refers to the pay leg of derivative transactions other than equity-index options. 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$23m (2020: US$25m) 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 2021, the Group had posted cash collateral of US$322m (2020: US$86m) and pledged debt securities with carrying value of US$664m (2020: US$696m) for liabilities, and held cash collateral of US$642m (2020: US$500m) and debt securities collateral with carrying value of US$21m (2020: US$17m) for assets in respect of derivative transactions. The Group did not sell or repledge the debt 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 2021						
Financial investments	21					
Loans and deposits		–	–	9,311	9,311	9,592
Debt securities		38,993	161,087	–	200,080	200,080
Equity shares and interests in investment funds		71,017	–	–	71,017	71,017
Derivative financial instruments	22	1,468	–	–	1,468	1,468
Reinsurance receivables	19	–	–	992	992	992
Other receivables	24	–	–	3,352	3,352	3,352
Accrued investment income	24	–	–	1,837	1,837	1,837
Cash and cash equivalents	26	–	–	4,989	4,989	4,989
Financial assets		111,478	161,087	20,481	293,046	293,327

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	28	11,023	572	11,595	11,595
Borrowings	30	–	9,588	9,588	10,285
Obligations under repurchase agreements	31	–	1,588	1,588	1,588
Derivative financial instruments	22	1,392	–	1,392	1,392
Other liabilities	34	925	7,599	8,524	8,524
Financial liabilities		13,340	19,347	32,687	33,384

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 2020						
Financial investments	21					
Loans and deposits		–	–	9,335	9,335	9,333
Debt securities		36,775	165,106	–	201,881	201,881
Equity shares and interests in investment funds		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

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 2021 and 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, equity shares and interests in investment funds

The fair values of equity shares and interests in investment funds 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 is 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 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 2021				
Non-financial assets				
Property held for own use	**–**	**–**	**1,037**	**1,037**
Investment property	**–**	**–**	**4,716**	**4,716**
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	**–**	**49,701**	**12**	**49,713**
Other policyholder and shareholder	**–**	**109,770**	**1,604**	**111,374**
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	**1**	**27,564**	**883**	**28,448**
Unit-linked and consolidated investment funds	**15**	**6,645**	**–**	**6,660**
Other policyholder and shareholder	**–**	**3,588**	**297**	**3,885**
Equity shares and interests in investment funds				
Participating funds and other participating business with distinct portfolios	**23,129**	**1,000**	**5,056**	**29,185**
Unit-linked and consolidated investment funds	**30,003**	**310**	**1,596**	**31,909**
Other policyholder and shareholder	**6,847**	**1,256**	**1,820**	**9,923**
Derivative financial instruments				
Foreign exchange contracts	**–**	**151**	**–**	**151**
Interest rate contracts	**–**	**326**	**–**	**326**
Other contracts	**12**	**979**	**–**	**991**
Total assets on a recurring fair value measurement basis	**60,007**	**201,290**	**17,021**	**278,318**
% of Total	*21.6*	*72.3*	*6.1*	*100.0*
Financial liabilities				
Investment contract liabilities	**–**	**10,723**	**300**	**11,023**
Derivative financial instruments				
Foreign exchange contracts	**–**	**411**	**–**	**411**
Interest rate contracts	**–**	**223**	**–**	**223**
Other contracts	**11**	**747**	**–**	**758**
Other liabilities	**–**	**925**	**–**	**925**
Total liabilities on a recurring fair value measurement basis	**11**	**13,029**	**300**	**13,340**
% of Total	*0.1*	*97.7*	*2.2*	*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 2020				
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 shares and interests in investment funds				
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)

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 2021, the Group transferred US$184m (2020: US$127m) 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$15m of assets (2020: US$9m) from Level 2 to Level 1 during the year ended 31 December 2021.

The Group's Level 2 financial instruments include debt securities, equity shares and interests in investment funds, derivative instruments, investment contract liabilities 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 2021 and 2020. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 31 December 2021 and 2020.

Level 3 assets and liabilities

US$m	Property held for own use	Investment property	Debt securities	Equity shares and interests in investment funds	Derivative financial assets/ (liabilities)	Investment contracts
At 1 January 2021	**1,025**	**4,639**	**2,502**	**3,550**	**–**	**(12,026)**
Net movement on investment contract liabilities	**–**	**–**	**–**	**–**	**–**	**7**
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	**(16)**	**65**	**2**	**644**	**–**	**–**
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	**4**	**(108)**	**3**	**(38)**	**–**	**–**
Transfer to/from investment property	**(2)**	**(15)**	**–**	**–**	**–**	**–**
Purchases	**26**	**139**	**898**	**4,580**	**–**	**–**
Sales	**–**	**(4)**	**(14)**	**(264)**	**–**	**–**
Settlements	**–**	**–**	**(601)**	**–**	**–**	**–**
Transfer into/out of Level 3	**–**	**–**	**6**	**–**	**–**	**11,719**
At 31 December 2021	**1,037**	**4,716**	**2,796**	**8,472**	**–**	**(300)**
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	**(16)**	**65**	**(43)**	**635**	**–**	**–**

In 2021, the Group has revisited the fair value hierarchy disclosure of its investment contract liabilities. Of the total investment contract liabilities reported, US$11,719m have been valued based on quoted prices of the underlying investments hence they are classified as Level 2.

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 shares and interests in investment funds	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)	–	–

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.

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 2021 and 2020, 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 2021 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	**978**	**Discounted cash flows**	**Risk adjusted discount rate**	**3.62% – 12.99%**

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%

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 2021 and 2020 is given below.

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2021				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	**2,332**	**2,892**	**4,368**	**9,592**
Reinsurance receivables	**–**	**991**	**1**	**992**
Other receivables	**61**	**3,222**	**69**	**3,352**
Accrued investment income	**47**	**1,790**	**–**	**1,837**
Cash and cash equivalents	**4,989**	**–**	**–**	**4,989**
Total assets for which the fair value is disclosed	**7,429**	**8,895**	**4,438**	**20,762**
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	**–**	**–**	**572**	**572**
Borrowings	**9,390**	**895**	**–**	**10,285**
Obligations under repurchase agreements	**–**	**1,588**	**–**	**1,588**
Other liabilities	**545**	**6,987**	**67**	**7,599**
Total liabilities for which the fair value is disclosed	**9,935**	**9,470**	**639**	**20,044**

	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

24. OTHER ASSETS

US$m	As at 31 December 2021	As at 31 December 2020
Accrued investment income	**1,837**	1,822
Pension scheme assets		
Defined benefit pension scheme surpluses	**48**	46
Insurance receivables due from insurance and investment contract holders	**1,628**	1,983
Prepayment for investment in an associate[(1)]	**1,865**	–
Others[(2)]	**2,709**	1,982
Total	**8,087**	5,833

Notes:

(1) Represents the payment for the 24.99 per cent equity stake, post investment, in China Post Life Insurance Co., Ltd. (China Post Life). The investment was completed on 11 January 2022, upon receiving all necessary regulatory approvals. See note 45 for further details.

(2) 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 2021, no impairment loss (2020: 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 2021 was nil (2020: 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 2021 was US$20m (2020: US$15m). 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 2021	As at 31 December 2020
Cash	**2,868**	2,877
Cash equivalents	**2,121**	2,742
Total(1)	**4,989**	5,619

Note:
(1) US$892m (2020: US$1,111m) are held to back unit-linked contracts and US$184m (2020: US$108m) 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	Gross	Reinsurance	Net
At 1 January 2020	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**
Valuation premiums and deposits	**37,599**	**(2,258)**	**35,341**
Liabilities released for policy termination or other policy benefits paid and related expenses	**(25,634)**	**2,088**	**(23,546)**
Fees from account balances	**(2,652)**	**–**	**(2,652)**
Accretion of interest	**6,742**	**(37)**	**6,705**
Change in net asset values attributable to policyholders	**1,306**	**–**	**1,306**
Acquisition of a subsidiary	**3,687**	**(1)**	**3,686**
Foreign exchange movements	**(5,126)**	**98**	**(5,028)**
Other movements	**430**	**–**	**430**
At 31 December 2021	**239,423**	**(3,999)**	**235,424**

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 2021	As at 31 December 2020
Deferred profit	**28,893**	24,972
Unearned revenue	**2,042**	1,751
Policyholders' share of participating surplus	**31,269**	31,151
Liabilities for future policyholder benefits	**177,219**	165,197
Total	**239,423**	223,071

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	Mainland China, Hong Kong, Singapore, 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

Cash flows of our traditional insurance contracts are discounted using the appropriate long-term investment return assumptions that reflect the expected underlying asset mix. In determining the long-term returns on the fixed income assets, an allowance is made for the risk of default which varies by the credit rating of the underlying asset. The Group has set the equity return and property return assumptions by reference to the long-term return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory. Further, an adjustment is made to the long-term investment return assumptions to provide for the risk of adverse deviation. These assumptions are determined at the policy inception date and remain locked in thereafter, unless a deficiency arises on liability adequacy testing.

