



HEALTHIER LONGER BETTER LIVES

ANNUAL REPORT 2020

OUR PURPOSE

Our Purpose is
to help people live
Healthier, Longer,
Better Lives.

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⁽¹⁾, Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei, Macau SAR⁽²⁾ and New Zealand, and a 49 per cent joint venture in India.

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

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

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

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Notes:

- (1) Hong Kong SAR refers to Hong Kong Special Administrative Region.
- (2) Macau SAR refers to Macau Special Administrative Region.
- (3) Explanations of certain terms and abbreviations used in this report are set forth in the Glossary.

AIA AT-A-GLANCE


The only international life insurer headquartered and listed in Hong Kong and **100% FOCUSED ON ASIA**



Serving the holders of more than **38 MILLION** individual policies and over **16 MILLION** participating members of group insurance schemes



THE LARGEST LISTED COMPANY ON THE HONG KONG STOCK EXCHANGE which is incorporated and headquartered in Hong Kong

NO.1  **WORLDWIDE FOR MDRT REGISTERED MEMBERS**
The only multinational company to top the table for six consecutive years

PRESENCE IN 18 MARKETS

PAID MORE THAN US\$16 BILLION benefits and claims during 2020, providing vital financial support for customers

Provides protection to people across Asia with total sum assured of almost **US\$2 TRILLION**



免费义诊



快速

全国专家24小时在线义诊
科学区分普通感冒和肺炎疫情



安全

减少挤医院交叉感染几率
减轻线下医院负荷



免费

在线咨询费用全免
患者没有经济负担



Virtual COVID-19 Clinic

บริการปรึกษาแพทย์ออนไลน์ สำหรับผู้มีอาการต้องสงสัยโรคโควิด-19



true digital





AIA's purpose is to help people live Healthier, Longer, Better Lives. In 2020, COVID-19 presented a new and unprecedented risk to our communities. Our response was swift and comprehensive, including provision of medical supplies to our communities and free insurance coverage to medical frontliners and cleaning workers to give them peace of mind as they risked their lives in the fight against COVID-19. We extended free COVID-related cover to more than 25 million policies and provided US\$1 billion of premium support across 12 markets. Over the year we paid more than US\$16 billion in benefits and claims, providing essential financial protection when it is needed the most. While the effects of the pandemic are far from over, we will continue to play a supportive role as our communities recover.





The business that is now AIA, was first established by Cornelius Vander Starr in Shanghai in 1919.

Since then, AIA has grown to become the largest independent publicly listed pan-Asian life insurance group, spanning 18 markets and serving the holders of more than 38 million individual policies and more than 16 million group scheme members.

Our contributions have supported the social and economic progress of our markets, while also advancing the reach and impact of life insurance across Asia. We also take pride in the long-term relationships we have developed with our customers and

agents; which in many cases have continued for generations.

Guided by our commitment to make a significant, positive impact on our customers and communities across Asia, AIA's purpose is to help millions of people live Healthier, Longer, Better Lives. Our Purpose guides the decisions we make and the actions we take as an organisation – empowering and enabling people to understand and manage their health, while meeting their long-term savings and protection needs. We believe that helping to create a healthier Asia is one of the most important and valuable things we can do for our communities, today and in the future.



2020 MILESTONES



AIA pledges US\$100 million to create the AIA Scholarships

AIA announced the establishment of the AIA Scholarships and pledged US\$100 million to support 100

undergraduates a year to attend universities in Hong Kong over the next several decades. The AIA Scholarships will support students who have demonstrated a track record of academic excellence and community service, and who need financial support to pursue their studies.



AIA sets up a wholly-owned life insurance subsidiary in Mainland China

AIA successfully converted its business in Mainland China to the first wholly foreign owned life insurance subsidiary in Mainland China in October 2020, following regulatory approval in June 2020. In March 2021, AIA received approval from the



China Banking and Insurance Regulatory Commission to begin operations in Sichuan.



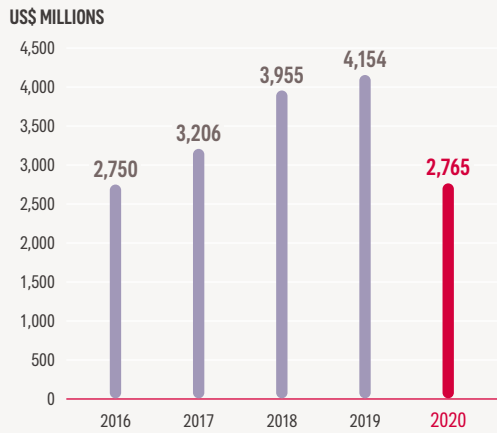
AIA tops the table for sixth year running

AIA became the only multi-national company in the world to rank number one in terms of the largest number of Million Dollar Round Table registered members for six consecutive years.

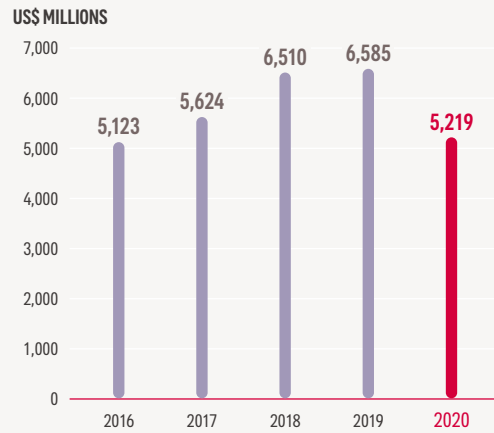


2020 RESULTS AT-A-GLANCE⁽¹⁾

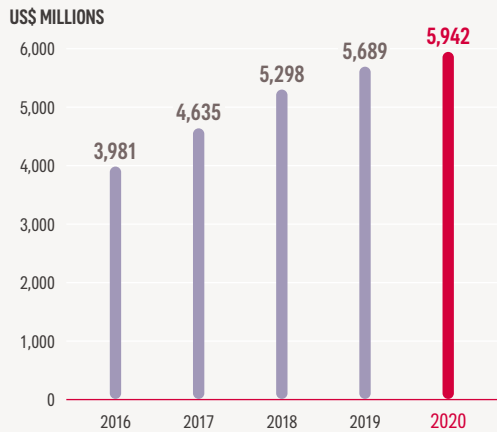
VALUE OF NEW BUSINESS⁽²⁾⁽⁸⁾



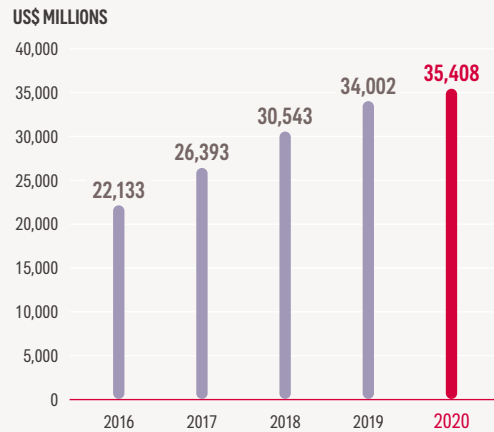
ANNUALISED NEW PREMIUMS⁽³⁾⁽⁸⁾



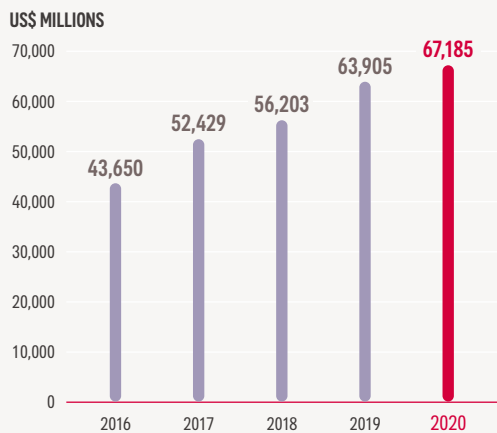
OPERATING PROFIT AFTER TAX⁽⁴⁾⁽⁹⁾



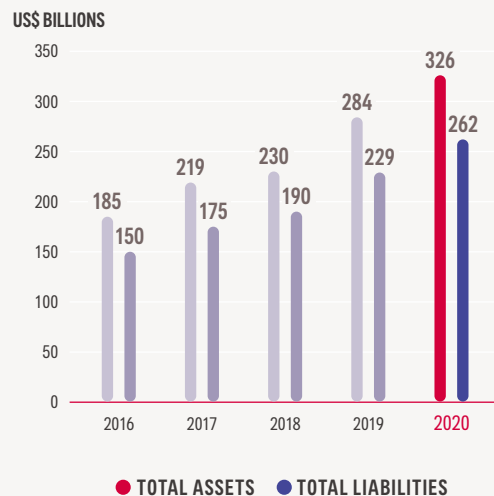
TOTAL WEIGHTED PREMIUM INCOME⁽⁵⁾



EV EQUITY⁽⁶⁾

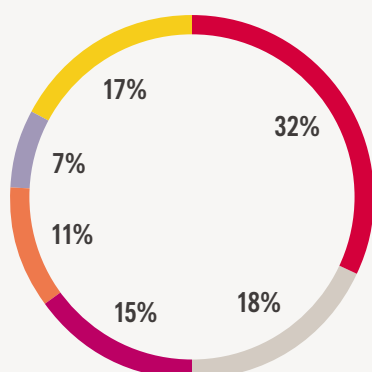


TOTAL ASSETS AND TOTAL LIABILITIES⁽⁹⁾

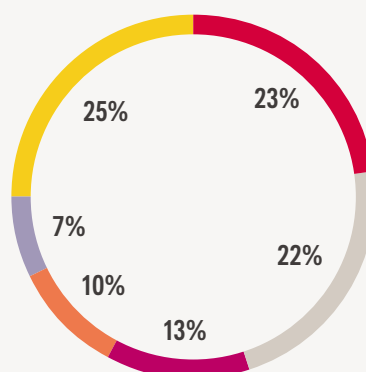


2020 BREAKDOWN BY MARKET SEGMENT

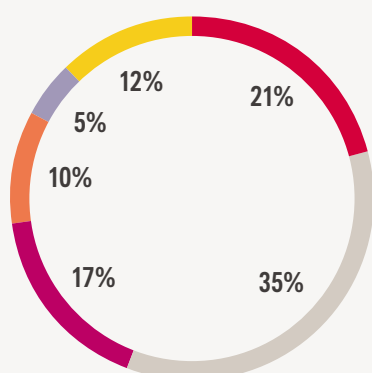
VALUE OF NEW BUSINESS⁽²⁾⁽⁷⁾



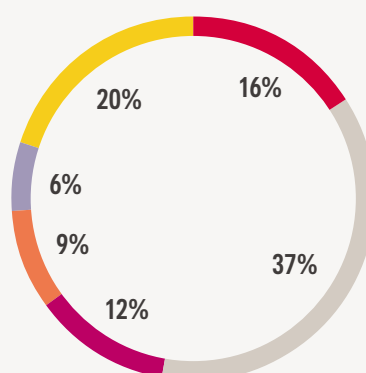
ANNUALISED NEW PREMIUMS⁽³⁾



OPERATING PROFIT AFTER TAX⁽⁴⁾



TOTAL WEIGHTED PREMIUM INCOME⁽⁵⁾



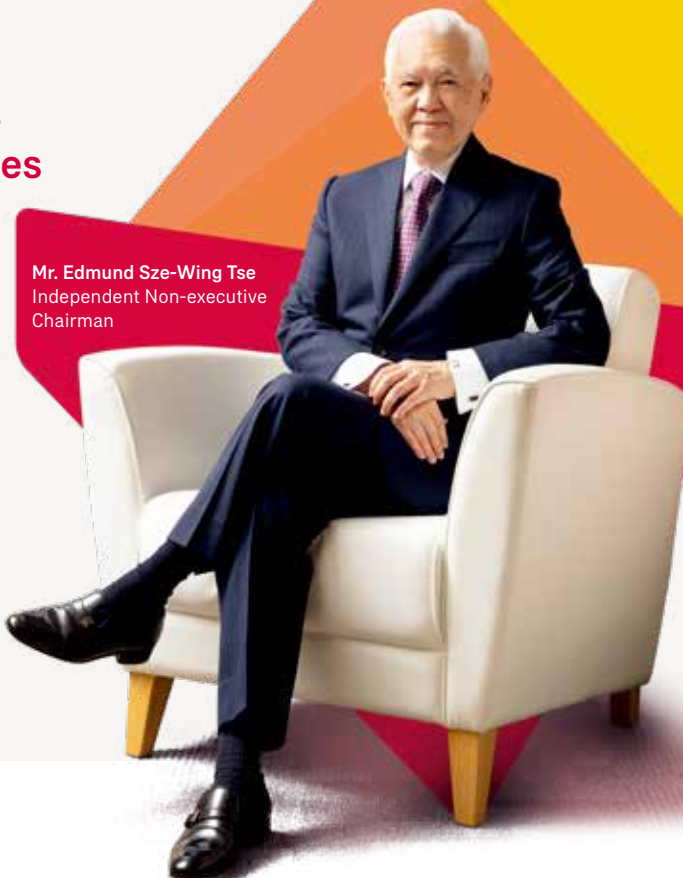
● MAINLAND CHINA ● HONG KONG ● THAILAND ● SINGAPORE ● MALAYSIA ● OTHER MARKETS

Notes:

- (1) The financial information from 2017 onwards is presented on the 31 December financial year-end basis. The financial information in 2016 is presented on the 30 November financial year-end basis.
- (2) Value of new business (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.
- (3) Annualised new premiums (ANP) is a measure of new business activity that is calculated as the sum of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded.
- (4) Operating profit after tax (OPAT) is shown after non-controlling interests.
- (5) Total weighted premium income (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.
- (6) Embedded value (EV) is 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 Equity is the total of embedded value, goodwill and other intangible assets.
- (7) Based on local statutory basis, before unallocated Group Office expenses and deduction of the amount attributable to non-controlling interests, VONB by segment includes pension business.
- (8) From 2019 onwards, 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). ANP and VONB for 2018 and before have not been restated and do not include any contribution from Tata AIA Life. The VONB for the Group from 2019 onwards excludes the VONB attributable to non-controlling interests. VONB for 2018 and before have not been restated and are reported before deducting the amount attributable to non-controlling interests, as previously disclosed. The IFRS results of Tata AIA Life are accounted for using the equity method. The results of Tata AIA Life are accounted for on a one quarter lag basis in AIA's consolidated results. For clarity, TWPI does not include any contribution from Tata AIA Life.
- (9) AIA's IFRS accounting treatment for the recognition and measurement of insurance contract liabilities of Hong Kong participating business has been refined to reflect expected changes to policyholder bonuses. Comparative information has been adjusted for 2019. Comparative information for 2018 and prior years has not been restated.

CHAIRMAN'S STATEMENT

AIA is proud of its reputation built over the last century in Asia on being there for our communities when they need us the most. Our colleagues have responded to the COVID-19 pandemic with care and dedication as we continued to provide uninterrupted support to our millions of customers.



Mr. Edmund Sze-Wing Tse
Independent Non-executive
Chairman

Throughout AIA's long history in the region we have managed our businesses through many periods of change and uncertainty, earning our company a reputation which is synonymous with trust, resilience and doing the right thing for our stakeholders. From early 2020, the COVID-19 pandemic presented an ever-changing and complex operating environment and we witnessed unprecedented shifts in politics, macroeconomics and capital markets. AIA's financial strength and Purpose of "helping people live Healthier, Longer, Better Lives" has never been more relevant. I am immensely grateful to all of our employees, agents and partners for their care and dedication, remaining steadfast in supporting our customers, their families, and our communities, through this most challenging time.

New business sales were affected by COVID-19 related containment measures, with value of new business (VONB) reducing to US\$2,765 million. Our rapid adoption of new digital tools helped maintain business activity and, together with more recent easing of movement restrictions, led to a robust recovery in sales momentum, which has continued into the beginning of 2021. VONB for the first two months of 2021 grew by 15 per cent compared with the same period in the prior year.

Operating profit after tax (OPAT) increased by 5 per cent to US\$5,942 million and underlying free surplus generation (UFSG) grew by 7 per cent to US\$5,843 million, reflecting our high-quality, recurring sources of earnings. EV Equity reached a new high of US\$67.2 billion. The Group Local Capital Summation Method (LCSM) cover ratio was 374 per cent as at 31 December 2020, demonstrating our resilient capital position and disciplined financial management.

The board of Directors (Board) has recommended a final dividend of 100.30 Hong Kong cents per share, which is an increase of 7.5 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 2020 to 135.30 Hong Kong cents per share. The Board follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

In the fourth quarter of 2020, we celebrated the 10th anniversary of AIA's historic listing on the Hong Kong Stock Exchange. AIA's market debut established new records at the time and remains the largest-ever initial public offering in the global insurance sector. It has been my honour and pleasure to work alongside our Board members as our business has gone from strength to strength over this time to become the largest life insurance company in the world by market capitalisation.