As at 31 December 2021 and 2020, 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 2021	As at 31 December 2020
Mainland China	**2.75% – 7.00%**	2.75% – 7.00%
Hong Kong	**1.80% – 7.50%**	3.00% – 7.50%
Thailand	**2.14% – 9.00%**	2.49% – 9.00%
Singapore	**2.00% – 7.00%**	2.00% – 7.00%
Malaysia	**3.00% – 5.43%**	3.00% – 5.43%
Australia	**0.22% – 3.84%**	0.01% – 7.11%
New Zealand	**2.30% – 6.15%**	0.85% – 6.15%
Indonesia	**3.02% – 8.61%**	3.02% – 8.61%
Philippines	**2.20% – 9.20%**	2.20% – 9.20%
South Korea	**2.01% – 6.50%**	2.05% – 6.50%
Sri Lanka	**7.87% – 9.67%**	8.87% – 10.29%
Taiwan (China)	**1.75% – 6.50%**	1.75% – 6.50%
Vietnam	**4.44% – 11.48%**	5.53% – 11.48%

28. INVESTMENT CONTRACT LIABILITIES

US$m	Year ended 31 December 2021	Year ended 31 December 2020
At beginning of financial year	**12,881**	12,273
Investment contract benefits	**437**	1,305
Fees charged	**(80)**	(88)
Net withdrawals and other movements	**(1,091)**	(1,046)
Foreign exchange movements	**(287)**	437
At end of financial year(1)	**11,860**	12,881

Note:

(1) Of investment contract liabilities, US$265m (2020: US$312m) represents deferred fee income. Movement of deferred fee income of US$47m (2020: US$55m) 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 2021	As at 31 December 2020
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	**126**	140
0.5 pps decrease in investment return	**(144)**	(162)
10% increase in expenses	**(51)**	(63)
10% increase in mortality rates	**(89)**	(92)
10% increase in lapse/discontinuance rates	**(80)**	(76)

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$21m increase (2020: US$166m decrease) in profit.

30. BORROWINGS

US$m	As at 31 December 2021	As at 31 December 2020
Medium-term notes and securities		
Senior notes	**5,820**	6,824
Subordinated securities	**3,768**	1,735
Total	**9,588**	8,559

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.

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 2021:

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
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
7 April 2021(1)(3)(4)	US$750m	2.700%	Perpetual	n/a
11 June 2021(1)(3)(4)	SG$500m	2.900%	Perpetual	n/a
9 September 2021(1)(3)(4)	EUR750m	0.880%	12 years	9 September 2033
19 October 2021(1)(3)(4)	SG$105m	3.000%	30 years	19 October 2051

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) The Company has the right to redeem these securities, in whole, at par on predetermined dates as set out within the terms and conditions of the securities. No change in terms since issue date.

(4) The coupon rate of these securities is fixed for a predetermined period as set out within the terms and conditions of the securities, and then resets to the initial spread plus a then prevailing benchmark rate if the securities have not been redeemed.

The net proceeds from issuance during the year ended 31 December 2021 are used for refinancing and 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 2024 and a US$2,190m five-year credit facility expiring in 2026. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 31 December 2021 and 2020.

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. At 31 December 2021, the obligations under repurchase agreements were US$1,588m (2020: US$1,664m).

The securities sold under repurchase agreements continue to be recognised within the appropriate financial asset classification. A liability is established for the consideration received. 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 2021	As at 31 December 2020
Debt securities – AFS		
Repurchase agreements	**1,511**	1,444
Debt securities – FVTPL		
Repurchase agreements	**92**	232
Total	**1,603**	1,676

Collateral under repurchase agreements

At 31 December 2021, the Group had posted cash collaterals of US$1m (2020: nil) and pledged debt securities with carrying value of US$8m (2020: US$1m). Cash collateral of US$1m (2020: nil) was 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.

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 2021						
Financial assets:						
Derivative assets	**1,468**	**–**	**1,468**	**(21)**	**(642)**	**805**
Reverse repurchase agreements	**407**	**–**	**407**	**(407)**	**–**	**–**
Total	**1,875**	**–**	**1,875**	**(428)**	**(642)**	**805**

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

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 2021						
Financial liabilities:						
Derivative liabilities	**1,392**	**–**	**1,392**	**(664)**	**(322)**	**406**
Repurchase agreements	**1,588**	**–**	**1,588**	**(1,588)**	**–**	**–**
Total	**2,980**	**–**	**2,980**	**(2,252)**	**(322)**	**406**

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

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 2020	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**
Charged to the consolidated income statement	**11**	**24**	**35**
Credited to other comprehensive income	**(20)**	**–**	**(20)**
Exchange differences	**(14)**	**(1)**	**(15)**
Released during the year	**–**	**(5)**	**(5)**
Utilised during the year	**(13)**	**(17)**	**(30)**
Other movements	**(1)**	**–**	**(1)**
At 31 December 2021	**158**	**36**	**194**

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 2021**	As at 31 December 2020
Trade and other payables	**5,617**	4,850
Lease liabilities	**475**	502
Third-party interests in consolidated investment funds	**925**	1,025
Reinsurance-related payables	**1,507**	1,420
Total	**8,524**	7,797

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$427m (2020: US$563m) 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 2021		As at 31 December 2020	
	Million shares	US$m	Million shares	US$m
Ordinary shares[1], issued and fully paid				
At beginning of the financial year	**12,095**	**14,155**	12,089	14,129
Shares issued under share option scheme and agency share purchase plan	**2**	**5**	6	26
At end of the financial year	**12,097**	**14,160**	12,095	14,155

Note:

(1) Ordinary shares have no nominal value and there is no obligation to transfer cash or other assets to the holders of ordinary shares.

The Company issued 871,896 shares under share option scheme (2020: 4,876,916 shares) and 1,192,355 shares under agency share purchase plan (2020: 1,185,442 shares) during the year ended 31 December 2021.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2021 with the exception of 8,277,353 shares (2020: 1,552,886 shares) of the Company purchased by and nil share (2020: nil) 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 (HKSE). These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the year ended 31 December 2021, 6,714,317 shares (2020: 12,667,066 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 2021, 30,311,301 shares (2020: 28,748,261 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. Where the Group is deemed to control the trusts, they are consolidated. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts" and carried at cost.

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 2021	As at 31 December 2020
Equity shares in subsidiaries	**80**	69
Share of earnings	**391**	369
Share of other reserves	**(4)**	30
Total	**467**	468

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 among Group members 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.

Group-wide Supervision Framework and the Local Capital Summation Method

In 2021, the HKIA implemented the new Group-wide Supervision (GWS) framework under which the HKIA, as the Group supervisor of the Group, has direct regulatory powers over Hong Kong-incorporated holding companies of designated insurance groups. On 14 May 2021, the Company became a designated insurance holding company that is therefore subject to the GWS framework, including the Insurance (Group Capital) Rules (GWS Capital Rules). Under the GWS Capital Rules, the Group available capital and the Group minimum capital requirement are based on a "summation approach", and are referred to as the Local Capital Summation Method (LCSM). The Group is in compliance with the group capital adequacy requirements as applied to it by the HKIA.

Under the LCSM, the Group available capital and the Group minimum capital requirement are calculated based on summing up of the available capital and applicable minimum required capital according to the respective regulatory requirements for each entity within the Group, subject to any variation considered necessary by the HKIA. 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.

At 31 December 2021, the Group available capital includes:

(i) US$3,768m[(1)] of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20 per cent per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and

(ii) US$5,820m[(1)] of senior notes issued before designation that have been approved by the HKIA. Prior to maturity, the approved senior notes receive full capital credit until 14 May 2031, after which the capital credit reduces at the rate of 20 per cent per annum until 14 May 2036.

The comparative figures as at 31 December 2020 were based on the Group's understanding of the likely application of the GWS framework to the Group at the time and included US$1,735m of subordinated securities, while excluding US$5,822m carrying amount of senior notes not then approved as contributing to Group available capital. This is largely consistent with the basis of calculation of the Group LCSM solvency position as at 31 December 2021 with the key difference being the treatment of senior notes.

Note:

(1) The amounts represent the carrying value of medium-term notes and securities contributing to Group available capital. These are counted as tier 2 group capital under the GWS Capital Rules.

37. GROUP CAPITAL STRUCTURE (continued)

Group-wide Supervision Framework and the Local Capital Summation Method (continued)

A summary of the Group LCSM solvency position is as follows:

US$m	As at 31 December 2021	As at 31 December 2020 (Unaudited)
Group available capital	**67,611**	59,830
Group minimum capital requirement	**16,948**	16,013
Group LCSM surplus	**50,663**	43,817
Group LCSM cover ratio	**399%**	374%

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.

The Group's principal operating companies AIA Co. and AIA International Limited (AIA International), as authorised insurers in Hong Kong, are required by the HKIA to meet the solvency margin requirements of the Hong Kong Insurance Ordinance. During the year ended 31 December 2021 and 31 December 2020, these two principal operating companies were in compliance with these solvency requirements.

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 branches and subsidiaries, 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 branches and subsidiaries 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

On 14 May 2021, AIA Group Limited became a designated insurance holding company and is therefore subject to the GWS framework. The HKIA has confirmed that the requirements and restrictions summarised below, which were previously in place, have ceased to apply as of 14 May 2021.

Hong Kong Insurance Authority

AIA Group Limited had 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 per cent of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100 per cent 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 Hong Kong Insurance Ordinance (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.

The Group manages insurance risk concentration by diversification, reinsurance and establishing retention limits. Insurance risk concentration can arise when there is concentrated exposure geographically or to one single insured life. Geographical concentration of insured individuals could increase the severity of claims from natural catastrophic events or human-made disasters. The Group's insured populations are geographically dispersed, thereby diversifying the insurance exposure. The Group also has catastrophic reinsurance in place to cover losses due to a single catastrophic event exceeding a pre-determined level. The Group limits its exposure to large claims on any single insured by applying retention limits that vary by market and insurance benefit type to the amount of insurance coverage per insured. The exposure in excess of these limits is ceded to reinsurers. For the year ended 31 December 2021 and 2020, there were no significant insurance concentration risks.

38. RISK MANAGEMENT (continued)

Investment and financial risks

Investment objectives, policies and processes

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. 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 and directly affects the profit for the year before tax.

The primary investment objectives of our policyholder and shareholder investments are generally designed to achieve optimal levels of risk-adjusted return for policyholders and shareholders over the long-term, while preserving capital, maintaining adequate solvency and liquidity levels, meeting our risk management and asset-liability management objectives and ensuring full compliance with applicable regulations and internal policies.