All of the Board's non-executive directors are independent and have extensive governance and leadership experience in the public and private sectors. Together, we are committed to maintaining a culture that upholds the highest international standards of corporate governance. We are firm believers that a strong governance culture, supported by a sound risk management framework, is fundamental to the sustainability of every organisation.

An important responsibility for the Board is to ensure a robust leadership pipeline and effective succession planning. We welcomed Lee Yuan Siong as Group Chief Executive and President on 1 June 2020, following the retirement of Ng Keng Hooi. On behalf of the Board, I would like to thank Yuan Siong and his senior management team for their outstanding stewardship of our businesses in these extraordinary times. We are also very grateful to Keng Hooi for his valuable leadership and substantial contributions to AIA over many years.

The global impacts of Environmental, Social and Governance (ESG) issues continue to be of great significance. We remain committed to playing our part in the transition to a brighter future and our ESG efforts have been recognised again in 2020. The rating agency, Sustainalytics, ranked AIA second in our industry out of more than 270 peers, noting the strength and quality of our corporate governance. Additionally, our ESG Corporate Rating score from Institutional Shareholder Services Inc. (ISS) remains "Prime", placing us among the best in our industry for our sustainability performance. AIA recognises that there is much more we can do in this area to achieve better outcomes for our communities and it remains a personal priority that I share with my Board colleagues, our senior management team and all our employees.

The growing need for AIA's products, services and high-quality advice has never been more evident than it is today. Our strategy builds on the powerful structural drivers of growth prevalent in Asia, underpinned by unprecedented wealth creation, a rapidly expanding protection gap, evolving consumer preferences, the rise of digital technology and a focus on long-term sustainability. The Board remains confident that AIA is extremely well positioned to capture the enormous opportunities available in the region by providing our customers and their families with financial peace of mind at a time when they need it the most, while creating shared value for all our stakeholders.

Finally, AIA's strong performance and growth since our initial public offering would not have been possible without the trust of our customers and shareholders. On behalf of the entire Board, I am deeply grateful for your enduring support.



Edmund Sze-Wing Tse
Independent Non-executive Chairman
12 March 2021

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

OVERVIEW

GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

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



Mr. Lee Yuan Siong
Group Chief Executive
and President

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

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

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

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

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

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

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

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

2020 PERFORMANCE HIGHLIGHTS

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

In 2020, we successfully obtained regulatory approval and completed the conversion of our Shanghai branch to become the first wholly foreign owned life insurance subsidiary in Mainland China. In March 2021, we received approval from the China Banking and Insurance Regulatory Commission (CBIRC) to begin operations in Sichuan. Sichuan is the sixth largest province by GDP in Mainland China and the fourth largest by population, representing a significant long-term growth opportunity for AIA.

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

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

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

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

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

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

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

ENGAGEMENT WITH PEOPLE

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

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

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

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

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

OVERVIEW

GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

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

OUTLOOK

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

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

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



Lee Yuan Siong
Group Chief Executive and President
12 March 2021

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

FINANCIAL AND OPERATING REVIEW

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GROUP CHIEF FINANCIAL OFFICER'S REVIEW

AIA delivered a strong set of financial results in 2020 despite unprecedented business and macroeconomic conditions. While VONB was affected by movement restrictions due to the global pandemic, we achieved solid growth in OPAT, UFSG and EV equity. Our financial position remains very strong, enabling us to continue to invest in the many growth opportunities available to us.

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

SUMMARY AND KEY FINANCIAL HIGHLIGHTS

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



Mr. Garth Jones
Group Chief Financial Officer

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

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

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

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

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

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

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

NEW BUSINESS PERFORMANCE

VONB, ANP and Margin by Segment

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

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

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

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

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

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

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

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

EV EQUITY

EV OPERATING PROFIT

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

EV Operating Earnings Per Share – Basic

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

EV Operating Earnings Per Share – Diluted

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

Note:

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

EV MOVEMENT

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

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

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

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

Note:

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

FINANCIAL AND OPERATING REVIEW

GROUP CHIEF FINANCIAL OFFICER'S REVIEW

EV Equity

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

Note:

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

EV AND VONB SENSITIVITIES

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

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

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

IFRS PROFIT

OPAT⁽¹⁾ by Segment

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

Notes:

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

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

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

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

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

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

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

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

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

FINANCIAL AND OPERATING REVIEW
GROUP CHIEF FINANCIAL OFFICER'S REVIEW

TWPI by Segment

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

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

IFRS Operating Profit Investment Return

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

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

Operating Expenses

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

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

Net Profit⁽¹⁾⁽³⁾

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

Notes:

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

IFRS NON-OPERATING MOVEMENT

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

FINANCIAL AND OPERATING REVIEW
GROUP CHIEF FINANCIAL OFFICER'S REVIEW

Movement in Shareholders' Allocated Equity⁽¹⁾

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

Note:

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

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

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

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

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

IFRS EARNINGS PER SHARE (EPS)

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

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

IFRS EPS – Basic

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

IFRS EPS – Diluted

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

Notes:

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

CAPITAL

FREE SURPLUS GENERATION

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

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

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

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

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

The following table summarises the change in free surplus:

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

Note:

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

WORKING CAPITAL AND NET REMITTANCES TO GROUP CORPORATE CENTRE

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

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

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

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

The movements in working capital are summarised as follows:

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

Note:

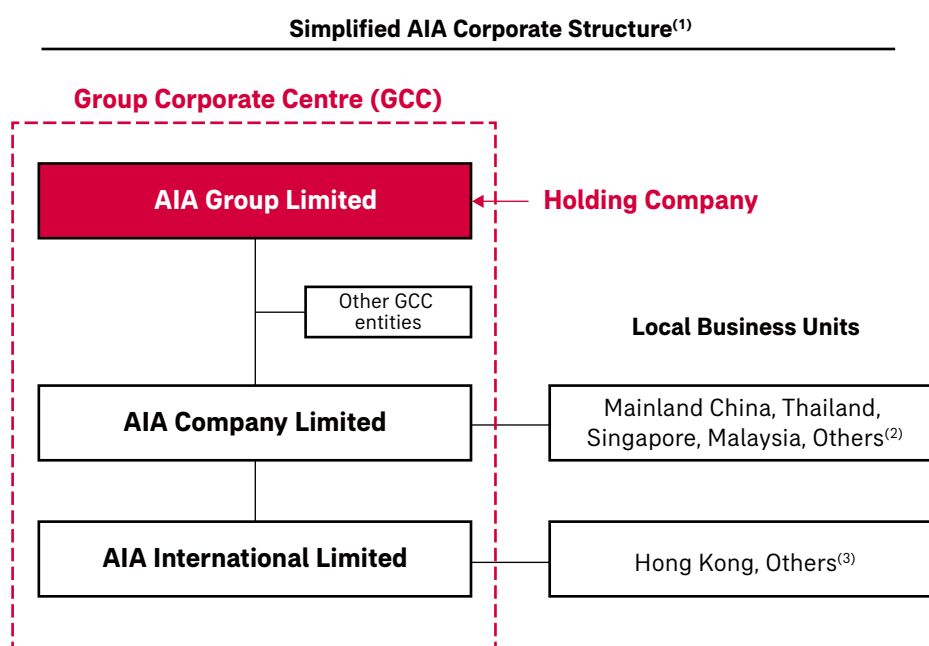
(1) Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted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

HOLDING COMPANY FINANCIAL RESOURCES

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

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

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



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

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

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

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

Assets recoverable and liabilities repayable within 12 months as follows:

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

Notes:

- (1) Borrowings principally include medium-term notes and securities, other intercompany loans, and outstandings, if any, from the Company's US\$2,290 million unsecured committed credit facilities.
- (2) As at 31 December 2020, loans to/amounts due from subsidiaries was US\$1,904 million (2019: US\$1,918 million). US\$90 million was recoverable within the 12 months after the year ended 31 December 2020 (2019: US\$84 million).
- (3) As at 31 December 2020, medium-term notes and securities placed to the market was US\$8,559 million (2019: US\$5,757 million). US\$1,002 million was repayable within the 12 months after the year ended 31 December 2020 (2019: nil). Details of the medium-term notes and securities placed to the market are included in note 30 to the consolidated financial statements.

Reconciliation between Working Capital and Holding Company Financial Resources

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

IFRS BALANCE SHEET

Consolidated Statement of Financial Position⁽¹⁾

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

Movement in Shareholders' Equity⁽¹⁾

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

Note:

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

Total Investments

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

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

Unit-Linked Contracts and Consolidated Investment Funds

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

Policyholder and Shareholder Investments

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

ASSETS

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

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

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

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

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

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

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

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

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

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

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

LIABILITIES

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

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

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

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

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

REGULATORY CAPITAL

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

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

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

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

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

AIA CO. SOLVENCY POSITION

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

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

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

GROUP LCSM SOLVENCY POSITION

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

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

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

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

GROUP LCSM SURPLUS SENSITIVITIES

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

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

RECONCILIATION BETWEEN GROUP LCSM SURPLUS AND FREE SURPLUS

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

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

Notes:

(1) Adjustment from C-ROSS solvency basis to China Association of Actuaries (CAA) EV basis in line with local requirements.

(2) Reflects change from Group minimum capital requirement to EV required capital and the removal of participating fund surplus.

LOCAL SOLVENCY REQUIREMENTS

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

ACCOUNTING STANDARDS DEVELOPMENTS

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

GLOBAL MEDIUM-TERM NOTE AND SECURITIES PROGRAMME

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

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

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

CREDIT RATINGS

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

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

DIVIDENDS

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

FINANCIAL AND OPERATING REVIEW

BUSINESS REVIEW

SUMMARY AND KEY BUSINESS HIGHLIGHTS

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

DISTRIBUTION

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

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

GEOGRAPHICAL MARKETS

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

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

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

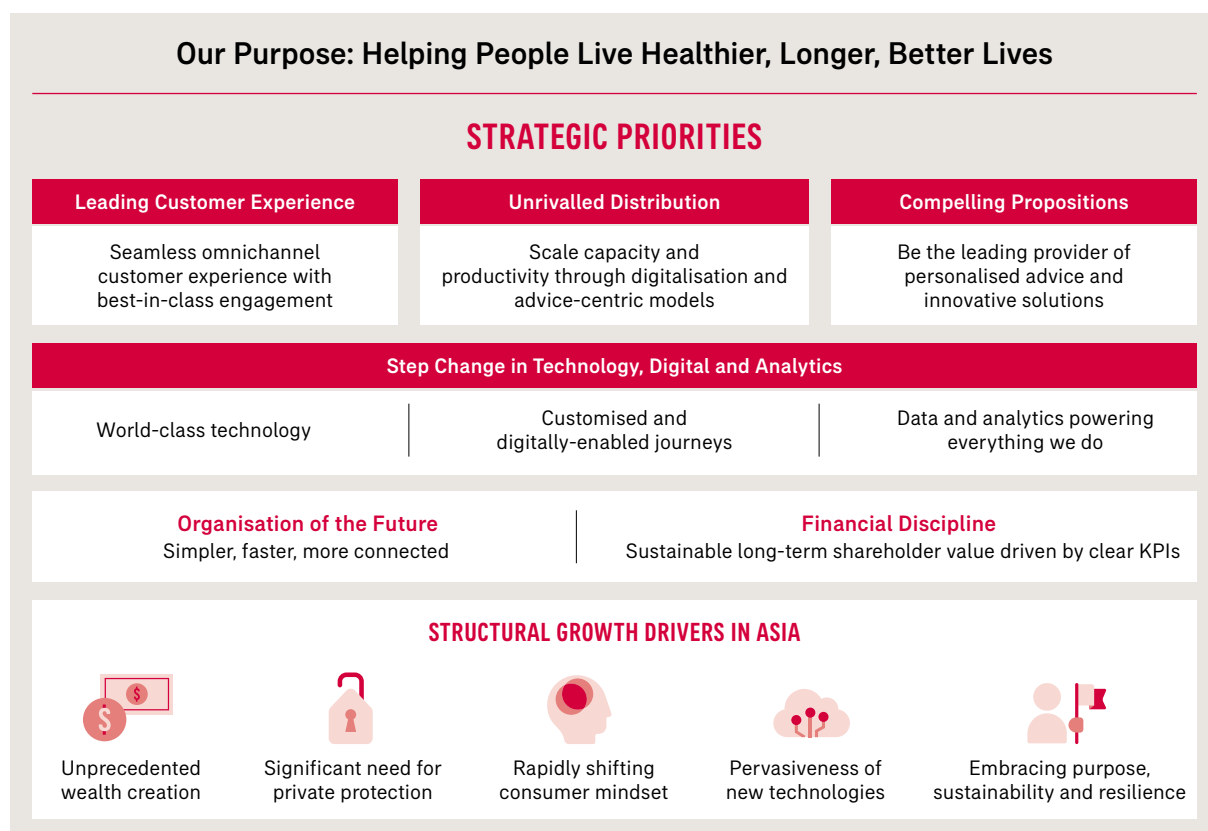
AIA Singapore achieved an excellent recovery in the second half, with VONB up by 56 per cent compared with the first half and a 12 per cent increase year-on-year. VONB reduced by 5 per cent for the full year, with growth in our agency channel offset by lower new business from our partnership distribution,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

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

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

CORPORATE STRATEGY

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



STRUCTURAL GROWTH DRIVERS

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

Asia's unprecedented wealth creation

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

Significant need for private protection

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

Rapidly shifting consumer mindset

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

Pervasiveness of new technologies

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

Embracing purpose, sustainability and resilience

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

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

TECHNOLOGY, DIGITAL AND ANALYTICS

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

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

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

WORLD-CLASS TECHNOLOGY

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

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

DIGITAL ENABLEMENT

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

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

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

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

ANALYTICS POWERING EVERYTHING WE DO

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

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

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

UNRIVALLED DISTRIBUTION

AGENCY

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

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

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

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

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

PARTNERSHIPS

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

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

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

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

Bancassurance

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

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

Digital Platforms

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

COMPELLING PROPOSITIONS

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

HEALTH AND WELLNESS ECOSYSTEM

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

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

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

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

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

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

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

REGIONAL FUNDS PLATFORM

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

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

LEADING CUSTOMER EXPERIENCE

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

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

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

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

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

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

ORGANISATION OF THE FUTURE

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

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

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

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

GEOGRAPHICAL MARKET HIGHLIGHTS

MAINLAND CHINA

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

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

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

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

In 2020, AIA China successfully obtained regulatory approval and completed the conversion of our Shanghai branch to become the first wholly foreign-owned life insurance subsidiary in Mainland China. In March 2021, we received regulatory approval to begin operations in Sichuan. Sichuan is Mainland China's sixth largest province by GDP and fourth largest by population, representing a significant long-term growth opportunity for AIA China.

HONG KONG

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

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

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

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

THAILAND

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

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

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

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

SINGAPORE

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

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

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

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

MALAYSIA

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

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

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

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

OTHER MARKETS

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

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

Overview

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

Geographical Market Highlights

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

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

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

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

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

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

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

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

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

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

Notes:

- (1) Throughout the Unrivalled Distribution section, VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.
- (2) Following the completion of the conversion process of AIA Co's Shanghai branch to a wholly-owned subsidiary, future remittances to the Group from this subsidiary will be subject to withholding tax at the applicable tax rate in Mainland China (currently 5 per cent). OPAT and net profit from AIA China include the 5 per cent withholding tax from October 2020. EV and VONB from AIA China include the 5 per cent withholding tax from July 2020.
- (3) The OPAT reported in Hong Kong is after the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation.
- (4) Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.
- (5) Growth rates and commentaries are provided on a constant exchange rate basis.

RISK MANAGEMENT

OVERVIEW

The Group recognises the importance of sound risk management in every aspect of our business and for all stakeholders. For our policyholders, it provides the security of knowing that we will always be there for them. For investors, it is key to protecting and enhancing the long-term value of their investment. Finally, for regulators, sound risk management supports industry growth and enhances the public's trust in the industry.

While effective risk management is vital to any organisation, it goes to the core of a life insurance business where it is a fundamental driver of value. The Group's Risk Management Framework (RMF) does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the creation of long-term value.

The Group's RMF is built around developing an appropriate and mindful risk culture at every level of the organisation in support of our strategic objectives. The RMF provides business units with appropriate tools, processes and capabilities for the identification, assessment and, where required, upward referral of identified material risks for further evaluation.

The Group's RMF consists of the following key components:

- Risk Governance;
- Risk Culture;
- Risk Strategy;
- Risk Underwriting;
- Risk Control; and
- Risk Disclosure.

RISK GOVERNANCE

THREE LINES OF DEFENCE

The Group's Risk Governance framework is built on the "Three Lines of Defence" model. With regard to risk management, the objective is to ensure that an appropriate framework is in place, including an independent system of checks and balances, to provide assurance that risks are identified, assessed, managed and governed properly. The framework clearly defines roles and responsibilities for the management of risk between Executive Management (First Line), Risk & Compliance (Second Line) and Internal Audit (Third Line) functions. While each line of defence is independent from the others, they work closely to ensure effective oversight.

The First Line is made up of the business decision-takers who are the Risk Owners and are responsible for ensuring that effective and appropriate processes are in place at all times to effectively identify, assess and manage risk in a manner consistent with the RMF. In particular, the amount of risk taken at each level of the organisation must be consistent with both the Risk Appetite of the Group and the relevant business unit. The First Line is also responsible for operating an effective control environment, including mitigation of risks through implementation of controls.

Initial identification, assessment and management of risk is the responsibility of executives operating in the First Line. Decisions regarding activities deemed to have significant risks attached or that are outside the limits delegated to a given level of management are referred to a senior Group executive or, where appropriate, through the Group Chief Executive and President to the Risk Committee of the Board and, where appropriate, to the full Board.

The Second Line consists of the Group Chief Risk Officer (CRO), business unit CROs, and the Risk & Compliance function. This group ensures that the RMF remains appropriate and effective with respect to the risk profile and operations of the Group. This group is independent of, but works closely with, the First Line to ensure that risks are being managed appropriately within the Risk Appetite of the Group and the relevant business unit. Whilst the First Line is empowered with decision-making authority, the Second Line is responsible for overseeing First Line activities and ensuring that decisions are subject to an appropriate level of governance, as well as ensuring that the Group adheres to its own high standards.

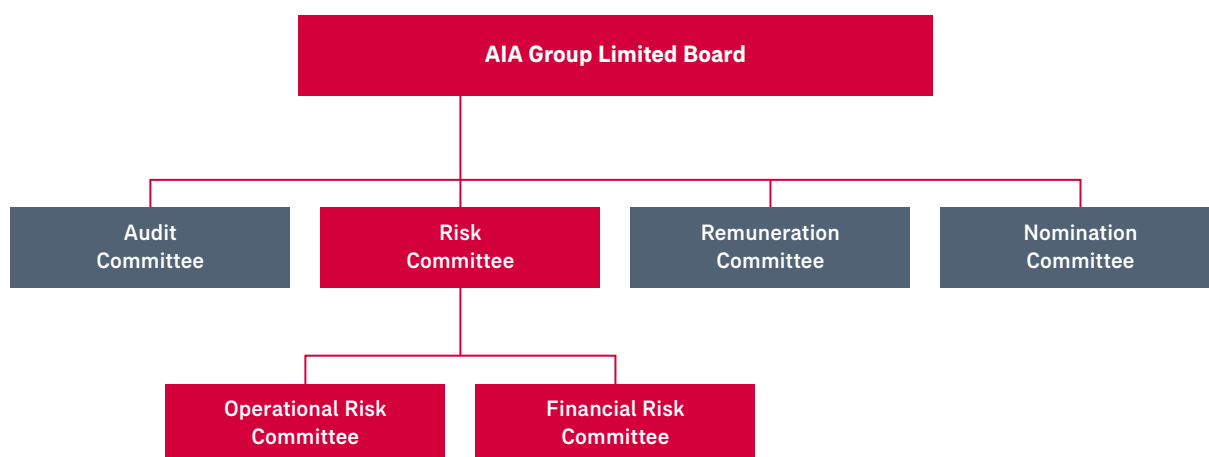
The Third Line of Defence (Third Line) is the Group Internal Audit (GIA) function, which reports to the Audit Committee of the Board. GIA is responsible for providing independent assurance over the effectiveness of the RMF, including key internal controls, and makes recommendations based on the audit findings.

The Three Lines of Defence converge at the Board, which retains overall responsibility for the Group's RMF.

RISK COMMITTEE STRUCTURE

The Group's Risk Committee structure is designed to:

- ensure consistent application of the RMF across the Group;
- provide streamlined processes for the timely identification, assessment and escalation of risk issues;
- provide objective analysis of risk issues enabling informed decision-making; and
- ensure discussion and challenge in relation to risk issues in suitable forums leading to optimal outcomes.



The Board

The Board retains overall responsibility for oversight of the Group's risk management activities. In this regard the Board sets the Group's Risk Appetite, approves the RMF (including amendments or refinements from time to time) and monitors material Group-wide risks. In fulfilling these responsibilities, the Board is supported and advised by the Risk Committee.

Risk Committee

The Risk Committee oversees risk management across the Group and advises the Board on all risk-related issues requiring Board attention. The members of the Risk Committee are all Board directors, with the majority of members, including the Committee Chairman, being Independent Non-executive Directors. The Risk Committee meets at least four times a year.

Operational Risk (ORC) and Financial Risk (FRC) Committees

The Risk Committee is supported by two Executive Risk Committees which, between them, oversee the management of all risks. The ORC is chaired by the Group CRO and oversees risks associated with failure in internal processes, personnel and systems or from external events. The FRC is chaired by the Group Chief Executive and President and oversees risks associated with Financial, Insurance and Investment activities. The FRC and ORC each meet at least four times a year.

The above committee structures are replicated at the business unit level where applicable.

RISK CULTURE

The RMF recognises the importance of risk culture in the effective management of risks. Risk Culture defines the Group's attitude to risks and ensures its remuneration structure promotes the right behaviour.

ACCOUNTABILITY

A key component of the Group's risk culture is accountability. The First Line of Defence (First Line) generally consists of business unit management and is responsible for managing risks associated with their businesses. The Risk & Compliance function makes up our Second Line of Defence (Second Line) and is headed by the Group CRO who has overall accountability for the Risk & Compliance function across the Group. Within each business unit, the business unit CRO is a senior position with a primary reporting line into the Group CRO and a secondary reporting line to the local Chief Executive Officer (CEO). This structure ensures independence of the Second Line while ensuring that business unit CROs have full access to local business discussions so as to provide risk management perspectives and insights. The Group CRO is a member of the Group Executive Committee while business unit CROs are, in most cases, also members of their respective local Executive Committees.

REMUNERATION

The Company's executive remuneration structure ensures appropriate consideration of the RMF within a strong performance-oriented culture. This is supported by a performance management system where all staff are measured on 'how' as well as 'what' they deliver. This structure places significant emphasis on conduct as well as achievement, and is consistent with our fundamental Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come".

RISK STRATEGY

Risk Strategy describes the types of risks, and how and to what extent they are taken in order to pursue the Group's strategic objectives. The Group Risk Appetite Framework (RAF) establishes the quantum and nature of risks the Group is prepared to take to achieve its strategic objectives.

1. The Risk Appetite Statement (RAS) is an overarching statement on the enterprise's attitude to risk;
2. Risk Principles and Risk Tolerances are qualitative statements and quantitative metrics that expand and validate the RAS; and
3. Risk Controls and Risk Limits are used to manage specific risks.

RISK APPETITE STATEMENT

The Group has adopted the following RAS:

"The amount of risk taken by AIA in the ordinary course of its business will be sufficient to meet its customers' reasonable requirements for protection and benefits while ensuring that the level and volatility of shareholder returns are in line with a broadly-based risk profile appropriate to an Asia-Pacific ex-Japan-focused life insurance company."

RISK PRINCIPLES AND RISK TOLERANCES

The RAS is supported by five Risk Principles:

Risk Principles	
Regulatory Capital	<i>"AIA has no appetite for regulatory non-compliance and as such will ensure that we hold sufficient capital to meet our current statutory minimum solvency in all but the most extreme market conditions."</i>
Financial Strength	<i>"AIA will ensure the Group's ability to meet all future commitments to our customers, both financial obligations and in terms of the promises we make to them. We will maintain sufficient capital to support a Financial Strength Rating that meets our business needs."</i>
Liquidity	<i>"AIA will maintain sufficient liquidity to meet our expected financial commitments as they fall due."</i>
Earnings Volatility	<i>"AIA will seek to deliver reported operating earnings consistent with expectations and will implement policies, limits and controls to contain operational risks, risk concentrations and insurance risks within reasonable tolerances."</i>
Business Practice	<i>"AIA will uphold high ethical standards and will implement sound internal controls to minimise the downside risk from the impact of any operational failures within reasonable tolerances."</i>

Further granular measures, indicators and tolerances are used to monitor and control specific risk types.

RISK LANDSCAPE

The Group maintains a detailed risk taxonomy to ensure all risks are identified and systematically managed. These risks are categorised in accordance with the risk landscape shown below.

Principal Risks	Operating Risks		Financial Risks		Liability Risks
	Operational Risk	Business Risk	Structural Risk	Investment Risk	Insurance Risk
Underlying Risks	Conduct Risk	Strategic Risk	Property Risk*		Mortality Risk
	Execution, Delivery & Process Management Risk	Business Environment	Equity Risk*		Disability / Morbidity Risk
	External Event Risk	Lapse Risk	Credit Default Risk*		Pandemic & Catastrophe Risk
	Financial Crime Risk	Expense Risk	Credit Spread Risk*		Reinsurance Counterparty Risk
	Fraud Risk		FX Risk	Investment Counterparty Risk	
	People Risk		Interest Rate Risk		
	Information Risk		Liquidity Risk		
	Technology Risk				
	Legal & Compliance Risk				

* Risks may be structural, if the assets are used to back policyholder liabilities, or investment, if related to shareholder positions.

Principal Risk	Definition
Operational Risk	The risk arising from internal processes, personnel and systems or from external events which may result in a direct or indirect business impact. This includes potential legal or regulatory sanctions, financial loss, or loss of reputation the Group may suffer as a result of a failure (or perceived failure) to comply with applicable laws, regulations or industry standards.
Business Risk	The risk of loss, lower than anticipated or forgone business profits arising from greater-than-expected business expenses or a reduced revenue base. This may arise due to internal factors such as the business strategy, or from implications of the wider business environment over the planning horizon.
Structural Risk	The risk arising from changes in price, or volatility, of assets relative to the value of the liabilities. This includes the sensitivity of the balance sheet to market movements, such as foreign exchange and interest rates, as well as the ability to meet financial obligations, such as claims, debt servicing and dividends, when due.
Investment Risk	The risk of adverse market movements in assets, as well as indirect exposure through default of a counterparty, leading to a reduction in surplus.
Insurance Risk	The risk of adverse movements in the value or trend of insurance liabilities arising from the biometric risks underwritten by the Group. The risk may manifest gradually over time or more suddenly from shocks or extreme events. Insurance risk includes changes to actuarial assumptions regarding future experience for these risks.

RISK UNDERWRITING

The Group has a robust process that provides sufficient information, capability and tools to manage its key risks. Risks which the Group proactively accepts are identified, quantified and managed to support the creation of long-term value.

IDENTIFICATION

Timely and complete identification of risks is an essential first step to the risk management process. The Risk & Compliance function has developed a systematic process to identify existing and emerging risks in the business units. The risk landscape enables a consistent identification and classification of existing and emerging risks inherent in business activities.

QUANTIFICATION

Quantification of risk is important in establishing the level of exposure and in determining the appropriate management actions within the Group's Risk Appetite. Specific approaches to quantifying risk are applied depending upon the nature of the risk, including regular capital assessments, and stress and scenario testing.

UNDERWRITING DECISIONS

Risks are evaluated against approved risk tolerances to ensure implications on risk profile are understood and appropriately considered in decision-making.

REVIEW AND MANAGEMENT

Executives working in the First Line are responsible for the execution of appropriate actions and other risk mitigation strategies to transfer, mitigate or eliminate risks considered outside of risk tolerance. They are also responsible for the timely escalation of material risk developments.

RISK CONTROL

Risks which the Group seeks to mitigate are managed through an effective internal controls system to maintain exposures within an acceptable residual level. The Operational Risk and Control Framework (ORCF) has been designed to ensure that the Group operates in accordance with the expectations of stakeholders. A primary component of the ORCF is the Risk and Control Assessment (RCA), which is a regular evaluation of the business' operational risks and control effectiveness to ensure that information and perspectives on the internal control environment are appropriately considered.

RISK DISCLOSURE

The Second Line is responsible for monitoring First Line activities and reporting to the appropriate Risk Committees the performance of the First Line against risk metrics and limits defined in the Risk Appetite. Information is gathered from underlying systems and provided to the Board, respective Risk Committees and other executive management to inform key decision-making.

Ongoing monitoring of the RMF is undertaken to support an ongoing evaluation of the Group's risk profile, compliance status and overall effectiveness of the RMF. The overall RMF is reviewed by the Board on an annual basis to confirm its continued appropriateness. In addition, to ensure the effectiveness of the Risk Management Process, an Own Risk and Solvency Assessment (ORSA) is reported to the Risk Committees for annual review.

EXECUTION OF THE RMF

The Group has embedded its RMF into key business processes and decision-making, with the following priority areas:

1. Product lifecycle and approval: in evaluating the launch, revision and ongoing management of insurance products, the Group considers the potential financial and operational risks involved;
2. Strategic planning: the Group undertakes an annual planning process to develop and set its strategy and corporate objectives. The Risk & Compliance function assesses the impact of potential strategies on the Group's risk profile and ensures that the strategies selected are in line with its Risk Appetite;
3. Investment management: whilst the Group seeks to realise positive returns, we carefully manage risks arising from our asset portfolio to ensure AIA maintains the financial flexibility needed to fund new business growth opportunities, support its planned dividend policy, pay claims and withstand capital market (or other) stress conditions;
4. Structural management: the timing and value of assets are matched with corresponding liabilities to ensure sufficient resources are available to meet liabilities as they fall due. Our asset allocation strategy is driven by the liability matching approach, which seeks to ensure that structural risks are managed carefully; and
5. Internal Control: to ensure potential operational and compliance risk exposures arising from day-to-day business activities are subject to appropriate control and management within our Risk Appetite, the Group has embedded a robust approach to internal control as part of its ORCF.

REGULATORY AND INTERNATIONAL DEVELOPMENTS

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

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

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

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

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

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

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

- **Hong Kong Risk-based Capital regime:** AIA continues to be closely and constructively engaged with the HKIA on the multi-year consultation process toward a risk-based capital regime in Hong Kong applicable to Hong Kong licensed insurance companies (distinct from the GWS framework applicable at the group level). This risk-based capital regime will replace the current Solvency 1 regime. Based on the most recently available information, our expectation is that the regime will become effective from 1 January 2024.
- **Relaxation of Foreign Ownership Limits for Life Insurers in Mainland China:** Further to its initial announcement in 2017 to relax the foreign ownership limits in the financial services sector, the Mainland Chinese Government has, as of 6 December 2019, officially lifted these ownership restrictions effective 1 January 2020 to allow for 100 per cent foreign ownership of licensed life insurance companies in Mainland China. On 19 June 2020, AIA Co. received approval from the CBIRC to convert its existing Shanghai branch to a wholly-owned subsidiary, through which it intends to manage and operate its existing and future business in Mainland China. In March 2021, AIA China received approval from the CBIRC to begin operations in Sichuan.
- **The Organisation for Economic Co-operation and Development (OECD)** is undertaking a new phase of work on tax policy, commonly referred to as “Base erosion and profit shifting 2.0” (BEPS 2.0), which has two pillars. The first pillar focuses on changes to the international tax system in respect of consumer businesses and automated digital services. It aims to allocate more taxing rights to sales and market jurisdictions and to ensure a taxable presence in jurisdictions where enterprises have no physical presence but still have a significant economic presence. The second pillar focuses on the development of rules that seek to apply a global minimum tax rate to multinational enterprises and their cross-border transactions. A carve-out from Pillar One has been proposed for the financial services industry. However, based on the blueprint covering the potential design of Pillar Two, the rules that the OECD is proposing may increase AIA’s effective tax rate. At this stage the proposed rules are still subject to agreement by the jurisdictions that are members of the “Inclusive Framework” on BEPS 2.0.

OUR PEOPLE

At AIA, our people span across multiple cultures and communities. We focus on developing, engaging, and helping them grow professionally and personally during their time at AIA. We believe that by enabling our employees' success, they are better able to serve and support our customers and communities.

As at 31 December 2020, AIA had a total of 23,397 employees, which included full-time and part-time, as well as contract employees¹.

In 2020, our continued focus on our people has received several local, regional and global accolades and awards.