The Group has comprehensive, integrated frameworks to ensure investments are properly authorised, monitored and managed within internal policies that address asset-liability management, financial and operational risks, whether assets are invested directly by the Group or through external investment managers. This framework consists of three elements: a strategic asset allocation framework; a tactical asset allocation process; and a combination of internal and external investment management for individual asset classes where appropriate.

The Group's investment management function is empowered with decision-making authority and complies with exposure limits as defined in Risk Standards.

Asset-liability management

Asset-liability management for the Group is overseen by the Group Asset-Liability Committee and by asset-liability committees in each business unit. The Group manages its asset-liability risks in a variety of ways, including the strategic asset allocation process under which the strategic asset allocation in each entity and for major different product groups is governed, defining the amount of assets that can be allocated to each asset type taking into account the characteristics of the liabilities and related risks, capital and other requirements including economic and regulatory bases. The Group manages asset-liability risks predominantly on an economic basis, while also considering the effect on all applicable regulatory solvency requirements and other considerations such as the effect on earnings. Asset-liability management actions include product pricing and product design, reviews of policyholder dividends, reinsurance, and the management of discretionary policyholder benefits. Derivatives are used to manage the asset-liability position against adverse market movements. The key asset-liability risks for the Group are credit risk, interest rate risk, credit spread risk, equity risk and foreign exchange rate risk which are summarised below.

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

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 is determined by the investment teams. The Group's Risk Management function manages the Group's internal ratings framework and conducts periodic rating validations. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

Interest rate risk and credit spread 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.

Credit spread risk is the risk of changes in credit spreads affecting the value of assets and liabilities.

AIA manages interest rate risk and credit spread 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 2021				
Financial assets				
Loans and deposits	**1,329**	**7,307**	**675**	**9,311**
Other receivables	**312**	**2**	**2,701**	**3,015**
Debt securities	**13,170**	**186,910**	**–**	**200,080**
Equity shares and interests in investment funds	**–**	**–**	**71,017**	**71,017**
Reinsurance receivables	**–**	**–**	**992**	**992**
Accrued investment income	**–**	**–**	**1,837**	**1,837**
Cash and cash equivalents	**4,227**	**–**	**762**	**4,989**
Derivative financial instruments	**–**	**–**	**1,468**	**1,468**
Total financial assets	**19,038**	**194,219**	**79,452**	**292,709**
Financial liabilities				
Investment contract liabilities	**–**	**–**	**11,595**	**11,595**
Borrowings	**–**	**9,588**	**–**	**9,588**
Obligations under repurchase agreements	**1,588**	**–**	**–**	**1,588**
Other liabilities	**222**	**479**	**7,823**	**8,524**
Derivative financial instruments	**–**	**–**	**1,392**	**1,392**
Total financial liabilities	**1,810**	**10,067**	**20,810**	**32,687**

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 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 shares and interests in investment funds	–	–	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

Equity price risk

Equity price risk arises from changes in the market value of equity shares and interests in investment funds. Investments in equity shares and interests in investment funds 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)

Concentration risk

The greatest aggregate concentration of fair value to an individual issuer (excluding all government bonds) is less than 1 per cent of the total equity and debt investments as at 31 December 2021 and 2020.

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 2021			31 December 2020		
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	**1,608**	**1,608**	**1,608**	1,091	1,091	1,091
10 per cent decrease in equity prices	**(1,608)**	**(1,608)**	**(1,608)**	(1,091)	(1,091)	(1,091)
Interest rate risk						
+ 50 basis points shift in yield curves	**(1,152)**	**(8,585)**	**(1,152)**	(550)	(8,403)	(550)
– 50 basis points shift in yield curves	**1,193**	**9,539**	**1,193**	584	9,356	584

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.

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	China Renminbi	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit
31 December 2021						
Equity analysed by original currency	**30,845**	**11,470**	**2,539**	**5,144**	**(5,700)**	**2,410**
Net positions of currency derivatives	**(8,610)**	**-**	**323**	**2,739**	**3,704**	**329**
Currency exposure	**22,235**	**11,470**	**2,862**	**7,883**	**(1,996)**	**2,739**
5% strengthening of original currency						
Impact on profit before tax	**469**	**253**	**33**	**9**	**7**	**5**
Impact on other comprehensive income	**(487)**	**320**	**44**	**385**	**(106)**	**132**
Impact on total equity	**(18)**	**573**	**77**	**394**	**(99)**	**137**
5% strengthening of the US dollar						
Impact on profit before tax	**469**	**(249)**	**2**	**(8)**	**13**	**(5)**
Impact on other comprehensive income	**(487)**	**(324)**	**(79)**	**(386)**	**86**	**(132)**
Impact on total equity	**(18)**	**(573)**	**(77)**	**(394)**	**99**	**(137)**

US$m	United States Dollar	China Renminbi	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit
31 December 2020						
Equity analysed by original currency	35,400	5,862	4,617	6,445	(4,644)	2,516
Net positions of currency derivatives	(9,942)	–	650	3,457	4,239	135
Currency exposure	25,458	5,862	5,267	9,902	(405)	2,651
5% strengthening of original currency						
Impact on profit before tax	260	41	71	9	25	5
Impact on other comprehensive income	(286)	252	141	485	(45)	128
Impact on total equity	(26)	293	212	494	(20)	133
5% strengthening of the US dollar						
Impact on profit before tax	260	(34)	(5)	(6)	(9)	(4)
Impact on other comprehensive income	(286)	(259)	(207)	(488)	29	(129)
Impact on total equity	(26)	(293)	(212)	(494)	20	(133)

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk

The liquidity principle adopted by the Group Board is "*AIA 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 policyholder and third-party payments, collateral requirements, as well as insufficient 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 on a forward-looking basis in base and stressed conditions across multiple time horizons from daily to twelve months. The forward-looking management of liquidity allows early detection of trends enabling management to proactively manage liquidity with reference to the pre-defined contingency plan. The framework is comprised of four key pillars:

- Daily Cash Forecasting and Liquidity Adequacy Ratio;
- Structural Liquidity Adequacy Ratio;
- Market-based Asset Liquidity Monitoring; and
- Liquidity Management and Contingency Plans.

AIA supports its liquidity internally by maintaining appropriate pools of unencumbered high-quality liquid investment assets. Liquidity is further supported externally via access to committed credit facilities, use of bond repurchase markets and debt markets via the Group's Global Medium-term Note and Securities Programme.

The Group's liquidity framework builds liquidity resiliency in all our markets while providing central oversight and the ability to take timely management action if required to ensure we meet all our financial commitments as they fall due.

The maturity profile of our financial assets, financial liabilities and insurance contract liabilities are presented below which provides a supplemental long-term view on the Group's liquidity profile.

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 2021						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	**8,946**	**2,477**	**754**	**458**	**1,623**	**3,634**
Other receivables	**2,694**	**2,598**	**47**	**6**	**7**	**36**
Debt securities	**193,420**	**4,234**	**21,155**	**28,484**	**139,547**	**–**
Equity shares and interests in investment funds	**39,108**	**–**	**–**	**–**	**–**	**39,108**
Reinsurance receivables	**992**	**992**	**–**	**–**	**–**	**–**
Accrued investment income	**1,764**	**1,754**	**2**	**–**	**–**	**8**
Cash and cash equivalents	**3,913**	**3,913**	**–**	**–**	**–**	**–**
Derivative financial instruments	**1,419**	**51**	**1,037**	**97**	**234**	**–**
Subtotal	**252,256**	**16,019**	**22,995**	**29,045**	**141,411**	**42,786**
Financial assets (Unit-linked contracts and consolidated investment funds)	**40,453**	**–**	**–**	**–**	**–**	**40,453**[(3)]
Total	**292,709**	**16,019**	**22,995**	**29,045**	**141,411**	**83,239**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	**182,484**	**4,857**	**17,564**	**18,621**	**141,442**	**–**
Borrowings	**9,588**	**167**	**1,247**[(1)]	**2,686**	**4,374**	**1,114**
Obligations under repurchase agreements	**1,588**	**1,588**	**–**	**–**	**–**	**–**
Other liabilities excluding lease liabilities	**6,811**	**5,330**	**213**	**141**	**154**	**973**
Lease liabilities	**502**	**174**	**303**	**24**	**1**	**–**
Derivative financial instruments	**1,369**	**356**	**659**	**131**	**223**	**–**
Subtotal	**202,342**	**12,472**	**19,986**	**21,603**	**146,194**	**2,087**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	**37,109**	**–**	**–**	**–**	**–**	**37,109**
Total	**239,451**	**12,472**	**19,986**	**21,603**	**146,194**	**39,196**

Note:

(1) Including US$748m 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 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 shares and interests in investment funds	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[4]	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

Notes:

(2) Financial assets with no fixed maturity are equities or receivables on demand which the Group has the choice to call. Borrowings with no fixed maturity are resettable subordinated perpetual securities issued by the Company. Other financial liabilities with no fixed maturity are payables 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$626m (2020: US$433m) due in one year or less, US$2,753m (2020: US$2,622m) due after 1 year through 5 years, US$2,019m (2020: US$1,934m) due after 5 years through 10 years and US$1,262m (2020: US$1,414m) due after 10 years, in accordance with the contractual terms of the financial investments.

(4) Including US$1,246m which fall due after 2 years through 5 years.

38. RISK MANAGEMENT (continued)

Transactions within the Group

Intra-group transactions are overseen by the relevant Group Office functions to ensure adherence with the relevant Group policies. The Group Risk function oversees the processes to identify and assess material systematic intra-group transaction risks, and ensure risks assumed are within the Group's Risk Management Framework.

During the period ended 31 December 2021, material intra-group transactions related to financing, reinsurance, service supports, insourcing and collective investment funds that provide a simple return of capital guarantee and are backed by investment grade fixed income assets.

39. EMPLOYEE BENEFITS

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.

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 2021 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.

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.

The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 46 per cent (2020: 39 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 (2020: US$96m). The total expenses relating to these plans recognised in the consolidated income statement was US$11m (2020: US$14m).

Defined contribution plans

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 employee benefit expenses. The total expense relating to these plans in the current year was US$121m (2020: US$93m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 20 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

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.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and/or share options 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.

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.

During the year ended 31 December 2020, the 2010 Share Option (SO) Scheme, the 2010 Restricted Share Unit (RSU) Scheme and the 2011 Employee Share Purchase Plan (ESPP) were terminated. There shall be no further grants under either of these schemes. However, these schemes shall remain in full force and effect for all grants prior to its termination, and the exercise and the vesting of these grants shall be subject to and in accordance with the terms on which they were granted under the provisions of each of these schemes, and the Listing Rules, where applicable. In the same year, the Group adopted the 2020 SO Scheme, the 2020 RSU Scheme and the 2020 ESPP Plan.

During the year ended 31 December 2021, the Group made new grants of SOs, RSUs and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under these new schemes.

On 1 February 2021, the Company adopted the new 2021 Agency Share Purchase Plan (ASPP) with an effective period of 10 years from the date of adoption. The 2012 ASPP was terminated with effect from 31 March 2021, after which time no further restricted stock subscription units (RSSUs) can be granted under such plan. The 2012 ASPP shall remain in full force and effect for all RSSUs granted prior to this termination, and the vesting of such RSSUs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2012 ASPP.

During the year ended 31 December 2021, the Group made new grants of RSSUs to eligible agents under the 2021 ASPP and 2012 ASPP.

RSU Schemes

Under the 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. 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 (2020: 302,264,978), representing 2.5 per cent of the number of shares in issue on the reference date, being the 2020 AGM date.

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

RSU Schemes (continued)

	Year ended 31 December 2021	Year ended 31 December 2020
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial year	**31,787,067**	32,733,981
Granted	**9,484,581**	13,451,940
Forfeited	**(7,157,591)**	(2,836,395)
Vested	**(5,695,099)**	(11,562,459)
Outstanding at end of financial year	**28,418,958**	31,787,067

SO Schemes

The objectives of the 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 (2020: 302,264,978), 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 2021		Year ended 31 December 2020	
	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	**23,703,809**	**59.53**	23,798,042	53.86
Granted	**1,849,222**	**97.33**	5,856,668	68.10
Exercised	**(871,896)**	**31.27**	(4,876,916)	40.01
Forfeited or expired	**(1,321,364)**	**70.77**	(1,073,985)	69.34
Outstanding at end of financial year	**23,359,771**	**62.94**	23,703,809	59.53
Share options exercisable at end of financial year	**13,167,380**	**52.72**	10,115,925	45.22

At the respective dates on which the SOs were exercised, the weighted average share price of the Company was HK$92.01 for the year ended 31 December 2021 (2020: HK$80.73).

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 2021 and 2020 is summarised in the table below.

	Year ended 31 December 2021		Year ended 31 December 2020	
	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	**753,331**	**0.87**	1,542,961	1.30
HK$36 – HK$45	**2,628,717**	**3.56**	2,633,722	4.57
HK$46 – HK$55	**5,103,806**	**4.60**	5,108,806	5.60
HK$56 – HK$65	**830,436**	**5.58**	830,436	6.58
HK$66 – HK$75	**8,774,030**	**7.36**	9,759,038	8.42
HK$76 – HK$85	**3,429,658**	**7.24**	3,828,846	8.24
HK$86 – HK$95	**1,839,793**	**9.23**	–	–
Outstanding at end of financial year	**23,359,771**	**6.19**	23,703,809	6.83

ESPP

Under the ESPPs, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will grant one matching 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 2011 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 2021, eligible employees paid US$38m (2020: US$32m) to purchase 3,172,021 ordinary shares (2020: 3,126,641 ordinary shares) of the Company under the ESPPs.

ASPP

The structure of the ASPPs generally follows those of the ESPPs, the key difference is 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 plans, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will grant one matching 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. Under the ASPPs, the level of qualified agent contribution is subject to a maximum amount of HK$9,750 (or local currency equivalent) per month and HK$12,500 (or local currency equivalent) per month respectively. For the year ended 31 December 2021, eligible agents paid US$20m (2020: US$24m) to purchase 1,717,835 ordinary shares (2020: 2,411,360 ordinary shares) of the Company under the ASPPs.

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 HKSE. 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 2021			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	**1.24%**	**0.19% – 0.27%***	**0.14% – 0.83%**	**0.37%**
Volatility	**26%**	**26%**	**n/a**	**n/a**
Dividend yield	**1.60%**	**1.60% – 1.70%**	**1.60% – 1.70%**	**1.60%**
Exercise price (HK$)	**97.33**	**n/a**	**n/a**	**n/a**
Share option life (in years)	**10**	**n/a**	**n/a**	**n/a**
Expected life (in years)	**7.82**	**n/a**	**n/a**	**n/a**
Weighted average fair value per option/unit at measurement date (HK$)	**22.26**	**66.28**	**72.39**	**71.39**

	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

* Applicable to RSU with market conditions.

The weighted average share price for SO valuation for grants made during the year ended 31 December 2021 is HK$92.75 (2020: HK$68.10). The total fair value of SO granted during the year ended 31 December 2021 is US$5m (2020: US$12m).

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 2021 is US$86m (2020: US$80m).

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	Other payments(4)	Total
Year ended 31 December 2021								
Executive Director								
Mr. Lee Yuan Siong(6)	**–**	**1,669,062**	**4,400,000**	**3,192,974**	**66,446**	**–**	**6,377,470**	**15,705,952**
Total	**–**	**1,669,062**	**4,400,000**	**3,192,974**	**66,446**	**–**	**6,377,470**	**15,705,952**

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

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.

(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) For the year ended 31 December 2020, 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 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 2021 and 2020 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 2021								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	**685,000**	**146,513**	**–**	**–**	**–**	**–**	**–**	**831,513**
Mr. Jack Chak-Kwong So	**268,000**	**–**	**–**	**–**	**–**	**–**	**–**	**268,000**
Mr. Chung-Kong Chow	**228,000**	**–**	**–**	**–**	**–**	**–**	**–**	**228,000**
Mr. John Barrie Harrison	**287,180**	**–**	**–**	**–**	**–**	**–**	**–**	**287,180**
Mr. George Yong-Boon Yeo	**253,000**	**–**	**–**	**–**	**–**	**–**	**–**	**253,000**
Professor Lawrence Juen-Yee Lau	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Ms. Swee-Lian Teo	**222,370**	**–**	**–**	**–**	**–**	**–**	**–**	**222,370**
Dr. Narongchai Akrasanee[4]	**323,000**	**–**	**–**	**–**	**–**	**–**	**–**	**323,000**
Mr. Cesar Velasquez Purisima	**215,329**	**–**	**–**	**–**	**–**	**–**	**–**	**215,329**
Ms. Sun Jie (Jane)[5]	**102,896**	**–**	**–**	**–**	**–**	**–**	**–**	**102,896**
Total	**2,797,775**	**146,513**	**–**	**–**	**–**	**–**	**–**	**2,944,288**

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 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

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 Independent Non-executive Director of the Company with effect from 29 May 2020.

(4) US$100,000 and US$58,333 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 2021 and 2020 respectively are included in his fees stated above.

(5) Ms. Sun Jie (Jane) was appointed as Independent Non-executive Director of the Company on 1 June 2021.

Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in the year ended 31 December 2021 and 2020 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 2021	**–**	**5,959,080**	**9,318,940**	**9,187,513**	**383,982**	**–**	**6,377,470**	**31,226,985**
Year ended 31 December 2020	–	5,367,242	9,502,800	15,162,153	303,157	112,203	10,892,303	41,339,858

Notes:

(1) 2021 and 2020 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.

(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 2021	Year ended 31 December 2020
26,000,001 to 26,500,000	**1**	–
28,000,001 to 28,500,000	**1**	–
28,500,001 to 29,000,000	**–**	1
30,500,001 to 31,000,000	**–**	1
31,000,001 to 31,500,000	**1**	–
35,000,001 to 35,500,000	**1**	1
87,500,001 to 88,000,000	**–**	1
122,000,001 to 122,500,000	**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 2021	Year ended 31 December 2020
Key management compensation and other expenses		
Salaries and other short-term employee benefits	**30,355,005**	30,844,469
Post-employment benefits	**701,749**	1,118,468
Share-based payments(1)	**18,422,129**	28,808,491
Termination benefits	**–**	1,707,434
Total	**49,478,883**	62,478,862

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 2021	Year ended 31 December 2020
Below 1,000,000	**–**	1
1,000,001 to 2,000,000	**–**	–
2,000,001 to 3,000,000	**7**	6
3,000,001 to 4,000,000	**3**	4
4,000,001 to 5,000,000	**1**	1
Over 10,000,000	**1**	2

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 2021	As at 31 December 2020
Not later than one year	**7,830**	2,504
Later than one and not later than five years	**130**	174
Later than five years	**–**	16
Total	**7,960**	2,694

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$428m at 31 December 2021 (2020: US$479m). The liabilities and related reinsurance assets, which totalled US$3m (2020: US$3m), 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 following is a list of AIA's directly and indirectly held principal operating subsidiaries which materially contribute to the net income of the Group or hold a material element of its assets and liabilities:

				As at 31 December 2021		As at 31 December 2020	
Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	**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$9,267,084,182 issued share capital	**100%**	**–**	100%	–
AIA Australia Limited	Australia	Insurance	2,125,462,500 ordinary shares of A$2,207,267,000 issued share capital	**100%**	**–**	100%	–
AIA Bhd.	Malaysia	Insurance	191,859,543 ordinary shares of RM810,000,000 issued share capital	**100%**	**–**	100%	–
AIA Life Insurance Company Limited	Mainland China	Insurance	Registered share capital of RMB3,777,399,440	**100%**	**–**	100%	–
AIA Philippines Life and General Insurance Company Inc. (formerly known as 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%	–
BPI AIA Life Assurance Corporation (formerly known as 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 Singapore Private Limited	Singapore	Insurance	1,558,021,163 ordinary shares of S$1 each	**100%**	**–**	100%	–
AIA Everest Life Company Limited (formerly known as BEA Life Limited)	Hong Kong	Insurance	500,000,000 ordinary shares of HK$500,000,000 issued share capital	**100%**	**–**	100%	–
AIA International Limited	Bermuda	Insurance	6,500,000 ordinary shares of US$1.20 each	**100%**	**–**	100%	–
PT. AIA Financial	Indonesia	Insurance	1,910,844,141 ordinary shares of Rp1,000 each	**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%
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	248,217,572 ordinary shares of NZD863,709,199 issued share capital	**100%**	**–**	100%	–
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US$1 each	**100%**	**–**	100%	–

Notes:

(1) The Company's subsidiary.

(2) All of the above subsidiaries are audited by PricewaterhouseCoopers.

All subsidiaries are unlisted.

45. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2022, a Committee appointed by the Board of Directors proposed a final dividend of 108.00 Hong Kong cents per share (2020: final dividend of 100.30 Hong Kong cents per share).

On 11 March 2022, the Board of Directors approved a return of capital to shareholders of up to US$10.0b to be conducted through a share buy-back programme over the next three years.

On 11 January 2022, the Group completed its investment in China Post Life. The investment was completed upon receiving all necessary regulatory approvals for AIA Co. to invest RMB12,033m (approximately US$1,860m) for a 24.99 per cent equity stake in China Post Life.

The HKIA is in the process of developing amendments to the HKIO to cater for the new Hong Kong Risk-based Capital (HKRBC) regime with an effective date of 1 January 2024. On 28 December 2021, the HKIA released a circular setting out requirements for insurers that are "sufficiently advanced" in their preparations to adopt the HKRBC regime at an early date and the Group submitted an application for early adoption of the HKRBC regime for AIA International. The application is currently under review by the HKIA. The requirements under the HKRBC regime have not been applied to the Group LCSM solvency reporting as of 31 December 2021.

The China Banking and Insurance Regulatory Commission (CBIRC) announced the new rules for the China Risk-Oriented Solvency System phase 2 (C-ROSS II) for insurers effective from the first quarter of 2022. These new C-ROSS II requirements have not been applied to the Group LCSM solvency reporting as of 31 December 2021.

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US$m	As at 31 December 2021	As at 31 December 2020
Assets		
Investment in subsidiaries at cost[(2)]	**19,062**	17,341
Financial investments:		
At fair value through other comprehensive income		
Debt securities[(3)]	**7,024**	9,871
At fair value through profit or loss		
Debt securities	**27**	37
Equity shares	**126**	227
Interests in investment funds[(2)]	**4,359**	–
	11,536	10,135
Loans to/amounts due from subsidiaries	**1,917**	1,904
Other assets	**49**	78
Promissory notes from subsidiaries[(4)]	**2,510**	1,844
Cash and cash equivalents	**90**	409
Total assets	**35,164**	31,711
Liabilities		
Borrowings	**10,181**	9,152
Obligations under repurchase agreements	**1,000**	–
Derivative financial instruments	**–**	12
Other liabilities	**95**	92
Total liabilities	**11,276**	9,256
Equity		
Share capital	**14,160**	14,155
Employee share-based trusts	**(225)**	(155)
Other reserves	**309**	259
Retained earnings	**9,519**	7,360
Amounts reflected in other comprehensive income	**125**	836
Total equity	**23,888**	22,455
Total liabilities and equity	**35,164**	31,711

Notes:

(1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.

(2) The Company's interests in investment funds such as mutual funds and unit trusts, including funds controlled by the Group, are measured at fair value through profit or loss. Interests in other entities controlled by the Group are measured at cost, unless impaired, and presented as investment in subsidiaries at cost. Interests in investment funds include US$2,359m (2020: nil) comprising the combined value of debt securities held by an investment fund controlled by the Group and interests in an external fixed income fund. Fixed income fund refers to the investment fund solely investing in fixed income instruments and cash equivalents, where investors of the fund own a pro-rata share of economic interests of the fund according to the number of shares or units they own of the fund. Investment fund may use derivatives for hedging purpose.

(3) Includes United States Treasury securities of US$1,589m (2020: US$3,372m) and China Government bonds of US$4,262m (2020: nil) as at 31 December 2021.

(4) The promissory notes from subsidiaries are repayable on demand.

Approved and authorised for issue by the Board of Directors on 11 March 2022.

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 2021	**14,155**	**(155)**	**259**	**7,360**	**836**	**22,455**
Net profit	**–**	**–**	**–**	**4,306**	**–**	**4,306**
Fair value losses on debt securities at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(296)**	**(296)**
Fair value gains on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	**–**	**–**	**–**	**–**	**(415)**	**(415)**
Dividends	**–**	**–**	**–**	**(2,147)**	**–**	**(2,147)**
Shares issued under share option scheme and agency share purchase plan	**5**	**–**	**–**	**–**	**–**	**5**
Share-based compensation	**–**	**–**	**86**	**–**	**–**	**86**
Purchase of shares held by employee share-based trusts	**–**	**(106)**	**–**	**–**	**–**	**(106)**
Transfer of vested shares from employee share-based trusts	**–**	**36**	**(36)**	**–**	**–**	**–**
Balance at 31 December 2021	**14,160**	**(225)**	**309**	**9,519**	**125**	**23,888**

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

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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2021
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"), which is set out on pages 176 to 201, comprises:

- the consolidated EV results as at and for the year ended 31 December 2021;
- 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 2021 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.

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Other Matter

The Group has prepared a separate set of consolidated financial statements for the year ended 31 December 2021 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 11 March 2022.

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.

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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.

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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
11 March 2022

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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

The 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. AIA Group Limited (the "Company"), together with its subsidiaries (collectively the "Group") use 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. More details on the EV results, methodology and assumptions are covered in later sections of this report.

The Group announced in March 2021 that it had reached an agreement to enter into an exclusive 15-year strategic bancassurance partnership with The Bank of East Asia, Limited (BEA) covering Hong Kong and Mainland China. As part of the agreement, the Group acquired 100 per cent of BEA Life Limited (subsequently renamed as AIA Everest Life Company Limited (AIA Everest)), a wholly-owned subsidiary of BEA. The agreement has been reflected in this report, including consolidation of the financial results of AIA Everest from the date of acquisition to 31 December 2021.

The Group announced in June 2021 that it had reached an agreement to invest RMB12,033 million (approximately US$1,860 million) for a 24.99 per cent equity stake, post investment, in China Post Life Insurance Co., Ltd. (China Post Life), which has been reflected in 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 2021	As at 31 December 2020	Change CER	Change AER
EV Equity	**75,001**	67,185	13%	12%
EV	**72,987**	65,247	13%	12%
Adjusted net worth (ANW)	**33,302**	28,503	15%	17%
Value of in-force business (VIF)	**39,685**	36,744	11%	8%
	Year ended 31 December 2021	Year ended 31 December 2020	YoY CER	YoY AER
VONB	**3,366**	2,765	18%	22%
Annualised new premiums (ANP)	**5,647**	5,219	6%	8%
VONB margin	**59.3%**	52.6%	6.3 pps	6.7 pps
EV operating profit	**7,896**	7,243	7%	9%
Operating return on EV (Operating ROEV)	**12.1%**	11.7%	0.4 pps	0.4 pps
Underlying free surplus generation (UFSG)	**6,451**	5,843	8%	10%

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 2021 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 2021				
Business Unit	ANW[(1)]	VIF before CoC	CoC	VIF after CoC	EV
AIA China	4,509	8,734	6	8,728	**13,237**
AIA Hong Kong	8,669	20,372	1,993	18,379	**27,048**
AIA Thailand	4,345	4,331	891	3,440	**7,785**
AIA Singapore	3,020	4,743	749	3,994	**7,014**
AIA Malaysia	1,239	2,283	248	2,035	**3,274**
Other Markets	4,998	5,311	1,363	3,948	**8,946**
Group Corporate Centre	10,602	–	–	–	**10,602**
Subtotal	37,382	45,774	5,250	40,524	**77,906**
Adjustment to reflect consolidated reserving and capital requirements[(2)]	(3,723)	1,547	1,096	451	**(3,272)**
After-tax value of unallocated Group Office expenses	–	(1,103)	–	(1,103)	**(1,103)**
Total (before non-controlling interests)	33,659	46,218	6,346	39,872	**73,531**
Non-controlling interests	(357)	(198)	(11)	(187)	**(544)**
Total	**33,302**	**46,020**	**6,335**	**39,685**	**72,987**

	As at 31 December 2020				
Business Unit	ANW[(1)]	VIF before CoC	CoC	VIF after CoC	EV
AIA China	3,439	8,409	4	8,405	11,844
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
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[(2)]	(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

Notes:

(1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre.