- For the second year in a row, AIA Group was recognised in the Forbes "World's Best Employers" list.
- AIA China was awarded the "Top Employer in China 2020" by Top Employers Institute.
- AIA Vietnam received the "Great Place To Work" award by Great Place to Work and "Best Companies to Work for in Asia" award by HR Asia.
- AIA Malaysia was recognised as the "Most Attractive Graduate Employers to Work For" by Graduates Choice Award.
- AIA Singapore was the insurance and risk management sector winner in "Singapore's 100 Leading Graduate Employers" by GTI Media.
- AIA Indonesia received "Best Companies to Work for in Asia" and "Most Caring Companies" award by HR Asia.
- AIA Taiwan received "Best Companies to Work for in Asia" award by HR Asia.
- AIA Philam Life was recognised as "Best Companies to Work for in Asia" by HR Asia.
- AIA New Zealand received the YWCA GenderTick™ and multiple awards in 2020:
 - "Top Insurance Workplaces 2020" from Insurance Business Magazine;
 - "Employer of Choice" award by HRD Magazine; and
 - "Insurance Employer of the Year" from Insurance Business Magazine's Women in Insurance awards.

TRANSFORMING OUR ORGANISATION

MODERNISING THE WAY WE WORK

In 2020, we launched new experiences for all our managers and employees across all our business units, delivered through a new global human resources information system, operating on a global service delivery model.

As well as improving operational efficiencies, this initiative has empowered our managers with greater insights about their team and allowed managers and employees to take control of their needs with "anytime anywhere" self-service transactions. Employees have embraced new ways of working, such as providing more regular feedback and recognition to promote better performance and engagement. Learners can explore and complete more self-paced online courses when it is appropriate for them.

We prioritise listening to our employees. With new mechanisms in place to listen to, measure and act on experience feedback in a timely manner, we have achieved higher satisfaction levels and positive feedback from managers and employees.

CULTURE AND EMPLOYEE ENGAGEMENT

Trust is integral to the products and services that AIA offers to our customers throughout Asia-Pacific and it is the foundation of all our interactions in the workplace, with our customers and with all other external stakeholders. We hold ourselves to the highest professional standards as defined in AIA's Code of Conduct, which outlines how we maintain this trust and reflects our Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come".

Note:

(1) Includes employees on contracts, but excludes interns, agents of the Group and employees of joint venture Tata AIA Life.

The Code of Conduct also provides clear guidance on how to conduct business at all times, by embedding ethics and strong risk management in all the decisions that AIA employees make. All new employees are required to undergo an orientation and complete a set of e-learning modules centred on our Code of Conduct. An enterprise-wide learning and development framework is in place across our business units to maintain consistency in our approach to talent development and help shape and foster our culture across the region.

AIA is committed to creating and maintaining a positive work environment free from bullying, discrimination and harassment. We encourage employees to resolve issues by talking to and working with their management and human resources teams. In addition, employees are encouraged to speak up and ask questions, raise concerns or report instances of misconduct by contacting local or Group Compliance, or the Group's Ethics Hotline.

ENGAGING OUR PEOPLE

Ensuring that we offer a collaborative and inclusive workplace that prioritises employee engagement is a top priority for AIA. To help us monitor levels of engagement across our business units and functions, we conduct the Gallup Q12 employee engagement survey every year. It provides meaningful input to allow for the development of strategies to address areas requiring improvement, with the goal of building on our strong levels of engagement.

In 2020, 97 per cent of our people responded to the survey and the Group's employee engagement scores increased by 12 percentile points, keeping us in the top quartile of Gallup's global financial services and insurance industry benchmark for the fourth consecutive year.

The Asia region provides many career opportunities with increasing demand and competition for skilled talent. We actively monitor our turnover levels against industry benchmarks to help us understand levels of employee engagement, thereby ensuring that the programmes and opportunities we provide to our people create an environment in which employees perform their best and grow with AIA.

Across the Group, employee turnover² was 9.5 per cent in 2020 compared to 13.5% in 2019. We believe the pandemic has impacted this decrease.

DEVELOPING OUR PEOPLE

Developing our people so they can achieve their potential is a key strategic priority for AIA.

Our learning culture actively supports the development of key capabilities, to help our people succeed in their current roles while providing a platform for growth and meaningful careers with AIA. Our holistic approach to learning and development includes a combination of knowledge and skills accumulated from on-the-job experiences, collaborative projects and digital learning, all supported by activities such as mentoring and coaching.

In 2020, we revamped learning framework to support our new strategy. We continued to invest in leadership development, revamping our three signature leadership programmes to develop our most senior leaders across the organisation.

To ensure our learning interventions continue to develop talents for the future, we continually research the skills and knowledge needs of our industry, review feedback from our employees, and design programmes to address these needs. With a blended learning approach, our people development solutions are more targeted and effective in supporting our strategic priorities. In addition, our people are required to regularly complete mandatory training on key areas of our business.

Note:

(2) Excludes Group employees on fixed-term contracts, involuntary turnover and employees of joint venture Tata AIA Life.

FINANCIAL AND OPERATING REVIEW

OUR PEOPLE

The digitalisation of learning content and delivery methods will continue to play an important role in the development of our people. In 2020, we rolled out the AIA Learning Hub on our online platform, which provides access to thousands of digital learning courses and enables our people to create, curate and share content with one another.

We continue to provide best-in-class talent development programmes at the AIA Leadership Centre (ALC), our world-class learning facility in Bangkok, Thailand. Now in its fifth year of operation, the ALC delivers bespoke programmes to our senior leaders, top agency leaders and key partner executives with a clear focus on AIA's strategic and governance priorities.

SUCCESSION AND ORGANISATION PLANNING

AIA is committed to developing strong talent pipeline to sustain our business growth. Our comprehensive annual Group-wide Organisation and People Review process identifies different talent segments to enable leaders to plan for the succession of key roles. The success of our approach to talent development and our Group-wide succession planning is evidenced by many examples of internal promotions into key leadership roles throughout the Group in 2020, including at the most senior levels of the organisation.

EMPLOYEE COACHING AND INTERSHIPS

We encourage our employees to expand their networks, benefit from guidance and foster communication across different departments and seniorities. Currently coaching are supported in many of our business units and at Group Office.

Across our business units, we also offer development opportunities for hundreds of interns. Our programmes provide interns with first-hand experience of what a career at AIA is like and an opportunity to learn crucial skills in a fast-moving and customer-focused environment. They also provide us with a great opportunity to identify future talents for our business.

RECOGNISING AND REWARDING OUR PEOPLE

Our total rewards programmes use a combination of market competitive financial and non-financial rewards to attract, engage and retain employees and motivate them to help AIA execute its business goals.

Robust dialogues on individual progress are part of our ongoing performance development process. In-depth performance discussions are conducted among our employees at least twice annually – during mid-year and year-end. The performance development dialogue programme is designed to enable managers to continually assess performance and behaviours of their team and recommend development activities to help meet defined career objectives. The performance development dialogue focuses on what employees have accomplished and, just as importantly, how they achieve their goals.

We are also proud to provide our employees with the opportunity to become AIA shareholders through our Employee Share Purchase Plan (ESPP) where employees can participate and receive 'matching shares' over time during their employment with us.

WORKFORCE WELLBEING

Our benefits and workforce well-being programmes help our employees and their families live Healthier, Longer, Better Lives. We continue to provide flexible benefits tailored to local circumstances and employees' needs. At Group Office, our workforce well-being programme focuses on physical and mental health. We also support our employees through programmes such as AIA Vitality memberships, team challenges and health check-ups.

We encourage employees to stay active, understand their health profile and take steps to safeguard their well-being. Our business units offer a range of benefits suited to local needs, which include flexible working, on-site gyms, discounted gym memberships, other sporting and recreational facilities, and mothers' rooms.

In 2020, additional measures were taken to ensure a safe and secure environment for our employees during the pandemic. Many of our business units moved to remote or flexible working arrangements to protect our employees and their families, and our communities. Virtual learning, resources and programmes were launched through a centralised hub to equip our employees to cope with the pandemic and impact of working from home.

DIVERSITY AND INCLUSION

We believe in the power of diverse, talented people to create value and deliver on our customer and shareholder expectations. As a company with operations in 18 markets, we draw on diverse perspectives and create an inclusive environment that promotes innovation, better decision making, adaptability and problem solving.

At AIA there is zero tolerance for discrimination or harassment in any form, across all aspects of diversity, including race, colour, religion, sex, nationality, age, disability, military service, marital status and sexual orientation.

During our recruitment processes we assess candidates' competencies and experience. We operate fair and equitable processes for employment, remuneration, promotion and termination, with decisions based only on performance.

All employees are required to complete mandatory training on the Code of Conduct, which includes our approach to inclusion and non-discrimination, as part of their orientation when they join AIA. In addition, we have an anti-harassment policy and e-learning module for all employees, outlining expected workplace conduct and professionalism, including channels for escalation.

Women represent 59 per cent of employees³ across the Group as at 31 December 2020. We strive to provide an inclusive workplace and are proud to be an employer of choice for women across the region where 39 percent of our senior leaders are represented by women. .

We recognise the importance of understanding different generational needs when shaping our policies and practices, and we strive to ensure that we create an inclusive workplace for all age groups. As at 31 December 2020, 62 per cent of our employees are Gen Y and Gen Z⁴.

AIA also values diverse perspectives for effective governance and decision making and the Company's Board represents different nationalities and ethnicities, in addition to diversity in education, age and experience.

Note:

(3) Refers to Group employees on permanent and fixed-term contracts, excluding joint venture TATA AIA Life employees.

(4) Gen Y is defined as the generation born between 1980 and 1996 and Gen Z is defined as the generation born from 1997 onwards.

CORPORATE GOVERNANCE

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Company's consolidated financial statements in accordance with applicable laws and regulations.

In preparing the consolidated financial statements of the Company, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and IFRS; and
- prepare the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that give a true and fair view of the state of the Company's affairs and explain its transactions.

The Directors are responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Report of the Directors and the Corporate Governance Report as set out on pages 83 to 109 of this Annual Report.

The Directors confirm that to the best of their knowledge:

1. the consolidated financial statements of the Company, prepared in accordance with HKFRS and IFRS, give a true and fair view of the assets, liabilities, financial position, cash flows and results of the Company and its undertakings included in the consolidated financial statements taken as a whole; and
2. the section headed "Financial and Operating Review" included in this Annual Report presents a fair review of the development and performance of the business and the position of the Company and its undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

BOARD OF DIRECTORS



Mr. John
Barrie HARRISON

Dr. Narongchai
AKRASANEE

Mr. Jack
Chak-Kwong SO

Mr. Edmund
Sze-Wing TSE

Mr. LEE
Yuan Siong



Mr. Chung-Kong
CHOW

Ms. Swee-Lian
TEO

Professor Lawrence
Juen-Yee LAU

Mr. Cesar Velasquez
PURISIMA

Mr. George
Yong-Boon YEO

INDEPENDENT NON-EXECUTIVE CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Edmund Sze-Wing TSE

Aged 83, is the Independent Non-executive Chairman and an Independent Non-executive Director of the Company. He was appointed Non-executive Director of the Company on 27 September 2010 and elected Non-executive Chairman on 1 January 2011. He was re-designated as the Independent Non-executive Chairman and an Independent Non-executive Director of the Company on 23 March 2017. Mr. Tse is also the Chairman of the Nomination Committee and a member of the Remuneration Committee and the Risk Committee of the Company. He is a director of AIA Foundation. Mr. Tse's appointments during almost 59 years with the Group and its predecessor, AIG Group, include serving as Honorary Chairman of AIA Co. from July 2009 to December 2010, Chairman and Chief Executive Officer from 2000 to June 2009 and President and Chief Executive Officer from 1983 to 2000. He also served as Chairman of The Philippine American Life and General Insurance (PHILAM LIFE) Company from 2005 to 2015. Mr. Tse is a non-executive director of PCCW Limited (listed on the Hong Kong Stock Exchange), a director of Bridge Holdings Company Limited (formerly known as PineBridge Investments Limited) and the non-executive Chairman of PineBridge Investments Asia Limited. Mr. Tse is also a member of the membership committee and a fellow of the Hong Kong Academy of Finance. He served as a non-executive director of PICC Property and Casualty Company Limited (listed on the Hong Kong Stock Exchange) from 2004 to July 2014. In recognition of his outstanding contributions to the development of Hong Kong's insurance industry, Mr. Tse was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2001. Mr. Tse received an honorary fellowship and an honorary degree of Doctor of Social Sciences from The University of Hong Kong in 1998 and 2002, respectively. He also received an honorary degree of Doctor of Business Administration from Lingnan University in 2018. In 2003, he was elected to the prestigious Insurance Hall of Fame and in 2017, Mr. Tse was awarded the first ever Lifetime Achievement Award at the Pacific Insurance Conference in recognition of his outstanding contribution to the insurance industry.

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE AND PRESIDENT

Mr. LEE Yuan Siong

Aged 55, is an Executive Director and the Group Chief Executive and President of the Company, having been appointed on 1 June 2020. Mr. Lee is also a member of the Risk Committee of the Company. He joined the Group in March 2020 and has more than 30 years experience in the insurance sector. He is a director of various companies within the Group, including acting as Chairman and Chief Executive Officer of AIA Co. Prior to his current role, Mr. Lee was an executive director of Ping An Insurance (Group) Company of China, Ltd. from June 2013 and served as the company's co-CEO and Chief Insurance Business Officer. Before joining Ping An, Mr. Lee held a number of senior leadership positions with Prudential plc of the United Kingdom, including President of CITIC-Prudential Life Insurance Company Limited, a life insurance joint venture in Mainland China. He also has significant experience across a number of Asian markets, including Hong Kong SAR, India, Indonesia, Taiwan (China), Thailand and Vietnam. Mr. Lee began his career at the Monetary Authority of Singapore (MAS). He has been a member of the Hong Kong Academy of Finance since 2020. He holds a Master of Philosophy (Finance) degree from the University of Cambridge and is a Fellow of the Society of Actuaries (US).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jack Chak-Kwong SO

Aged 76, is an Independent Non-executive Director of the Company. He was appointed a Non-executive Director of the Company on 28 September 2010 and re-designated as an Independent Non-executive Director of the Company on 26 September 2012. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. From August 2007 to September 2010, Mr. So served as an independent non-executive director of AIA Co. He is currently an independent non-executive director of China Resources Power Holdings Co. Ltd. (listed on the Hong Kong Stock Exchange) and the Chairman of Airport Authority Hong Kong. He is also an independent senior advisor to Credit Suisse, Greater China and a non-official member of the Chief Executive's Council of Advisers on Innovation and Strategic Development. Mr. So was Chairman of the Consultative Committee on Economic and Trade Co-operation between Hong Kong and Mainland China from October 2013 to December 2015. Mr. So was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Hong Kong SAR Government in 2011 and 2017, respectively. Mr. So served as an executive director of the Hong Kong Trade Development Council from 1985 to 1992 and served as its Chairman from 2007 to 2015. He was an independent non-executive director of Cathay Pacific Airways Limited (listed on the Hong Kong Stock Exchange) from 2002 to 2015, a non-executive director of The Hongkong and Shanghai Banking Corporation Limited from 2000 to 2007, the Chairman of the Hong Kong Film Development Council from 2007 to 2013 and a member of the Chinese People's Political Consultative Conference from 2008 to 2018.

Mr. Chung-Kong CHOW

Aged 70, is an Independent Non-executive Director of the Company, having been appointed on 28 September 2010. He is also the Chairman of the Risk Committee and a member of the Nomination Committee of the Company. Mr. Chow was appointed a non-official member of the Executive Council of the Hong Kong SAR on 1 July 2012 and was further appointed for a new term of office from 1 July 2017. Mr. Chow was also appointed as the Chairman of the Advisory Committee on Admission of Quality Migrants and Professionals of the Hong Kong SAR from 1 July 2016, a director of the Community Chest of Hong Kong from 19 June 2017, a member of the Financial Leaders Forum set up by the Hong Kong SAR Government from 18 August 2017, a non-official member of the Human Resources Planning Commission of the Hong Kong SAR Government from 1 April 2018, a member of the InnoHK Steering Committee from 4 February 2019 and the Chairman of the Urban Renewal Authority Board from 1 May 2019. Mr. Chow was knighted in the United Kingdom for his contribution to industry in 2000 and was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2015. Mr. Chow was a Steward of The Hong Kong Jockey Club from 2011 to 2020, the Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption from 2013 to 2018, the Chairman of Hong Kong Exchanges and Clearing Limited (listed on the Hong Kong Stock Exchange) from 2012 to 2018, Chief Executive Officer of MTR Corporation Limited (listed on the Hong Kong Stock Exchange) from 2003 to 2011, Chief Executive Officer of Brambles Industries plc, a global support services company, from 2001 to 2003, and Chief Executive of GKN plc, a leading industrial company based in the United Kingdom, from 1997 to 2001. He was an independent non-executive director of Anglo American plc from 2008 to 2014, independent non-executive director of Standard Chartered plc from 1997 to 2008 and the Chairman of the Hong Kong General Chamber of Commerce from 2012 to June 2014.