(2) Adjustment to reflect the 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 2021	As at 31 December 2020
IFRS equity attributable to shareholders of the Company	**60,467**	63,200
Elimination of IFRS deferred acquisition and origination costs assets	**(28,708)**	(27,915)
Difference between IFRS policy liabilities and local statutory policy liabilities	**4,365**	(937)
Difference between net IFRS policy liabilities and local statutory policy liabilities	**(24,343)**	(28,852)
Mark-to-market adjustment for property, mortgage loan and other investments, net of amounts attributable to participating funds	**282**	(3)
Elimination of intangible assets	**(2,914)**	(2,634)
Recognition of deferred tax impacts of the above adjustments	**3,423**	3,735
Recognition of non-controlling interests impacts of the above adjustments	**110**	121
ANW (Business Unit)	**37,025**	35,567
Adjustment to reflect consolidated reserving requirements, net of tax	**(3,723)**	(7,064)
ANW (Consolidated)	**33,302**	28,503

2.3 Breakdown of ANW

The breakdown of ANW for the Group between the required capital, as defined in Section 4.6 of this report, the investment in China Post Life, and the free surplus, which is the ANW in excess of the required capital and the investment in China Post Life at cost, is set out below. The investment in China Post Life is an asset within the IFRS consolidated financial statements as per note 24 to the IFRS consolidated financial statements, but does not contribute to the eligible asset value for regulatory capital purposes under both the Group Local Capital Summation Method (LCSM) and the Hong Kong Insurance Ordinance (HKIO) bases.

Breakdown of ANW for the Group (US$ millions)

	As at 31 December 2021		As at 31 December 2020	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	**23,440**	**17,025**	24,093	13,473
Required capital	**11,725**	**14,417**	11,474	15,030
Investment in China Post Life	**1,860**	**1,860**	–	–
ANW	**37,025**	**33,302**	35,567	28,503

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 2021	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	**22,225**	**18,516**
6 – 10 years	**20,405**	**11,579**
11 – 15 years	**21,695**	**8,502**
16 – 20 years	**21,795**	**5,903**
21 years and thereafter	**151,924**	**9,602**
Total	**238,044**	**54,102**

	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

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$54,102 million (2020: US$51,774 million) plus the free surplus of US$17,025 million (2020: US$13,473 million) and the investment in China Post Life of US$1,860 million (2020: nil) shown in Section 2.3 of this report is equal to the EV of US$72,987 million (2020: US$65,247 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 2021 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 2021 was US$3,366 million, an increase of US$601 million, or 18 per cent, from US$2,765 million for the year ended 31 December 2020.

Summary of VONB by Business Unit (US$ millions)

	Year ended 31 December 2021			Year ended 31 December 2020		
Business Unit	**VONB before CoC**	**CoC**	**VONB after CoC**	VONB before CoC	CoC	VONB after CoC
AIA China[(1)]	1,173	65	**1,108**	1,030	62	968
AIA Hong Kong	806	50	**756**	670	120	550
AIA Thailand	645	36	**609**	520	51	469
AIA Singapore	369	13	**356**	347	17	330
AIA Malaysia	306	23	**283**	239	17	222
Other Markets	611	100	**511**	632	118	514
Total before unallocated Group Office expenses and non-controlling interests (Business Unit)	3,910	287	**3,623**	3,438	385	3,053
Adjustment to reflect consolidated reserving and capital requirements	(49)	8	**(57)**	(56)	47	(103)
Total before unallocated Group Office expenses and non-controlling interests (Consolidated)	3,861	295	**3,566**	3,382	432	2,950
After-tax value of unallocated Group Office expenses	(167)	–	**(167)**	(161)	–	(161)
Total before non-controlling interests (Consolidated)	3,694	295	**3,399**	3,221	432	2,789
Non-controlling interests	(33)	–	**(33)**	(25)	(1)	(24)
Total	**3,661**	**295**	**3,366**	3,196	431	2,765

Note:

(1) Following the subsidiarisation of AIA China in July 2020 as described in section 4.1 of the Supplementary Embedded Value Information in the Company's Annual Report 2020, the VONB for AIA China in the year ended 31 December 2021 is presented after deducting withholding tax at the applicable rate in Mainland China (currently set at 5 per cent). The VONB for AIA China in the first six months of the year ended 31 December 2020 is presented before deducting withholding tax.

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 2021.

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 2021 was 59.3 per cent compared with 52.6 per cent for the year ended 31 December 2020. The Group PVNBP margin for the year ended 31 December 2021 was 10 per cent compared with 9 per cent for the year ended 31 December 2020.

Breakdown of VONB, ANP, VONB Margin and PVNBP Margin (US$ millions)

	VONB after CoC	ANP	VONB margin	PVNBP margin
Year				
Values for 2021				
Twelve months ended 31 December 2021	**3,366**	**5,647**	**59.3%**	**10%**
Values for 2020				
Twelve months ended 31 December 2020	2,765	5,219	52.6%	9%
Quarter				
Values for 2021				
Three months ended 31 March 2021	**1,052**	**1,703**	**61.6%**	**10%**
Three months ended 30 June 2021	**762**	**1,357**	**55.7%**	**9%**
Three months ended 30 September 2021	**735**	**1,249**	**58.5%**	**9%**
Three months ended 31 December 2021	**817**	**1,338**	**60.6%**	**10%**
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%

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 2021			Year ended 31 December 2020		
Business Unit	VONB excluding pension	ANP	VONB margin	VONB excluding pension	ANP	VONB margin
AIA China[1]	1,108	1,404	**78.9%**	968	1,197	80.9%
AIA Hong Kong	708	1,106	**64.0%**	509	1,138	44.7%
AIA Thailand	609	677	**90.0%**	469	661	71.0%
AIA Singapore	356	549	**64.7%**	330	520	63.4%
AIA Malaysia	282	491	**57.3%**	221	369	59.9%
Other Markets	509	1,420	**35.9%**	512	1,334	38.4%
Total before unallocated Group Office expenses (Business Unit)	3,572	5,647	**63.2%**	3,009	5,219	57.7%
Adjustment to reflect consolidated reserving and capital requirements	(58)	–		(102)	–	
Total before unallocated Group Office expenses (Consolidated)	3,514	5,647	**62.2%**	2,907	5,219	55.7%
After-tax value of unallocated Group Office expenses	(167)	–		(161)	–	
Total	**3,347**	**5,647**	**59.3%**	2,746	5,219	52.6%

Note:

(1) Following the subsidiarisation of AIA China in July 2020 as described in section 4.1 of the Supplementary Embedded Value Information in the Company's Annual Report 2020, the VONB for AIA China in the year ended 31 December 2021 is presented after deducting withholding tax at the applicable rate in Mainland China (currently set at 5 per cent). The VONB for AIA China in the first six months of the year ended 31 December 2020 is presented before deducting withholding tax.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of Movement in EV (US$ millions)

	Year ended 31 December 2021			Year ended 31 December 2020			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
Opening EV	28,503	36,744	**65,247**	28,241	33,744	61,985	5%
Purchase price[2]	(397)	–	**(397)**	(18)	–	(18)	n/m[1]
Acquired EV[3]	266	254	**520**	–	–	–	n/m
Effect of acquisition	(131)	254	**123**	(18)	–	(18)	n/m
BEA Upfront Payment[4]	(258)	–	**(258)**	–	–	–	n/m
Value of new business	(810)	4,176	**3,366**	(726)	3,491	2,765	22%
Expected return on EV	5,156	(754)	**4,402**	5,591	(1,415)	4,176	5%
Operating experience variances	626	(175)	**451**	538	(5)	533	n/m
Operating assumption changes	64	(78)	**(14)**	(31)	47	16	n/m
Finance costs	(309)	–	**(309)**	(247)	–	(247)	25%
EV operating profit	4,727	3,169	**7,896**	5,125	2,118	7,243	9%
Investment return variances	1,636	(343)	**1,293**	(3,446)	1,578	(1,868)	n/m
Effect of changes in economic assumptions	(26)	460	**434**	35	(1,048)	(1,013)	n/m
Other non-operating variances	1,163	37	**1,200**	160	(490)	(330)	n/m
Total EV profit	7,500	3,323	**10,823**	1,874	2,158	4,032	n/m
Dividends	(2,147)	–	**(2,147)**	(1,997)	–	(1,997)	8%
Other capital movements	9	–	**9**	81	–	81	(89)%
Effect of changes in exchange rates	(174)	(636)	**(810)**	322	842	1,164	n/m
Closing EV	**33,302**	**39,685**	**72,987**	28,503	36,744	65,247	12%

Notes:

(1) Not meaningful (n/m).

(2) The purchase price in 2021 refers to the cost of acquiring AIA Everest as per note 5 to the IFRS consolidated financial statements, and 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 in the Company's Annual Report 2020.

(3) As at 31 August 2021.

(4) Refers to the consideration for the strategic bancassurance partnership.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV grew to US$72,987 million at 31 December 2021, an increase of 13 per cent over the year from US$65,247 million at 31 December 2020. EV operating profit was US$7,896 million (2020: US$7,243 million), reflecting VONB of US$3,366 million (2020: US$2,765 million), an expected return on EV of US$4,402 million (2020: US$4,176 million), operating experience variances and operating assumption changes which were again positive and amounted to US$437 million (2020: US$549 million), net of finance costs of US$309 million (2020: US$247 million).

The VONB for the year ended 31 December 2021 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 2021. 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$451 million (2020: increased by US$533 million), driven by:

- Expense variances of US$(18) million (2020: US$6 million) and development costs of US$9 million (2020: US$5 million);
- Mortality and morbidity claims variances of US$221 million (2020: US$384 million); and
- Persistency and other variances of US$257 million (2020: US$148 million) which included persistency variances of US$(6) million (2020: US$(49) million) and other variances including management actions of US$263 million (2020: US$197 million).