Mr. John Barrie HARRISON

Aged 64, is an Independent Non-executive Director of the Company, having been appointed on 1 July 2011. He is also the Chairman of the Audit Committee and a member of the Nomination Committee and the Risk Committee of the Company. Mr. Harrison is an independent non-executive director of Cathay Pacific Airways Limited (listed on the Hong Kong Stock Exchange). He is also an independent non-executive director of Grosvenor Asia Pacific Limited since 1 December 2017. He was appointed an Honorary Court Member of The Hong Kong University of Science and Technology with effect from 20 September 2016. Mr. Harrison was an independent non-executive director of BW Group Limited from 2010 to 2020 and the Vice Chairman of BW LPG Limited from 2013 to 2020. He was an independent non-executive director of Hong Kong Exchanges and Clearing Limited (listed on the Hong Kong Stock Exchange) from 20 April 2011 to 26 April 2017, The London Metal Exchange Limited from 6 December 2012 to 26 April 2017 and LME Clear Limited from 16 December 2013 to 26 April 2017. From 2012 to May 2015, he was also a member of the Asian Advisory Committee of AustralianSuper Pty Ltd. From 2008 to 2010, Mr. Harrison was Deputy Chairman of KPMG International. In 2003, he was elected Chairman and Chief Executive Officer of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific. Mr. Harrison began his career with KPMG in London in 1977, becoming a partner of KPMG Hong Kong in 1987. Mr. Harrison received an honorary fellowship from The Hong Kong University of Science and Technology in 2017. Mr. Harrison is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. George Yong-Boon YEO

Aged 66, is an Independent Non-executive Director of the Company, having been appointed on 2 November 2012. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Yeo is a senior advisor of Kerry Group Limited and Kerry Logistics Network Limited. Mr. Yeo is an independent director of Pinduoduo Inc. (listed on the Nasdaq Global Select Market) and New Yangon Development Company Limited. He has been a member of the International Advisory Committee of Mitsubishi Corporation since June 2014 and a member of Global Advisory Board of Mitsubishi UFJ Financial Group, Inc. since July 2019. He is a member of the International Advisory Board of the Berggruen Institute on Governance. In March 2018, he became a senior advisor to Brunswick Group LLP for its Geopolitical Initiative. In 2012, Mr. Yeo was presented with the Order of Sikatuna by the Philippines Government and the Padma Bhushan by the Indian Government, and became an Honorary Officer of the Order of Australia. He was a member of the Vatican Council for the Economy from 2014 to 2020. Mr. Yeo was the Chairman and an executive director of Kerry Logistics Network Limited (listed on the Hong Kong Stock Exchange) from 2012 to 2019 and from 2013 to 2019 respectively. He was also a director of Kerry Holdings Limited from 2016 to 2019. During 2013 to 2014, Mr. Yeo was a member of the Pontifical Commission for Reference on the Economic-Administrative Structure of the Holy See. During 1988 to 2011, Mr. Yeo was a member of the Singapore Parliament and held various Cabinet positions, including Minister for Foreign Affairs, Minister for Trade and Industry, Minister for Health, Minister for Information and the Arts and Minister of State for Finance. During 1972 to 1988, Mr. Yeo served in the Singapore Armed Forces and attained the rank of Brigadier-General in 1988 when he was Director of Joint Operations and Planning in the Ministry of Defence.

Professor Lawrence Juen-Yee LAU

Aged 76, is an Independent Non-executive Director of the Company, having been appointed on 18 September 2014. He is also a member of the Nomination Committee and the Risk Committee of the Company. Professor Lau currently serves as an independent non-executive director of CNOOC Limited (listed on the Hong Kong Stock Exchange and the New York Stock Exchange) and Semiconductor Manufacturing International Corporation (listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange). He is also an independent non-executive director of Far EasTone Telecommunications Company Limited (listed on the Taiwan Stock Exchange). He has been serving as the Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong (CUHK) since 2007 and the Chairman of the Council of Shenzhen Finance Institute of CUHK, Shenzhen since 12 January 2017. He currently serves as a member of the Currency Board Sub-committee of the Exchange Fund Advisory Committee of the Hong Kong SAR. He was formerly a member of the Exchange Fund Advisory Committee of the Hong Kong SAR, Chairman of its Governance Sub-committee and a member of its Investment Sub-committee until 2019. In addition, he serves as a member and Chairman of the Prize Recommendation Committee for the LUI Che Woo Prize Limited; Vice-Chairman of the Our Hong Kong Foundation; Vice-Chairman of China Center for International Economic Exchanges, Beijing; a member of the Hong Kong Trade Development Council Belt and Road & Greater Bay Area Committee; a Fellow of the Hong Kong Academy of Finance; a Director of the Chiang Ching-kuo Foundation for International Scholarly Exchange, Taipei; as well as the C.V. Starr Distinguished Fellow of China Development Research Foundation, Beijing, from 2019 to 2021. He was appointed a Justice of the Peace by the Hong Kong SAR Government in 2007 and awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2011. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of CUHK. From 2009 to 2012, he served as a Non-official Member of the Executive Council of the Hong Kong SAR. He was appointed Chairman of CIC International (Hong Kong) Co., Limited, a wholly-owned subsidiary of China Investment Corporation, in November 2010 and retired from the position in September 2014. He was a member of the 11th and 12th National Committees of the Chinese People's Political Consultative Conference from 2008 to 2012 and from 2013 to 2018 respectively, a Vice-Chairman of the Sub-committee of Population, Resources and Environment from 2010 to 2013, and a Vice-Chairman of the Sub-committee of Economics from 2013 to 2018. From 2014 to 2020, he was an independent non-executive director of Hysan Development Company Limited (listed on the Hong Kong Stock Exchange). He received his B.S. degree (with Great Distinction) in Physics from Stanford University in 1964 and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969, respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming its Professor of Economics in 1976 and the first Kwoh-Ting Li Professor in Economic Development in 1992. From 1992 to 1996, he served as a Co-Director of the Asia-Pacific Research Center at Stanford University, and from 1997 to 1999 as the Director of the Stanford Institute for Economic Policy Research. He became its Kwoh-Ting Li Professor in Economic Development, Emeritus, upon his retirement from Stanford University in 2006.

Ms. Swee-Lian TEO

Aged 61, is an Independent Non-executive Director of the Company, having been appointed on 14 August 2015. She is also a member of the Nomination Committee and the Risk Committee of the Company. Ms. Teo currently serves as a non-executive and independent director and a member of the corporate governance and nominations committee and executive resource and compensation committee and chairs the risk committee of Singapore Telecommunications Limited (listed on the Singapore Exchange). She is also the Chairman of the board and non-executive independent director of CapitaLand Integrated Commercial Trust Management Limited (listed on the Singapore Exchange) and a non-executive director and chairs the audit and risk committee of Avanda Investment Management Pte Ltd., a Singapore-based fund management company. Ms. Teo is a member of the board of directors of the Dubai Financial Services Authority and a director of Clifford Capital Pte. Ltd. and Clifford Capital Holdings Pte. Ltd. Ms. Teo has over 27 years of experience with the MAS. During her time at the MAS, she worked in foreign reserves management, financial sector development, strategic planning and financial supervision. She was the Deputy Managing Director in charge of Financial Supervision, overseeing the regulation and supervision of the banking, insurance and capital markets industries and macroeconomic surveillance, and also represented the MAS on various international fora, including the Basel Committee on Banking Supervision, and on various committees and working groups of the Financial Stability Board. She retired from the MAS as Special Advisor in the Managing Director's office in June 2015. In addition to the MAS, Ms. Teo also served on the board of the Civil Aviation Authority of Singapore from 2002 to 2010. Ms. Teo received her B.Sc. (First) in Mathematics from the Imperial College of Science and Technology, University of London in 1981 and her M.Sc. in Applied Statistics from the University of Oxford in 1982. She was also awarded the Public Administration Medal (Gold) (Bar) at the Singapore National Day Awards in 2012.

Dr. Narongchai AKRASANEE

Aged 75, is an Independent Non-executive Director of the Company, having been appointed on 15 January 2016. He is also a member of the Audit Committee and the Nomination Committee of the Company and the Chairman of advisory board of AIA Thailand. Dr. Narongchai was previously an Independent Non-executive Director of the Company from 21 November 2012 to 31 August 2014. He is the former Minister of Energy and Minister of Commerce for the Kingdom of Thailand, and served as a Senator. Dr. Narongchai served as Chairman of the Export-Import Bank of Thailand from December 2005 to June 2010, a Director of the Office of the Insurance Commission of Thailand from October 2007 to August 2012, a Director of the National Economic and Social Development Board from July 2009 to July 2013 and a member of the Monetary Policy Committee of the Bank of Thailand from November 2011 to September 2014. He is currently the Chairman of the Steering Committee and Vice-Chairman of the Council of Mekong Institute, the Chairman of the Thailand National Committee for the Pacific Economic Cooperation Council and the Chairman of the Khon Kaen University Council in Thailand. Dr. Narongchai also acts as the Chairman and an independent director of three entities listed on the Stock Exchange of Thailand, namely MFC Asset Management Public Company Limited, Ananda Development Public Company Limited and Thai-German Products Public Company Limited. He is the Chairman and an independent director of The Broker Group Public Company Limited, which is listed on the Stock Exchange of Thailand's Market for Alternative Investment. Dr. Narongchai is also the Chairman of the Seranee Group of companies. He previously served as an independent director of each of Malee Sampran Public Company Limited and ABICO Holdings Public Company Limited and as the Vice-Chairman and an independent director of Thai-German Products Public Company Limited, all of which are listed on the Stock Exchange of Thailand. Dr. Narongchai received his Bachelor's degree in Economics with Honours from the University of Western Australia and a M.A. and Ph.D. in Economics from Johns Hopkins University.

Mr. Cesar Velasquez PURISIMA

Aged 60, is an Independent Non-executive Director of the Company, having been appointed on 1 September 2017. He is also a member of the Audit Committee and the Nomination Committee of the Company. Mr. Purisima currently serves as an independent director of Ayala Land, Inc., Universal Robina Corporation and Jollibee Foods Corporation, all of which are listed on The Philippine Stock Exchange. He is also a founding partner of Ikhlas Capital Singapore Pte. Ltd., a member of the Global Advisory Council of Sumitomo Mitsui Banking Corporation, and a member of Singapore Management University's International Advisory Council in the Republic of the Philippines (the Philippines). He is also a member of the board of trustees of the World Wildlife Fund - Philippines, De La Salle University, and the International School of Manila. He is an Asia Fellow at the Milken Institute, a global, non-profit, non-partisan think tank. Mr. Purisima served in the government of the Philippines as Secretary of Finance from July 2010 to June 2016 and as Secretary of Trade and Industry from January 2004 to February 2005. He also previously served on the boards of a number of government institutions, including as a member of the Monetary Board of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines), Governor of the World Bank Group for the Philippines, Governor of the Asian Development Bank for the Philippines, Alternate Governor of the International Monetary Fund for the Philippines and Chairman of Land Bank of the Philippines. He was conferred the Chevalier dans l'Ordre national de la Légion d'Honneur (Knight of the National Order of the Legion of Honour) by the President of the French Republic in 2017, the Order of Lakandula, Rank of Grand Cross (Bayani) by the President of the Philippines in 2016 and the Chevalier de l'Ordre national du Mérite (Knight of the National Order of Merit) by the President of the French Republic in 2001. Mr. Purisima is a certified public accountant. He has extensive experience in public accounting both in the Philippines and abroad. He was Chairman and Managing Partner of SyCip, Gorres, Velayo & Co. (a member firm of Andersen Worldwide until 2002 when it became a member firm of Ernst & Young Global Limited) from 1999 until 2004. During the period, Mr. Purisima was also the Asia-Pacific Area Managing Partner for Assurance and Business Advisory Services of Andersen Worldwide from 2001 to 2002 and Regional Managing Partner for the ASEAN Practice of Andersen Worldwide from 2000 to 2001. Mr. Purisima obtained his Bachelor of Science in Commerce (Majors in Accounting & Management of Financial Institutions) degree from De La Salle University (Manila) in 1979, Master of Management degree from J. L. Kellogg Graduate School of Management, Northwestern University in 1983 and Doctor of Humanities honoris causa degree from Angeles University Foundation (the Philippines) in 2012.

CORPORATE GOVERNANCE
EXECUTIVE COMMITTEE



Mr. Biswa Prakash
MISRA

Ms. Pek-San
ANG

Mr. Stuart Anthony
SPENCER

Dr. Mark
KONYN

Mr. Wing-Shing
CHAN

Mr. William
LISLE



Mr. LEE
Yuan Siong

Mr. Garth Brian
JONES

Mr. Hak-Leh
TAN

Mr. Mitchell David
NEW

Mr. Mark Vincent
Thomas SAUNDERS

Ms. Jayne Lynn
PLUNKETT

Mr. LEE Yuan Siong

Mr. Lee's biography is set out above.

Mr. Garth Brian JONES

Aged 58, is the Group Chief Financial Officer responsible for leading the Group in all aspects of capital and financial management, as well as managing relationships with key external stakeholders, including independent auditors and actuaries, rating agencies and international accounting and regulatory bodies. He is a director of various companies within the Group, including AIA Co. and AIA International Limited (AIA International). He joined the Group in April 2011. Prior to joining the Group, Mr. Jones was the Executive Vice President of China Pacific Life Insurance Co., Ltd., the life insurance arm of China Pacific Insurance (Group) Co., Ltd. He also held a number of senior management positions during 12 years with Prudential Corporation Asia Limited, including Chief Financial Officer of the Asian life insurance operations. Prior to joining Prudential, Mr. Jones led the development of Swiss Re's Asia life business. Mr. Jones is a Fellow of the Institute and Faculty of Actuaries. On 1 June 2016, he was appointed a member of the industry advisory committee on long term business, which advises the HKIA. Mr. Jones is also a member of the IFRS Advisory Council of the IASB.

Mr. William LISLE

Aged 55, is the Regional Chief Executive and Group Chief Distribution Officer responsible for the Group's businesses operating in Thailand, Vietnam, Australia and New Zealand, India and Sri Lanka as well as the Group's agency distribution, partnership distribution and corporate solutions. Mr. Lisle was Chief Executive Officer of AIA's operation in Malaysia from December 2012 to May 2015, including leading the large-scale and successful integration of ING Malaysia after its acquisition by the Group in 2012. He is a director of various companies within the Group, including AIA Co., AIA Australia Limited and AIA New Zealand Limited. He is also a director of Tata AIA Life Insurance Company Limited, a joint venture between the Group and Tata Sons Limited in India. Mr. Lisle joined the Group in January 2011 as Group Chief Distribution Officer. Prior to joining the Group, Mr. Lisle was the Managing Director, South Asia for Aviva from May 2009 until 2010. Prior to joining Aviva, Mr. Lisle held a number of senior positions at Prudential Corporation Asia Limited, including Chief Executive Officer in Malaysia from 2008 to 2009, Chief Executive Officer in Korea from 2005 to 2008, Chief Agency Officer for ICICI Prudential from 2002 to 2004 and Director of Agency Development, South Asia in 2001.

Mr. Wing-Shing CHAN (Jacky)

Aged 57, is the Regional Chief Executive responsible for the Group's businesses operating in Hong Kong SAR, Mainland China, the Philippines, South Korea, Taiwan (China) and Macau SAR. He is a director of various companies within the Group, including AIA Co. and AIA International. Mr. Chan has extensive experience having worked at AIA for the past 33 years. Prior to becoming a Regional Chief Executive, Mr. Chan was Chief Executive Officer of AIA Hong Kong and Macau since 2009. Previously, he held several senior positions including the Country Head of AIA China, Executive Vice President – Distribution & Marketing of Nan Shan Life Insurance of Taiwan and Senior Vice President & Head of Life Profit Centre of AIA - Asia (ex-Japan & Korea). Mr. Chan holds a Bachelor of Science Degree from The University of Hong Kong. He is a Fellow of the Society of Actuaries (FSA), a member of American Academy of Actuaries (MAAA) and a Fellow of the Canadian Institute of Actuaries (CIA).