The effect of changes in operating assumptions during the year was a decrease in EV of US$14 million (2020: an increase in EV of US$16 million).

The EV profit of US$10,823 million (2020: US$4,032 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 an increase in EV of US$1,293 million (2020: a decrease in EV of US$1,868 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 an increase in EV of US$434 million (2020: a decrease in EV of US$1,013 million).

Other non-operating variances increased EV by US$1,200 million (2020: reduced EV by US$330 million) which comprised positive impacts from model-related enhancements, adjustments to capital requirements on consolidation, and the amendment agreement with Citibank, N.A. as per note 15 to the IFRS consolidated financial statements, partly offset by certain non-operating expenses.

The Group paid total shareholder dividends of US$2,147 million (2020: US$1,997 million). Other capital movements increased EV by US$9 million (2020: increased EV by US$81 million).

Foreign exchange movements reduced EV by US$810 million (2020: increased EV by US$1,164 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 12.1 per cent (2020: 11.7 per cent) for the year ended 31 December 2021.

	Year ended 31 December 2021	Year ended 31 December 2020	YoY CER	YoY AER
EV operating profit	**7,896**	7,243	7%	9%
Opening EV	**65,247**	61,985	3%	5%
Operating ROEV	**12.1%**	11.7%	0.4 pps	0.4 pps

2.7 EV Equity

EV Equity grew to US$75,001 million at 31 December 2021, an increase of 13 per cent from US$67,185 million as at 31 December 2020.

Derivation of EV Equity from EV (US$ millions)

	As at 31 December 2021	As at 31 December 2020	Change CER	Change AER
EV	**72,987**	65,247	13%	12%
Goodwill and other intangible assets[(1)]	**2,014**	1,938	7%	4%
EV Equity	**75,001**	67,185	13%	12%

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 2021	Year ended 31 December 2020	YoY CER	YoY AER
Opening free surplus	**13,473**	14,917	(11)%	(10)%
Effect of acquisition[1]	**(312)**	(18)	n/m	n/m[2]
BEA Upfront Payment[3]	**(258)**	–	n/m	n/m
Investment in China Post Life	**(1,860)**	–	n/m	n/m
UFSG	**6,451**	5,843	8%	10%
Free surplus used to fund new business	**(1,712)**	(1,428)	18%	20%
Investment return variances and other items	**3,963**	(3,505)	n/m	n/m
Unallocated Group Office expenses	**(273)**	(173)	58%	58%
Dividends	**(2,147)**	(1,997)	8%	8%
Finance costs and other capital movements	**(300)**	(166)	n/m	n/m
Closing free surplus	**17,025**	13,473	19%	26%

Notes:

(1) The effect of acquisition in 2021 refers to the cost of acquiring AIA Everest of US$397 million as per note 5 to the IFRS consolidated financial statements, less the acquired free surplus of US$85 million. 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 in the Company's Annual Report 2020.

(2) Not meaningful (n/m).

(3) Refers to the consideration for the strategic bancassurance partnership.

Free surplus increased by US$3,552 million (2020: decreased by US$1,444 million) to US$17,025 million (2020: US$13,473 million) as of 31 December 2021.

UFSG, as defined in Section 4.8, increased by 8 per cent, to US$6,451 million (2020: US$5,843 million). Investment in writing new business reduced free surplus by US$1,712 million (2020: US$1,428 million).

Investment return variances and other items amounted to US$3,963 million (2020: US$(3,505) 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$273 million (2020: US$173 million) in 2021.

3. SENSITIVITY ANALYSIS

The EV as at 31 December 2021 and the VONB for the year ended 31 December 2021 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;
- Equity return, property return and risk discount rates 100 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 2021 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 2021); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 December 2021).

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 2021 and the values of debt instruments and derivatives held at 31 December 2021 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For the equity return, property return and risk discount rates sensitivity, the projected bonus rates on participating business were changed to be consistent with the equity return assumptions and property return 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 2021 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 2021 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 2021		As at 31 December 2020	
Scenario	EV	% Change	EV	% Change
Central value	**72,987**		65,247	
Impact of:				
200 bps increase in risk discount rates	**(9,806)**	**(13.4)%**	(9,098)	(13.9)%
200 bps decrease in risk discount rates	**15,325**	**21.0%**	14,409	22.1%
10% increase in equity prices	**1,878**	**2.6%**	1,099	1.7%
10% decrease in equity prices	**(1,871)**	**(2.6)%**	(1,095)	(1.7)%
50 bps increase in interest rates	**(330)**	**(0.5)%**	652	1.0%
50 bps decrease in interest rates	**279**	**0.4%**	(1,294)	(2.0)%
100 bps decrease in equity and property returns and risk discount rates	**3,876**	**5.3%**	n/a	n/a
5% appreciation in the presentation currency	**(2,164)**	**(3.0)%**	(1,906)	(2.9)%
5% depreciation in the presentation currency	**2,164**	**3.0%**	1,906	2.9%
10% increase in lapse/discontinuance rates	**(1,135)**	**(1.6)%**	(891)	(1.4)%
10% decrease in lapse/discontinuance rates	**1,280**	**1.8%**	1,049	1.6%
10% increase in mortality/morbidity rates	**(4,876)**	**(6.7)%**	(4,556)	(7.0)%
10% decrease in mortality/morbidity rates	**4,779**	**6.5%**	4,665	7.1%
10% decrease in maintenance expenses	**865**	**1.2%**	882	1.4%
Expense inflation set to 0%	**1,047**	**1.4%**	1,063	1.6%

Sensitivity of VONB (US$ millions)

	Year ended 31 December 2021		Year ended 31 December 2020	
Scenario	VONB	% Change	VONB	% Change
Central value	**3,366**		2,765	
Impact of:				
200 bps increase in risk discount rates	**(739)**	**(22.0)%**	(655)	(23.7)%
200 bps decrease in risk discount rates	**1,099**	**32.7%**	963	34.8%
50 bps increase in interest rates	**74**	**2.2%**	193	7.0%
50 bps decrease in interest rates	**(108)**	**(3.2)%**	(298)	(10.8)%
100 bps decrease in equity and property returns and risk discount rates	**411**	**12.2%**	n/a	n/a
5% appreciation in the presentation currency	**(140)**	**(4.2)%**	(116)	(4.2)%
5% depreciation in the presentation currency	**140**	**4.2%**	116	4.2%
10% increase in lapse/discontinuance rates	**(227)**	**(6.7)%**	(176)	(6.4)%
10% decrease in lapse/discontinuance rates	**253**	**7.5%**	182	6.6%
10% increase in mortality/morbidity rates	**(437)**	**(13.0)%**	(357)	(12.9)%
10% decrease in mortality/morbidity rates	**437**	**13.0%**	337	12.2%
10% decrease in maintenance expenses	**102**	**3.0%**	89	3.2%
Expense inflation set to 0%	**75**	**2.2%**	54	2.0%

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 Company Limited (AIA Co.), a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International Limited (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 Commonwealth Bank of Australia (CBA) upon the completion of the portfolio transfer of CBA's life insurance business conducted through The Colonial Mutual Life Assurance Society Limited (CMLA) under Part 9 of the Life Insurance Act 1995 (Cth) of Australia;
- 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.;
- AIA Hong Kong refers to the total of the following four entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong business written by AIA Co.;
  - AIA Pensions (BVI) Limited, a subsidiary of AIA Co.; and
  - AIA Everest Life Company Limited, a subsidiary of AIA Co. acquired from The Bank of East Asia, Limited (BEA);
- 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 Berhad, a subsidiary of AIA Bhd.;
- AIA Myanmar refers to AIA Myanmar Life Insurance Company Limited, a subsidiary of AIA Co.;
- AIA New Zealand refers to AIA Sovereign Limited, a subsidiary of AIA International and the holding company of AIA New Zealand Limited;
- AIA Philippines refers to AIA Philippines Life and General Insurance Company Inc., a subsidiary of AIA Co., and its 51 per cent owned subsidiary BPI AIA Life Assurance 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.

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 by Business Units 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, after allowing for taxes.

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 Company'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 Bermuda Monetary Authority (BMA) reserving and capital requirements. Since 2021, the Company is also subject to the group-wide supervision (GWS) requirements implemented by the Hong Kong Insurance Authority (HKIA). AIA operates in a number of territories as branches and subsidiaries of these entities. These regulatory 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, and are discussed in Section 4.6.

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, local and group-wide 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 table below sets out the Group's assumed level of capital requirement for each Business Unit:

Business Unit	Capital requirements
AIA Australia	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 New Zealand	100% of regulatory capital adequacy 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 per cent up to year-end of 2021, and 140 per cent thereafter, in line with the regulatory requirement under Thailand RBC 2.

Capital Requirements on Consolidation

The Company's subsidiaries, AIA Co. and AIA International, are both subject to the HKIA Hong Kong reserving and capital requirements. The non-Hong Kong branches of AIA Co. and AIA International hold required capital of no less than 100 per cent of the Hong Kong statutory minimum solvency margin requirement.

In addition, AIA International, which is incorporated in Bermuda, is subject to the BMA reserving and capital requirements. AIA International and its subsidiaries hold required capital of no less than 120 per cent of the BMA regulatory capital requirement.

The above 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.

Since 2021, the Company is also subject to the new GWS framework implemented by the HKIA, including group capital adequacy requirements based on the LCSM, under which the Company's group-level total available capital and minimum capital requirement are calculated as the sum of the available and applicable minimum required capital according to the respective regulatory requirements for each entity within the Group, subject to any variation considered necessary by the HKIA. This has not imposed any additional capital requirement to those mentioned above.

4. METHODOLOGY (continued)

4.7 Foreign Exchange

The EV as at 31 December 2021 and 31 December 2020 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 the current year constant average exchange rates, other than for EV and its components as at the end of the current year and as at the end of the prior year, which are translated using the CER as at the end of the current year.