Mr. Hak-Leh TAN

Aged 55, is the Regional Chief Executive and Group Chief Life Operations Officer responsible for the Group's businesses operating in Singapore and Brunei, Malaysia, Cambodia, Indonesia and Myanmar as well as Group Operations and Operations Shared Services in Malaysia. He is a director of various companies within the Group. Mr. Tan was Chief Executive Officer of AIA's operation in Thailand from 2016 to 2019, Group Chief Risk Officer in 2015 and Chief Executive Officer of AIA's operation in Singapore from 2011 to 2015. Prior to joining the Group, Mr. Tan was Chief Executive Officer of Great Eastern Life, Singapore. Prior to joining Great Eastern Life, Mr. Tan was Director of the Insurance Department of the MAS. Mr. Tan has played an active role in the life insurance industry since 2005. His appointments include: President of the Life Insurance Association (LIA), Singapore from 2010 to 2013, Vice Chair of Singapore College of Insurance from 2011 to 2013 and Vice President of Thailand Life Assurance Association from 2017 to 2018. He was also a Board member of Financial Industry Disputes Resolution Centre Ltd from 2008 to 2015.

Mr. Mitchell David NEW

Aged 57, is the Group General Counsel responsible for the provision of legal services for the Group and providing leadership to legal and corporate governance functions within country operations. He has previously also acted as Group Chief Risk Officer. He is a director of various companies within the Group including AIA International, AIA Singapore and AIA Reinsurance Limited. He joined the Group in April 2011. Prior to joining the Group, Mr. New was a member of the law firm Fasken Martineau and occupied various senior roles with Manulife Financial, including Senior Vice President and Chief Legal Officer for Asia and Japan, based in Hong Kong and Senior Vice President and General Counsel to Manulife's Canadian division. He is a qualified barrister and solicitor and member of the Law Society of Upper Canada and holds a Bachelor of Commerce Degree and Master's Degree in Business Administration from McMaster University and a Bachelor of Laws Degree from the University of Western Ontario.

Mr. Mark Vincent Thomas SAUNDERS

Aged 57, is the Group Chief Strategy and Corporate Development Officer responsible for strategy and corporate transactions for the Group. He joined the Group in April 2014 and is a director of various companies within the Group. He previously served as Group Chief Strategy and Marketing Officer and has also held responsibility for the Group's Health Insurance and Corporate Solutions business. Prior to joining the Group, Mr. Saunders was Managing Director of Towers Watson for the Asia-Pacific Insurance Sector, as well as Managing Director for the firm's Hong Kong business and a board member of various entities. Prior to his time at Towers Watson, and working in Hong Kong since 1989, he was Asian Regional Leader, Hong Kong Chief Executive Officer and Executive Director and Board Member of the Isle of Man-based international life insurance operations of Clerical Medical and its joint venture life insurer in Korea (Coryo-CM). He is a Fellow of the Institute and Faculty of Actuaries and Fellow of five other professional actuarial bodies.

Dr. Mark KONYN

Aged 59, is the Group Chief Investment Officer responsible for providing oversight of the management of the investment portfolios of the Group as well as supervising and supporting the many investment professionals throughout the Group. He is a director of various companies within the Group including Chairman of AIA Investment Management Private Limited and AIA Investment Management HK Limited. He joined the Group in September 2015. Dr. Konyon joined AIA from Cathay Conning Asset Management, where he was Chief Executive Officer responsible for the company's investment business and strategic expansion in the region. He had held senior positions at Allianz Global Investors (where he was Asia-Pacific CEO for RCM Global Investors), Fidelity Investments and Prudential UK. He is a Fellow of the Royal Statistical Society, and holds a Diploma from the London Business School in Investment Management, having previously completed his Ph.D. in Operational Research sponsored by the UK Government.

Ms. Pek-San ANG (Cara)

Aged 52, is the Group Chief Human Resources Officer responsible for the development of overall human capital strategies and their implementation across the Group, as well as leading and providing support to the human resources functions in country market operations. She joined the Group as the Chief Human Resources Officer for AIA Singapore in May 2016. Prior to joining AIA, Ms. Ang was the Head of Human Resources of Standard Chartered Bank Singapore. During her time with Standard Chartered, she spent more than 10 years in a variety of country, regional and global HR leadership roles based in Singapore and Thailand. Prior to joining Standard Chartered Bank Singapore, Ms. Ang was the Senior Vice President and Head of Human Resources for Marsh Asia.

Mr. Biswa Prakash MISRA

Aged 43, is the Group Chief Technology Officer responsible for providing leadership to the Group's technology, digital and analytics areas. He is a director of various companies within the Group. He joined the Group in June 2013. Prior to joining the Group, Mr. Misra served as the Regional Chief Technology Officer for ING Insurance Asia Pacific. Previously, he spent six years with information technology consulting firm Capgemini, leading the company's insurance practice for Asia. Mr. Misra holds a degree in electrical engineering from the National Institute of Technology, Surat, India.

Mr. Stuart Anthony SPENCER

Aged 55, is the Group Chief Marketing Officer and oversees customer engagement, propositions, branding, AIA Vitality, communications, sponsorships, events, digital platforms and healthcare. He is a director of various companies within the Group. Mr. Spencer re-joined AIA in May 2017 from Zurich Insurance Group, where he was most recently interim CEO, Asia Pacific and prior to that, CEO, General Insurance, Asia Pacific from 2013 to 2016. Mr. Spencer occupied various leadership roles in the American International Group from 1996 to 2009, during which time he held a number of senior positions including leading the Accident & Health General Insurance business in Latin America and acting as President of Accident & Health Worldwide for the AIG Life Companies. Mr. Spencer started his career in New York at American Express Travel Related Services in Marketing. He is an alumnus of the Harvard Business School, The Fletcher School of Law and Diplomacy and Brandeis University.

Ms. Jayne Lynn PLUNKETT

Aged 51, is the Group Chief Risk Officer responsible for the Group's risk and compliance functions. She is a director of various Group companies, including AIA Singapore and Philam Life. Ms. Plunkett joined AIA in November 2019 from Swiss Re, where she was most recently Chief Executive Officer Reinsurance Asia, Regional President Asia and member of the Group Executive Committee. During her time with Swiss Re, she had held several senior positions, including Head of Casualty Underwriting for Asia and Division Head Casualty Reinsurance. Prior to that, she was with GE Insurance Solutions. Ms. Plunkett holds a Bachelor of Science in Business Administration from Drake University. She is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

REPORT OF THE DIRECTORS

The Board is pleased to present this report and the audited consolidated financial statements of the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Group is a life insurance based financial services provider operating in 18 markets throughout the Asia region. The Group's principal activity is the life insurance business. In that context, the Group, through its various operating entities, provides individual life insurance, individual accident and health insurance and savings plans throughout Asia. The Group also distributes related investment and other financial services products to its customers and is active in the provision of Group insurance and pension schemes in a number of its markets.

Details of the activities and other particulars of the Company's principal subsidiaries are set out in note 44 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2020 and the state of the Group's affairs at that date are set out in the financial statements on pages 132 to 264 of this Annual Report.

BUSINESS REVIEW

The review of the business of the Group for the year ended 31 December 2020, including a description of its principal risks and uncertainties and an indication of likely future developments as required by Schedule 5 to the Hong Kong Companies Ordinance, is contained in the Group Chief Executive and President's Report (pages 10 to 14), Group Chief Financial Officer's Review (pages 16 to 39), Business Review (pages 40 to 55), Risk Management (pages 56 to 61) and Our People (pages 64 to 67) sections under the Financial and Operating Review, and note 43 and note 45 to the consolidated financial statements. These discussions form part of this report.

AIA takes a proactive approach to understanding the impacts posed to our business by the environment, while also mitigating our own environmental footprint. The Group has voiced our support for the Paris Agreement by becoming a signatory to the Task Force on Climate-related Financial Disclosures (TCFD). We continue to take initiatives to understand the risks posed to our insurance and investment operations from climate change, and continue to report against the TCFD recommendations in the Group's Environmental, Social and Governance (ESG) Report 2020.

We monitor our own operational impact, and in 2020 updated our Group Environmental Procedures outlining initiatives to reduce our environmental footprint. The Group also established an emissions reduction target, aiming to reduce our operational footprint by 25% per employee by 2030, compared to 2017 levels.

AIA also continues to monitor environmental regulation and opportunities in the area of green finance, and engages with companies in our Group investment portfolio on ESG issues. In 2020 this included ongoing engagements on climate change and in assessing business resilience and preparedness against the impacts of the COVID-19 pandemic.

Customer privacy and data protection are of paramount importance to the Group. In 2020, AIA continued to maintain ISO 27001 certification for our identity access management and cybersecurity security controls, including our data security and encryption standards. We continue to upgrade and invest in physical, administrative and technical measures to protect personal and business data. This includes programmes to educate and raise awareness among our people regarding sound and proper cybersecurity and data protection practices. The Company has also entered into insurance policies which cover, among others, information security risks.

People are at the heart of our business, and this means ensuring that we adhere to the high standards of quality and customer service expected by our customers. Helping our customers improve their health requires that we better understand their needs. To that end, we conduct research to understand the needs of various customer segments and forge strategic partnerships in order to customise our products and services. During the COVID-19 pandemic, we responded quickly and prioritised the needs of our customers. We supported them with extended coverage, digital health solutions, and expanded virtual healthcare access and solutions that address mental well-being.

AIA's Supplier Code of Conduct outlines how we consider and integrate sustainability issues within our supply chain management process. As a Group, we work with suppliers that demonstrate best practice. Dedicated due diligence processes form a part of our existing supply chain management and monitoring system. This includes requesting information on employment and environmental practices from selected material suppliers through our supplier registration process.

To understand more about our progress on ESG initiatives, please refer to our ESG Report 2020, which is published on the websites of both the Hong Kong Exchanges and Clearing Limited and the Company.

The Group is licensed to conduct insurance business and subject to extensive local regulatory oversight in each of the geographical markets in which its branches and subsidiaries operate. While the extent of regulation varies from jurisdiction to jurisdiction, it typically includes laws and regulations regarding corporate governance, solvency/capital adequacy, market conduct, investment management, financial reporting and distribution. The Group dedicates substantial resources and appropriate personnel to support compliance with relevant laws and regulations. AIA also monitors during the year ended 31 December 2020 the Group's compliance with all material laws and regulations applicable to it including the solvency and capital adequacy requirements applied by its regulators, details of which are contained in note 37 to the financial statements.

Please see the Corporate Governance Report for a discussion on the Company's high standards of corporate governance and the Board's responsibility for compliance with statutory obligations.

Details of significant events affecting the Group that have occurred since 31 December 2020 are set out in note 45 to the financial statements.

DIVIDENDS

An interim dividend of 35.00 Hong Kong cents per share for the six-month period ended 30 June 2020 (2019: 33.30 Hong Kong cents per share) was paid on 24 September 2020. The Board has recommended an increase of 7.5 per cent in the payment of a final dividend to 100.30 Hong Kong cents per share for the year ended 31 December 2020 (2019: 93.30 Hong Kong cents per share), consistent with AIA's established prudent, sustainable and progressive dividend policy.

Under the respective trust deeds of the Company's Restricted Share Unit Scheme adopted on 28 September 2010 (2010 RSU Scheme) and Restricted Share Unit Scheme adopted on 1 August 2020 (2020 RSU Scheme), shares of the Company are held in trust by the trustee of each of these schemes. These shares are held against the future entitlements of scheme participants. Provided the shares of the Company are held by the trustee and no beneficial interest in those shares has been vested in any beneficiary, the trustee shall waive any right to dividend payments or other distributions in respect of those shares (unless the Company determines otherwise).

As of 24 September 2020 (being the payment date of the interim dividend), the trustee held 25,685,534 shares under the 2010 RSU Scheme and nil shares under the 2020 RSU Scheme. The amount of interim dividend payments waived was approximately US\$1.2 million. Pursuant to the relevant trust deeds, the trustee will waive the right to final dividend payment if it is declared.

Subject to shareholders' approval at the annual general meeting (AGM) to be held by the Company, the final dividend will be payable on Thursday, 10 June 2021 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 26 May 2021, being the record date for determining the entitlement to the final dividend.

DIRECTORS

The Directors of the Company during the year under review and up to the date of this report are as follows:

Independent Non-executive Chairman and Independent Non-executive Director

Mr. Edmund Sze-Wing TSE

Executive Directors

Mr. LEE Yuan Siong (Group Chief Executive and President)⁽¹⁾

Mr. NG Keng Hooi (Group Chief Executive and President)⁽²⁾

Independent Non-executive Directors

Mr. Jack Chak-Kwong SO

Mr. Chung-Kong CHOW

Mr. John Barrie HARRISON

Mr. George Yong-Boon YEO

Mr. Mohamed Azman YAHYA⁽³⁾

Professor Lawrence Juen-Yee LAU

Ms. Swee-Lian TEO

Dr. Narongchai AKRASANEE

Mr. Cesar Velasquez PURISIMA

Notes:

(1) Mr. Lee Yuan Siong was appointed as Executive Director of the Company on 1 June 2020.

(2) Mr. Ng Keng Hooi retired as Executive Director of the Company with effect from 31 May 2020.

(3) Mr. Mohamed Azman Yahya retired as Independent Non-executive Director of the Company with effect from 29 May 2020.

CORPORATE GOVERNANCE REPORT OF THE DIRECTORS

Mr. Lee Yuan Siong was appointed as Executive Director of the Company on 1 June 2020 and will retire from office at the forthcoming AGM pursuant to Article 104 of the Company's Articles of Association and, being eligible, offers himself for re-election.

In accordance with Article 100 of the Company's Articles of Association, Mr. Chung-Kong Chow, Mr. John Barrie Harrison, Professor Lawrence Juen-Yee Lau and Mr. Cesar Velasquez Purisima will retire from office by rotation and, being eligible, offer themselves for re-election at the AGM.

CHANGES IN DIRECTORS' INFORMATION (changes up to the date of report to be included)

Changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules) are set out below:

Name of Director	Change
Mr. Chung-Kong CHOW	• Ceased to be a steward of the Hong Kong Jockey Club with effect from 1 September 2020
Mr. Cesar Velasquez PURISIMA	• Appointed as a member of the Audit Committee of the Company with effect from 12 March 2021

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the year under review and up to the date of this report are kept at the Company's registered office and available for inspection by the shareholders of the Company during business hours.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, subject to the relevant statutes, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or which may attach thereto. The Company has taken out insurance against the liabilities and costs associated with proceedings which may be brought against directors of the Group.

DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (SFO)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (Model Code) set out in Appendix 10 to the Listing Rules, are as follows:

Interests and short positions in the shares and underlying shares of the Company:

Name of Directors	Number of shares or underlying shares Long Position (L)	Class	Percentage of the total number of shares in issue ⁽¹⁾	Capacity
Mr. LEE Yuan Siong	3,719,199(L) ⁽²⁾	Ordinary	0.03	Beneficial owner
Mr. Edmund Sze-Wing TSE	3,360,400(L) ⁽³⁾ 200,000(L) ⁽³⁾	Ordinary	0.02 <0.01	Beneficial owner Interest of controlled corporation ⁽⁴⁾
Mr. Chung-Kong CHOW	126,000(L) ⁽³⁾	Ordinary	< 0.01	Beneficial owner
Mr. Jack Chak-Kwong SO	130,000(L) ⁽³⁾	Ordinary	< 0.01	Interest of controlled corporation ⁽⁵⁾
Mr. John Barrie HARRISON	80,000(L) ⁽³⁾	Ordinary	< 0.01	Interests held jointly with another person ⁽⁶⁾
Mr. George Yong-Boon YEO	50,000(L) ⁽³⁾	Ordinary	< 0.01	Beneficial owner
Professor Lawrence Juen-Yee LAU	160,000(L) ⁽³⁾	Ordinary	< 0.01	Interest of spouse ⁽⁷⁾

Notes:

- (1) Based on 12,094,939,139 ordinary shares in issue as at 31 December 2020.
- (2) The interests included 316,766 shares of the Company, 1,197,133 share options under the Share Option Scheme adopted by the Company on 28 September 2010 (2010 SO Scheme), 2,204,701 restricted share units under the 2010 RSU Scheme and 599 matching restricted stock purchase units (RSPUs) under the Employee Share Purchase Plan adopted by the Company on 25 July 2011 (2011 ESPP) and the Employee Share Purchase Plan adopted by the Company on 1 August 2020 (2020 ESPP).
- (3) The interests were shares of the Company.
- (4) The 200,000 shares were held by Edmund & Peggy Tse Foundation Limited, one-third interest of which is beneficially held by Mr. Edmund Sze-Wing Tse.
- (5) The 130,000 shares were held by Cyber Project Developments Limited, a company beneficially wholly owned by Mr. Jack Chak-Kwong So.
- (6) The 80,000 shares were jointly held by Mr. John Barrie Harrison and his spouse, Ms. Rona Irene Harrison, as beneficial owners.
- (7) The 160,000 shares were held by Ms. Ayesha Abbas Macpherson, the spouse of Professor Lawrence Juen-Yee Lau, as beneficial owner.