4.8 Underlying Free Surplus Generation

The free surplus is defined as the ANW in excess of the required capital after reflecting the consolidated reserving and capital requirements and the investment in China Post Life at cost. 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 the 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 2021 and the VONB for the year ended 31 December 2021 and highlights certain differences in assumptions between the EV as at 31 December 2020 and the EV as at 31 December 2021.

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, 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 long-term 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 allowance for risk.

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 2021**	As at 31 December 2020
AIA Australia	**1.67**	0.97
AIA China	**2.78**	3.15
AIA Hong Kong[1]	**1.51**	0.91
AIA Indonesia	**6.38**	5.89
AIA Korea	**2.26**	1.72
AIA Malaysia	**3.58**	2.65
AIA New Zealand	**2.39**	0.99
AIA Philippines	**4.82**	3.00
AIA Singapore	**1.67**	0.84
AIA Sri Lanka	**11.71**	7.55
AIA Taiwan	**0.73**	0.32
AIA Thailand	**1.90**	1.28
AIA Vietnam	**2.08**	2.60

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 risk discount rates in 2021 reflect the weighted average of the risk margins of the in-force business at the start of 2021, and those of the new business written during 2021 which, as disclosed in the Company's Annual Report 2020, are determined at a product level starting from 2021 to better reflect the market and non-market risks associated with the mix of products sold during the reporting period. In addition, the VONB results are calculated based on start-of-quarter long-term investment return assumptions consistent with the measurement at the point of sale. 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. 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 2021**	**As at 30 Jun 2021 (Unaudited)**	As at 31 Dec 2020	**As at 31 Dec 2021**	**As at 30 Jun 2021 (Unaudited)**	As at 31 Dec 2020	**As at 31 Dec 2021**	**As at 30 Jun 2021 (Unaudited)**	As at 31 Dec 2020
AIA Australia	**6.41**	6.43	6.45	**2.30**	2.30	2.30	**6.60**	6.60	6.60
AIA China	**9.72**	9.73	9.75	**3.70**	3.70	3.70	**9.30**	9.30	9.30
AIA Hong Kong(1)	**6.98**	7.00	7.00	**2.20**	2.20	2.20	**7.00**	7.00	7.00
AIA Indonesia	**12.98**	12.99	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	**8.56**	8.55	8.55	**4.00**	4.00	4.00	**8.60**	8.60	8.60
AIA New Zealand	**6.53**	6.53	6.55	**2.30**	2.30	2.30	**6.80**	6.80	6.80
AIA Philippines	**11.80**	11.80	11.80	**5.30**	5.30	5.30	**10.50**	10.50	10.50
AIA Singapore	**6.59**	6.60	6.60	**2.20**	2.20	2.20	**6.70**	6.70	6.70
AIA Sri Lanka	**14.70**	15.70	15.70	**9.00**	10.00	10.00	**11.00**	12.00	12.00
AIA Taiwan	**7.25**	7.25	7.25	**1.00**	1.00	1.00	**5.60**	5.60	5.60
AIA Thailand	**7.69**	7.75	7.80	**2.70**	2.70	2.70	**7.70**	7.70	7.70
AIA Vietnam	**9.16**	9.71	9.80	**3.50**	4.00	4.00	**8.80**	9.30	9.30

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 2021. 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 each Business Unit are set out below:

Expense Inflation Assumptions by Business Unit (%)

Business Unit	As at 31 December 2021	As at 31 December 2020
AIA Australia	**2.05**	2.05
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 New Zealand	**2.00**	2.00
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)	**5.75**	5.60

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 2021**	As at 31 December 2020
AIA Australia	**30.0**	30.0
AIA China	**25.0**	25.0
AIA Hong Kong	**16.5**	16.5
AIA Indonesia(1)	**22.0**	22.0
AIA Korea(2)	**27.5**	27.5
AIA Malaysia	**24.0**	24.0
AIA New Zealand	**28.0**	28.0
AIA Philippines(3)	**25.0**	30.0
AIA Singapore	**17.0**	17.0
AIA Sri Lanka(4)	**24.0**	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) Starting from 2020 onwards, the Indonesian government enacted a change in the corporate income tax rate from 25 per cent to 22 per cent.

(2) AIA Korea is subject to an assumed corporate income tax of 27.5 per cent up to fiscal year 2022, which includes an Accumulated Earnings Tax following the subsidiarisation of the branch in AIA Korea. Based on current regulations, the corporate income tax rate will revert to 24.2 per cent from 1 January 2023 onwards.

(3) During the reporting period, a change in corporate income tax rate has been enacted in the Philippines from 30 per cent to 25 per cent, and this was effective from 1 July 2020 onwards.

(4) During the reporting period, a change in corporate income tax rate has been enacted in Sri Lanka from 28 per cent to 24 per cent, and this was effective from 1 January 2020 onwards.

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 11 March 2022, a Committee appointed by the Board of Directors proposed a final dividend of 108.00 Hong Kong cents per share (2020: final dividend of 100.30 Hong Kong cents per share).

On 11 March 2022, the Board of Directors approved a return of capital to shareholders of up to US$10.0 billion to be conducted through a share buy-back programme over the next three years.

On 11 January 2022, the Group completed its investment in China Post Life. The investment was completed upon receiving all necessary regulatory approvals for AIA Co. to invest RMB12,033 million (approximately US$1,860 million) for a 24.99 per cent equity stake in China Post Life.

The HKIA is in the process of developing amendments to the HKIO to cater for the new Hong Kong Risk-based Capital (HKRBC) regime with an effective date of 1 January 2024. On 28 December 2021, the HKIA released a circular setting out requirements for insurers that are "sufficiently advanced" in their preparations to adopt the HKRBC regime at an early date and the Group submitted an application for early adoption of the HKRBC regime for AIA International. The application is currently under review by the HKIA. The requirements under the HKRBC regime have not been applied to the Group EV reporting as of 31 December 2021.

The China Banking and Insurance Regulatory Commission (CBIRC) announced the new rules for the China Risk-Oriented Solvency System phase 2 (C-ROSS II) for insurers effective from the first quarter of 2022. These new C-ROSS II requirements have not been applied to the Group EV reporting as of 31 December 2021.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2021, including the accounting principles and practices adopted by the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2021, with the exception of Code Provision C.6.3, 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 C.6.3 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 8,277,353 shares of the Company under the 2020 RSU Scheme and the 2020 ESPP at a total consideration of approximately US$105.5 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 2021. 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 consolidated financial statements for details.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the year ended 31 December 2021 are set out in note 45 to the consolidated 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 8 per cent in the payment of a final dividend to 108 Hong Kong cents per share for the year ended 31 December 2021 (2020: 100.30 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 Friday, 10 June 2022 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 25 May 2022, 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 Monday, 16 May 2022 to Thursday, 19 May 2022, 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 Friday, 13 May 2022.

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, 25 May 2022.

ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. (Hong Kong time) on Thursday, 19 May 2022. Details of the venue and 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, 19 May 2022 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, 11 March 2022

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, Mr. Cesar Velasquez PURISIMA and Ms. SUN Jie (Jane)

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 was 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. The number of active agents is calculated as the average number of active agents across the specific period.

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	2022 Annual General Meeting of the company to be held at 11:00 a.m. (Hong Kong time) on Thursday, 19 May 2022.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company.
AIA Everest	AIA Everest Life Company Limited, a subsidiary of AIA Co. acquired from The Bank of East Asia, Limited.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect wholly-owned subsidiary of the Company.
AIA Philippines	AIA Philippines Life and General Insurance Company Inc. (formerly known as The Philippine American Life and General Insurance (PHILAM LIFE) Company), a subsidiary of AIA Co, and its 51 per cent owned subsidiary BPI AIA Life Assurance Corporation.
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, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei, Macau SAR, 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.
BEA	The Bank of East Asia, Limited.
BEA Life	BEA Life Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited.
BEPS 2.0	The common name for the tax policy work led by the Organisation for Economic Co-operation and Development on the "Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy".
Board	The board of Directors.
CBA	The Commonwealth Bank of Australia.
CBIRC	The China Banking and Insurance Regulatory Commission.
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 balance sheet exchange rates.
China Post Life	China Post Life Insurance Co., Ltd.
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, as amended from time to time.
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 disease caused by the coronavirus called SARS-CoV-2.
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, after allowing for taxes.

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 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.
free surplus	ANW in excess of the required capital and the investment in China Post life at cost. 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 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.
GWS Capital Rules	Insurance (Group Capital) Rules (Chapter 41O of the Laws of Hong Kong).
HKFRS	Hong Kong Financial Reporting Standards.
Holding company financial resources	Debt, equity shares and interests in investment funds, 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 Authority or HKIA	Insurance Authority established under the Hong Kong Insurance Ordinance.
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.
IAIG	Internationally Active Insurance Group.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
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).
Insurance Capital Standard or ICS	A risk-based global insurance capital standard applicable to IAIGs being developed by the IAIS.
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.
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.
LIBOR	London Interbank Offered Rate.
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time.

Local Capital Summation Model or 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 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.
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.
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 assumptions used to determine expected long-term investment return are the same, in all material respects, as those 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 Markets	AIA's Other Markets are Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam.
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.
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	People's Republic of China.
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.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
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.
RSUs	Restricted share units.
share(s)	For the Company, shall mean ordinary share(s) in the capital of the Company.
Shareholder(s)	Holder(s) of shares 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.

SOR	Singapore Swap Offer Rate.
SOs	Share options.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA Life	Tata AIA Life Insurance Company Limited.
THBFIX	Thai Baht Interest Rate Fixing.
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 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.
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 by Business Units 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.