Save as disclosed above, as at 31 December 2020, neither the Directors nor the Chief Executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF PERSONS OTHER THAN THE DIRECTORS OR THE CHIEF EXECUTIVE

As at 31 December 2020, the following persons, other than the Directors or the Chief Executive of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Number of shares or underlying shares (Note 1)		Class	Percentage of the total number of shares in issue (Note 2)	Capacity
	Long Position(L)	Short Position(S)			
JPMorgan Chase & Co.	1,135,845,417(L)		Ordinary	9.39	Note 3
	27,279,354(S)			0.22	
	785,748,756(P)			6.49	
The Bank of New York Mellon Corporation	1,096,258,164(L)		Ordinary	9.06	Note 4
	301,796,828(S)			2.49	
	769,295,915(P)			6.36	
The Capital Group Companies, Inc.	970,452,586(L)		Ordinary	8.02	Interest of controlled corporations
BlackRock, Inc.	629,705,868(L)		Ordinary	5.20	Interest of controlled corporations
	2,007,714(S)			0.01	

Notes:

(1) The interests or short positions include underlying shares as follows:

Name of Shareholder	Long Position				Short Position				
	Physically settled listed derivatives	Cash settled listed derivatives	Physically settled unlisted derivatives	Cash settled unlisted derivatives	Physically settled listed derivatives	Cash settled listed derivatives	Physically settled unlisted derivatives	Cash settled unlisted derivatives	Convertible instruments – listed derivatives
JPMorgan Chase & Co.	15,783,000	3,314,400	1,197,100	4,316,400	15,209,000	987,000	3,329,347	6,842,742	1
The Bank of New York Mellon Corporation	–	–	–	–	–	–	301,796,828	–	–
The Capital Group Companies, Inc.	16,088,440	–	–	–	–	–	–	–	–
BlackRock, Inc.	–	–	–	182,000	–	–	–	818,114	–

(2) Based on 12,094,939,139 shares in issue as at 31 December 2020.

(3) JPMorgan Chase & Co. held the interests and short positions in the following capacities:

Capacity	Number of shares or underlying shares (Long Position)	Number of shares or underlying shares (Short Position)
Interest of controlled corporations	40,035,905	27,279,354
Investment manager	308,177,427	–
Person having a security interest in shares	628,247	–
Trustee	1,255,082	–
Approved lending agent	785,748,756	–

(4) The Bank of New York Mellon Corporation held the interests and short positions in the following capacities:

Capacity	Number of shares or underlying shares (Long Position)	Number of shares or underlying shares (Short Position)
Interest of controlled corporations	1,096,258,164	301,796,828

Save as disclosed above, as at 31 December 2020, no person, other than the Directors or the Chief Executive of the Company, whose interests are set out in the section entitled “Directors’ and the Chief Executive’s Interests and Short Positions in Shares and Underlying Shares”, had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under their respective service contracts in the role of Executive Director and Group Chief Executive and President, both Mr. Lee Yuan Siong and Mr. Ng Keng Hooi were entitled to an annual discretionary earned incentive award, which includes payment in the form of shares of the Company. Details of the incentive awards of Mr. Lee Yuan Siong and Mr. Ng Keng Hooi are set out in the Remuneration Report.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party, and in which any Director of the Company or his/her connected entity has a material interest, directly or indirectly, subsisted as at 31 December 2020 or at any time during the year under review.

RESERVES

As at 31 December 2020, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was US\$7,360 million (31 December 2019: US\$7,079 million).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2020 amounted to US\$2 million (2019: US\$4 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the percentage of the aggregate purchases attributable to the Group’s five largest suppliers was less than 30 per cent of the Group’s total value of purchases and the percentage of the aggregate sales attributable to the Group’s five largest customers was less than 30 per cent of the Group’s total value of sales.

SHARES ISSUED

Details of the shares issued during the year ended 31 December 2020 are set out in note 35 to the financial statements.

DEBENTURES ISSUED

Details of the debentures issued during the year ended 31 December 2020 are set out in notes 30 and 38 to the financial statements.

EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2020, the Company did not enter into any equity-linked agreements and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2020, save for the restricted share units, outstanding share options and restricted stock purchase units awarded to employees under the 2010 RSU Scheme, the 2010 SO Scheme and the 2011 ESPP and 2020 ESPP, respectively, and the restricted stock subscription units awarded to agents under the Agency Share Purchase Plan adopted by the Company on 23 February 2012 (2012 ASPP), each described below and in the Remuneration Report and note 40 to the financial statements.

RESTRICTED SHARE UNIT SCHEME

The 2010 RSU Scheme adopted by the Company on 28 September 2010 with a term of 10 years from the date of adoption was terminated with effect from 31 July 2020. The Company adopted the 2020 RSU Scheme on 1 August 2020 (2020 RSU Adoption Date) in place of and under substantially the same terms as the 2010 RSU Scheme. The 2020 RSU Scheme is effective for a period of 10 years from the date of adoption. A summary of the principal terms of the 2020 RSU Scheme is set out below:

PURPOSES

The purposes of the 2020 RSU Scheme are: (a) to align the participants' interests with those of the Group through ownership of the shares of the Company and/or the increase in value of the shares of the Company; and (b) to encourage and retain participants to make contributions to the long-term growth and profits of the Group, in each case with a view to achieving the objective of increasing the value of the Group.

DURATION

Subject to the termination of the 2020 RSU Scheme by the Board at any time before its expiry, the 2020 RSU Scheme shall be valid and effective for a period of ten (10) years (Scheme Period) from its adoption date and thereafter for so long as there are outstanding any RSU awards granted under the 2020 RSU Scheme (RSU Awards) and accepted prior to its expiry, in order to give effect to the vesting of such RSU Awards or otherwise as may be required in accordance with the provisions of the 2020 RSU Scheme. Upon termination of the 2020 RSU Scheme, no further RSU Awards shall be granted thereunder.

PARTICIPANTS

Persons eligible to participate in the 2020 RSU Scheme and receive RSU Awards are existing employees, directors (whether executive or non-executive, but excluding independent non-executive) or officers of any member of the Group (RSU Eligible Persons).

The Board may, from time to time at its absolute discretion, grant an RSU Award to any RSU Eligible Person (RSU Selected Person) during the Scheme Period. The RSU Selected Person is required to confirm his or her acceptance of the RSU Award, and upon confirmation of the award will become a participant of the 2020 RSU Scheme (RSU Participant).

RSU AWARDS

An RSU Award entitles an RSU Participant a conditional right upon the vesting of such RSU Award to obtain either shares of the Company (existing shares in issue or new shares to be issued by the Company) or an equivalent value in cash with reference to the market value of the shares of the Company on or about the date of vesting of the relevant RSU Awards, as determined by the Board in its absolute discretion. An RSU Award may include, if so specified by the Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those shares of the Company from the date that the RSU Award is granted to the date that it vests.

Where any RSU Award is proposed to be granted to an RSU Selected Person who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates, such proposed grant must first be approved by all the independent non-executive directors of the Company and shall otherwise be subject to compliance with the Listing Rules.

Where any RSU Award is proposed to be granted to an RSU Selected Person who is a director of the Company (or other person who, because of their office or employment with a member of the Group, is likely to possess price sensitive or inside information in relation to shares of the Company), no RSU Award may be granted on any day on which the financial results of the Company are published and during the period of: (a) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (b) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

An RSU Participant does not have any contingent interest in any shares of the Company underlying an RSU Award unless and until such shares are actually transferred to the RSU Participant. Further, an RSU Participant may not exercise voting rights in respect of the shares of the Company underlying his/her RSU Award, nor does he/she have any rights to any cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares of the Company underlying an RSU Award unless otherwise specifically granted by the Board in its sole discretion to the RSU Participant.

The RSU Awards granted pursuant to the 2020 RSU Scheme will be personal to each RSU Participant and are not assignable.

OPERATION AND ADMINISTRATION

The Board has the power to administer the 2020 RSU Scheme, including the power to construe and interpret its rules and the terms of the RSU Awards granted under it. The Board has delegated the authority to administer the 2020 RSU Scheme to a committee of the Board, i.e. the Remuneration Committee, which comprises independent non-executive directors of the Company only. The Board may also appoint one or more independent third-party contractors to assist in the administration of the 2020 RSU Scheme and delegate such powers and/or functions relating to the administration of the 2020 RSU Scheme as the Board thinks fit.

The Board may determine such vesting conditions (including performance target level) and schedule for the RSU Awards to vest provided that the period between the date of the acceptance and the date of the vesting of the RSU Awards shall not be shorter than six months.

An independent professional trustee has been appointed to administer the trusts set up for the purpose of the 2020 RSU Scheme (Scheme Trustee) and to hold shares of the Company underlying the RSU Awards granted to RSU Participants pending the vesting of the RSU Awards. The Scheme Trustee may not exercise voting rights in respect of such shares of the Company being held by it. The Company or its subsidiaries shall provide funds to enable the Scheme Trustee to subscribe for new shares of the Company or to make such on-market purchases of shares from time to time necessary in preparation for the vesting of the RSU awards.

SCHEME LIMIT AND GENERAL MANDATE

No RSU Award shall be granted pursuant to the 2020 RSU Scheme if as a result of such grant (assumed accepted), the aggregate number of shares and share equivalents underlying all grants made during the 10-year period commencing on the 2020 RSU Adoption Date pursuant to the 2020 RSU Scheme (excluding RSU Awards that have lapsed or been cancelled) and any other restricted share unit scheme of the Company (i.e., the 2010 RSU Scheme) will exceed in total 2.5 per cent. of the number of shares of the Company in issue on the reference date (that is, 29 May 2020), being 302,264,978 shares (or such number of shares as shall result from a sub-division or a consolidation of such 302,264,978 shares from time to time) (2020 RSU Scheme Limit).

The 2020 RSU Scheme Limit may be renewed subject to any applicable Shareholders' approval requirements under the Listing Rules, but in any event the total number of shares and share equivalents that may underlie the RSU Awards granted following the date of approval of the renewed limit (New Approval Date) under the limit as renewed from time to time, must not exceed 2.5 per cent. of the number of shares of the Company in issue as at the relevant New Approval Date.

The RSU Awards granted pursuant to the 2020 RSU Scheme may be satisfied by the Company allotting and issuing new shares of the Company upon vesting of the RSU Awards. The Company shall rely on any general mandate or specific mandate obtained from its shareholders at a general meeting of the Company in accordance with the Listing Rules to issue and allot shares underlying any RSU Awards to participants as and when the RSU Awards vest.

VESTING AND LAPSE

Under the 2020 RSU Scheme, the vesting of an RSU Award is conditional upon the RSU Participant remaining in employment with the Group at the time of vesting of such RSU Award.

Upon vesting of an RSU Award, the Board may decide at its absolute discretion to direct and procure the Scheme Trustee to transfer the number of shares underlying the RSU Award to the RSU Participant which either the Scheme Trustee has acquired by making on-market purchases of shares of the Company or the Company has allotted and issued to the Scheme Trustee as fully paid up shares. The Board may pay, or direct and procure the Scheme Trustee to pay, to the RSU Participant in cash an amount which is equivalent to the value of the shares of the Company.

An RSU Award will automatically lapse immediately where a RSU Participant's employment or service terminates for any reason, except by reason of (a) death, (b) disability, (c) redundancy, (d) where the company employing the RSU Participant ceases to be one of the Company's subsidiaries, or (e) retirement, or as otherwise determined by the Board in its absolute discretion.

TERMINATION

The Board may terminate the 2020 RSU Scheme at any time before the expiry of the Scheme Period and no further RSU Awards shall be granted thereafter. In the event of termination, the Company or its relevant subsidiaries shall notify the Scheme Trustee and all RSU Participants of such termination and of how any property (including without limitation, any shares of the Company) held by the Scheme Trustee upon trust for the RSU Participants and the outstanding RSU Awards shall be dealt with.

LISTING RULES IMPLICATION

The 2020 RSU Scheme is not a share option scheme and as such, is not subject to the provisions of Chapter 17 of the Listing Rules.

An application will be made by the Company to the Hong Kong Stock Exchange for the listing of and permission to deal in any new shares of the Company (not exceeding the 2020 RSU Scheme Limit) which may be issued pursuant to the 2020 RSU Scheme from time to time.

During the year ended 31 December 2020, the Company awarded 13,451,940 restricted share units under the 2010 RSU Scheme and no restricted share units under the 2020 RSU Scheme. More details of the schemes are set out in the Remuneration Report and note 40 to the financial statements.

SHARE OPTION SCHEME

The Company adopted the 2010 SO Scheme on 28 September 2010 for a term of 10 years from the date of adoption. It sought and obtained the approval from its shareholders at its annual general meeting held on 29 May 2020 (2020 AGM) for the termination of the 2010 SO Scheme and the adoption of a new share option scheme (2020 SO Scheme), both effective from 29 May 2020. The 2020 SO Scheme is also effective for a period of 10 years from the date of adoption.

During the year ended 31 December 2020, the Company awarded 5,856,668 share options under the 2010 SO Scheme, while 4,876,916 share options were exercised and the Company issued 4,876,916 new shares accordingly. The proceeds received amounted to approximately US\$25.18 million. Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme on 29 May 2020, no further share options can be granted under the 2010 SO Scheme. However, the 2010 SO Scheme remains in full force and effect for all share options granted prior to its termination, and the exercise of such share options shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 SO Scheme and the Listing Rules. Since adoption until 31 December 2020, no share options were granted under the 2020 SO Scheme. A summary of the terms of the 2020 SO Scheme is set out in the shareholders' circular of the 2020 AGM, and further information regarding the scheme is set out in the Remuneration Report and note 40 to the financial statements.

EMPLOYEE SHARE PURCHASE PLAN

In view of the pending expiry of the 2011 ESPP, the Company adopted the 2020 ESPP on 1 August 2020 in place of and with substantially the same terms as the 2011 ESPP. The 2020 ESPP is effective for a period of 10 years from the date of adoption. The 2011 ESPP was terminated with effect from 31 October 2020.

During the year ended 31 December 2020, the Company awarded 1,274,789 restricted stock purchase units and 1,101,823 matching restricted stock purchase units vested under the 2011 ESPP. During the same period, the Company awarded 278,101 restricted stock purchase units and 57 matching restricted stock purchase units vested under the 2020 ESPP. No new shares have been issued pursuant to the 2011 ESPP nor the 2020 ESPP since their respective adoption. Details of the plan are set out in the Remuneration Report and note 40 to the financial statements.

AGENCY SHARE PURCHASE PLAN

The Company adopted the 2012 ASPP on 23 February 2012 (2012 ASPP Adoption Date). Under the 2012 ASPP, certain agents and agency leaders of the Group are selected to participate in the plan. Those agents selected for participation may elect to purchase the Company's shares and, after having been in the plan for a period of three years, receive one matching share for each two shares purchased through the award of matching restricted stock subscription units (RSSUs). Each eligible agent's participation level is capped at a maximum purchase in any plan year of US\$15,000 (or local equivalent). Upon vesting of the matching RSSUs, those agents who remain as agents of the Group will receive one matching share for each RSSU which he or she holds. The aggregate number of new shares which can be issued by the Company under the 2012 ASPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the 2012 ASPP Adoption Date. Since the 2012 ASPP Adoption Date and up to 31 December 2020, a cumulative total of 6,618,875 new shares were issued under the 2012 ASPP, representing approximately 0.055 per cent of the shares in issue as at the 2012 ASPP Adoption Date.

In view of the upcoming expiry of the 2012 ASPP, the Company adopted a new agency share purchase plan (2021 ASPP) on 1 February 2021 in place of and with substantially the same terms as the 2012 ASPP. The 2021 ASPP is effective for a period of 10 years from the date of adoption.

During the year ended 31 December 2020, the Company awarded 1,205,680 matching RSSUs, 1,185,442 matching RSSUs vested, and the Company issued 1,185,442 new shares (Awarded Shares) for vested RSSUs pursuant to the 2012 ASPP. The Awarded Shares were issued at the subscription price of US\$1.00 each to Computershare Hong Kong Trustees Limited (being the plan trustee) to hold the same on trust for certain eligible agents upon vesting of their matching RSSUs. The closing price of the Company's shares on 27 April 2020 was HK\$70.95. The proceeds received amounted to approximately US\$1.19 million which were used to fund the administration expenses of the 2012 ASPP and as general working capital of the Company.

NON-EXEMPT CONNECTED TRANSACTIONS

During the year ended 31 December 2020, the Group had not entered into any connected transactions which are not exempt from the annual reporting requirement under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group during the year ended 31 December 2020 in the ordinary course of business are set out in note 42 to the financial statements. Such related party transactions are all exempt connected transactions under Chapter 14A of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the purchase of 1,552,886 shares of the Company under the 2011 ESPP and the 2020 ESPP at a total consideration of approximately US\$15 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020. These purchases were made by the trustees of the relevant plan on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant plan and therefore have not been cancelled. Please refer to note 40 to the financial statements for details.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Hong Kong Stock Exchange and permitted under the Listing Rules as at the date of this report.

AUDITOR

PricewaterhouseCoopers was re-appointed auditor of the Company in 2020.

PricewaterhouseCoopers will retire and, being eligible, offer itself for re-appointment at the AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the AGM.

By Order of the Board



Edmund Sze-Wing Tse
Independent Non-executive Chairman
12 March 2021

CORPORATE GOVERNANCE REPORT

CORE PRINCIPLES

The Board believes that strong corporate governance is essential both to the delivery of sustainable value and to maintaining a culture of business integrity, which in turn supports investor confidence. The Board is ultimately responsible for the performance of the Group, including the consistent achievement of business plans and compliance with statutory as well as corporate obligations. The Board is also responsible for the development and implementation of the Group's corporate governance practices. This Corporate Governance Report explains the Company's corporate governance principles and practices, including how the Board manages the business to deliver long-term shareholder value and to promote the development of the Group.

As a company listed on the Main Board of the Hong Kong Stock Exchange, the Company is committed to high standards of corporate governance and sees the maintenance of good corporate governance practices as essential to its sustainable growth. It is vital that Board members, in aggregate, have the requisite skills and expertise and are supported by a structure that enables appropriate delegation between the Board, its committees and management, whilst ensuring that the Board retains overall control. To promote effective governance across all of our operations, the Board has approved a governance framework, which maps out internal approval processes including those matters that may be delegated.

In this Corporate Governance Report, the Board seeks to set out the Company's corporate governance structure and policies, inform shareholders of the corporate governance undertakings of the Company and demonstrate to shareholders the value of such practices.

Throughout the year ended 31 December 2020, with the exception of Code Provision F.1.3, the Company had applied the principles and complied with all applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Code Provision F.1.3 provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Group Company Secretary reports to the Group General Counsel, who is ultimately accountable for the company secretarial function of the Company and who in turn reports directly to the Group Chief Executive.

BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The Board is accountable to shareholders for the affairs of the Company. It meets these obligations by ensuring the maintenance of high standards of governance in all aspects of the Company's business, setting the strategic direction for the Group and maintaining appropriate levels of review, challenge and guidance in its relationship with Group management. It is also the ultimate decision-making body for all matters considered material to the Group and is responsible for ensuring that, as a collective body, Board members have the appropriate skills, knowledge and experience to perform their roles effectively.

In these matters, the Board provides leadership to management in respect of operational issues through the Group Chief Executive and President, who is authorised to act on behalf of the Board in the operational management of the Company. Any responsibilities not so delegated by the Board to the Group Chief Executive remain the responsibility of the Board.

The Board discharges the following responsibilities either by itself or through delegation to the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee:

- (a) the development and review of the Company's policies and practices on corporate governance;
- (b) the review and monitoring of the training and continuous professional development of Directors and senior management;
- (c) the review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) the development, review and monitoring of the Code of Conduct applicable to all officers and employees of the Group; and
- (e) the review of the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

During the year under review, the Board discharged its responsibilities under the Board Charter of the Company, which is available on the Company's website at www.aia.com, and reviewed, amongst other things, the Company's compliance with the Corporate Governance Code, including the necessary disclosures in its reports to shareholders, the terms of the Board Charter and other governance documents, and a number of Group-wide policies, including the anti-fraud policy, anti-corruption policy, IFRS Accounting Policy and Code of Conduct. The Board also received the annual information security update and reviewed the Group's leadership capability and succession to align with the Group's latest strategic ambitions.

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy (Dealing Policy) on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All of the Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and the Dealing Policy throughout the year ended 31 December 2020.

BOARD EVALUATION

The Board undertakes regularly a formal evaluation of its own performance and that of its committees and individual Directors to ensure the Board and its committees continue to perform effectively. The evaluation is conducted either by way of internal assessment or through independent external consultants.

The Company engaged an external professional consultant to facilitate the performance evaluation of the Board during 2020. The professional consultant selected is an independent professional consultant with no connection with the Group or any individual Directors.

The process for the performance evaluation adopted was a tailored and engaging process, taking into account the Company's strategic priorities as well as ongoing feedbacks and recommendations from individual Board members, the Company's investors and other stakeholders. The review was conducted by way of a written questionnaire followed by interviews conducted by the professional consultant with each Board member. A comprehensive range of topics was considered, including Board structure and composition, Board dynamics and interactions, Board Committees, and Board processes, with special focus in the areas which could be strengthened to further enhance the overall effectiveness of the Board and its committees.

Led by the Chairman and in conjunction with the professional consultant, findings and practical suggestions were reviewed, considered and discussed at a Board meeting held during the year to formulate appropriate follow-up actions. Over the past years, the Board evaluation has helped to identify a broader scope of topics to be further covered in Board meetings and Directors' trainings, and facilitated greater interactions among the Board members and senior management, as well as further review in Board processes and governance practices.

BOARD COMPOSITION

As of 31 December 2020 and up to the date of this Corporate Governance Report, the Board consists of ten members, comprising one Executive Director and nine Independent Non-executive Directors. All Directors are expressly identified by reference to such categories in all corporate communications that disclose their names. The composition of the Board is well balanced with each Director having sound board level experience and expertise relevant to the business operations and development of the Group. The Board is comprised of members with extensive business, financial, government, regulatory and policy experience from a variety of backgrounds. There is diversity of nationality, ethnicity, educational background, functional expertise, gender, age and experience.

Biographies of the Directors are set out on pages 72 to 77 of this Annual Report.

BOARD INDEPENDENCE

Ninety per cent (nine out of ten) of the Board are Independent Non-executive Directors. Save as disclosed below in respect of Mr. Tse, each of the Independent Non-executive Directors of the Company meets the independence guidelines set out in Rule 3.13 of the Listing Rules and has provided to the Company the requisite annual confirmation as to his or her independence. Mr. Tse, save for being currently a director of AIA Foundation (a subsidiary of the Company) and previously a Non-executive Director of the Company from 27 September 2010 to 22 March 2017 until his re-designation as an Independent Non-executive Director, has met the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company has satisfied itself that Mr. Tse is independent pursuant to Rule 3.13 of the Listing Rules on the basis that since his appointment as a Non-executive Director of the Company on 27 September 2010, Mr. Tse has not held any executive or management role or function in the Company or any of its subsidiaries, and at no time during that period has he been employed by the Company or any of its subsidiaries. He has not taken part in the day-to-day management of the Company or its subsidiaries beyond his attendance at and participation in board and committee meetings of the Group.

Independent Non-executive Directors are required to inform the Company as soon as practicable if there is any change of circumstances which may affect his or her independence. No such notification has been received during the year under review.

During the year under review, Directors have disclosed to the Company in a timely manner the changes in their other offices held in public companies or organisations and other significant commitments.

Each of the four committees established by the Board, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee, is chaired by Independent Non-executive Directors. The Audit Committee, the Nomination Committee, and the Remuneration Committee comprise of Independent Non-executive Directors only, while the Risk Committee comprises of a majority of Independent Non-executive Directors.

Save as disclosed herein, none of the Independent Non-executive Directors has any business with or significant financial interests in the Company or its subsidiaries and therefore all the Independent Non-executive Directors continue to be considered by the Company to be independent.

Although serving on the Board for more than nine years could be relevant to the determination of a Non-executive Director's independence, the Board recognises that an individual independence cannot be determined arbitrarily on the basis of a set period of time. The Board considers that it has benefited greatly from the contribution from individuals who have over time gained valuable insight into the Group's operations and its markets. Nevertheless, the Board has an open brief to search for suitably qualified individuals to join the Board as an Independent Non-Executive Director with due regard to the Directors' Nomination Policy and Board Diversity Policy. Board succession planning is an ongoing process for the Company. There are regular Board reviews and discussions on succession planning, through meetings, conversations, social interactions, and complemented by an active search when required for people presenting the right skill and diversity mix.

Notwithstanding that a number of the Independent Non-executive Directors have served the Board for more than or close to nine years, they have continued to bring in fresh perspectives, skills and knowledge gained from their other directorships and appointments on an ongoing basis. Their wealth of skills, knowledge and experience have enabled them to contribute meaningfully and objectively to the Board as Independent Non-Executive Directors. The Board considers that the long serving Independent Non-executive Directors' independence from management has not been diminished by their years of service.

BOARD PROCESS

Board meetings are held at least four times a year to determine overall strategies, receive management updates, approve business plans as well as interim and annual results, and to consider other significant matters. At these meetings, senior management also provides regular updates to the Board with respect to the Group's business activities and development of the Group, together with regulatory and policy updates.

Directors are empowered under the relevant terms of reference to request further information from management whenever they think fit.

During the year under review, there were six scheduled Board meetings, all of which were convened in accordance with the Articles of Association of the Company.

The attendance of individual Directors, either in person or through electronic means of communication, at the Board meetings, committees' meetings and the 2020 AGM held during the year under review are as follows:

Name of Director	No. of Meetings Attended / No. of Meetings Held						2020 AGM
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee		
Independent Non-executive Chairman and Independent Non-executive Director							
Mr. Edmund Sze-Wing TSE	6/6	–	1/1	5/5	4/4	1/1	
Executive Director, Group Chief Executive and President							
Mr. LEE Yuan Siong ⁽¹⁾	4/4	–	–	–	2/2	–	
Mr. NG Keng Hooi ⁽²⁾	2/2	–	–	–	2/2	1/1	
Independent Non-executive Directors							
Mr. Jack Chak-Kwong SO	6/6	4/4	1/1	5/5	–	1/1	
Mr. Chung-Kong CHOW	6/6	–	1/1	–	4/4	1/1	
Mr. John Barrie HARRISON	6/6	4/4	1/1	–	4/4	1/1	
Mr. George Yong-Boon YEO	6/6	4/4	1/1	5/5	–	1/1	
Mr. Mohamed Azman YAHYA ⁽³⁾	2/2	–	1/1	2/2	–	1/1	
Professor Lawrence Juen-Yee LAU	6/6	–	1/1	–	4/4	1/1	
Ms. Swee-Lian TEO	6/6	–	1/1	–	4/4	1/1	
Dr. Narongchai AKRASANEE	6/6	4/4	1/1	–	–	1/1	
Mr. Cesar Velasquez PURISIMA ⁽⁴⁾	6/6	–	1/1	–	–	1/1	

Notes:

- (1) Mr. Lee Yuan Siong was appointed as Executive Director of the Company on 1 June 2020.
- (2) Mr. Ng Keng Hooi retired as Executive Director of the Company with effect from 31 May 2020.
- (3) Mr. Mohamed Azman Yahya retired as Independent Non-executive Director of the Company with effect from 29 May 2020.
- (4) Mr. Cesar Velasquez Purisima was appointed as a member of the Audit Committee of the Company on 12 March 2021, therefore he did not attend any Audit Committee meeting during the year under review.

Minutes of the meetings of and circular resolutions passed by the Board and all committees are kept by the Company Secretary. These minutes and resolutions are open for inspection on reasonable notice by any Director.

CHAIRMAN AND GROUP CHIEF EXECUTIVE

Mr. Edmund Sze-Wing Tse, Independent Non-executive Chairman of the Company, plays a critical role of leading the Board in fulfilling its responsibilities. With the support of the Group Chief Executive and President and senior management, Mr. Tse seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information in a timely manner. He is also responsible for making sure that good corporate governance practices and procedures are followed.

Mr. Lee Yuan Siong, Group Chief Executive and President of the Company, reports to the Board and is responsible for the overall leadership, strategic and executive management and profit performance of the Group, including all operations and administration. Mr. Lee attends Board meetings as the sole Executive Director and, in his capacity as Group Chief Executive and President, ensures that the Board is updated at least monthly in respect of material aspects of the Company's performance. Mr. Lee discharges his responsibilities within the framework of the Company's policies, reserved powers and routine reporting requirements and is advised and assisted by the senior management of the Group.

The segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the Group Chief Executive and President's responsibility to manage the Group's business.

The roles and responsibilities of the Board, the Chairman of the Board and the Group Chief Executive are set out in the Board Charter of the Company

APPOINTMENT OF DIRECTORS

The Company uses a formal and transparent procedure for the appointment of new Directors. The Board receives recommendations for the appointment of new Directors from the Nomination Committee, which considers the background of the proposed new Directors. The Board then deliberates over such recommendations prior to approval. To promote greater transparency in this respect, the Directors' Nomination Policy was adopted by the Board on 14 March 2019. A summary of the Directors' Nomination Policy is set out in the sub-section headed "Nomination Committee" of the "Committees of the Board" section in this report.

All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election at the general meetings of the Company in accordance with the Articles of Association of the Company and the Corporate Governance Code.

INDUCTION AND ONGOING DEVELOPMENT

The Company provides each Director with personalised induction, training and development. On appointment, each Director receives a comprehensive and tailored induction covering, amongst other things, the role of the Board and its key committees, group structure, governance structure and the duties and responsibilities of a director under applicable laws and regulations.

Directors receive detailed briefings on the Group's principal businesses, the markets in which it operates and the overall competitive environment. Other areas addressed include legal and compliance issues affecting directors of financial services companies, the Group's governance arrangements, the principal basis of accounting for the Group's results, the internal audit and risk management functions, its investor relations programme and remuneration policies. The Directors are continually updated on the Group's business and the latest developments to the Listing Rules and other applicable statutory requirements to ensure compliance and continuous good corporate governance practice.

During the year under review, the Company organised a Board Strategy Day and provided a number of briefings to the Directors to update them on the implementation of the Group's strategies to capture future business opportunities and the latest developments in the Group's principal businesses and major products.

All Directors are encouraged to participate in continuous professional development to extend and refresh their knowledge and skills, and are required to provide their training records to the Company. The training received by the Directors during the year under review is summarised as follows:

Name of Director	Types of Training	
	Reading or attending briefings / seminars / conferences relevant to regulatory and governance updates	Attending corporate events / executive briefings relevant to the Group's business
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 ⁽¹⁾	✓	✓
Mr. NG Keng Hooi ⁽²⁾	✓	✓
Independent Non-executive Directors		
Mr. Jack Chak-Kwong SO	✓	✓
Mr. Chung-Kong CHOW	✓	✓
Mr. John Barrie HARRISON	✓	✓
Mr. George Yong-Boon YEO	✓	✓
Mr. Mohamed Azman YAHYA ⁽³⁾	✓	✓
Professor Lawrence Juen-Yee LAU	✓	✓
Ms. Swee-Lian TEO	✓	✓
Dr. Narongchai AKRASANE	✓	✓
Mr. Cesar Velasquez PURISIMA	✓	✓

Notes:

(1) Mr. Lee Yuan Siong was appointed as Executive Director of the Company on 1 June 2020.

(2) Mr. Ng Keng Hooi retired as Executive Director of the Company with effect from 31 May 2020.

(3) Mr. Mohamed Azman Yahya retired as Independent Non-executive Director of the Company with effect from 29 May 2020.

COMMITTEES OF THE BOARD

The Company's corporate governance is implemented through a structured hierarchy, which includes the Board and four committees established by the Board, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee. The memberships and terms of reference of all Board committees are available on the websites of both the Hong Kong Exchanges and Clearing Limited and the Company. In addition to the four Board committees, a number of management committees have been established including, among others, an Executive Committee, the Group Operational Risk Committee and the Group Financial Risk Committee.

AUDIT COMMITTEE

The Audit Committee consists of five members, all of whom are Independent Non-executive Directors. They are Mr. Harrison, who serves as chairman of the Audit Committee, Mr. So, Mr. Yeo, Dr. Narongchai and Mr. Purisima, who became a member of the Audit Committee on 12 March 2021. The Audit Committee is delegated with the authority from the Board to oversee the Group's financial reporting system, the internal control systems and the relationship with the external auditor of the Company, and to review the Group's financial information.

The duties performed by the Audit Committee during the year under review included overseeing the Group's financial reporting system; reviewing risk management and internal control systems; monitoring the integrity of the preparation of the Company's financial information, including quarterly business highlights and interim and annual results of the Group; reviewing the Group's financial and accounting policies and practices as well as its whistle-blowing programme; and monitoring the adequacy of resources for and effectiveness of the internal audit function. Details of how the reviews of the effectiveness of the risk management and internal control systems had been undertaken are set out in the Risk Management and Internal Control section of this report.

The Audit Committee also provided oversight for and management of the relationship with the Group's external auditor, including reviewing and monitoring the external auditor's independence and objectivity, and the effectiveness of the audit process in accordance with applicable standards.

The Audit Committee held four meetings during the year ended 31 December 2020. The attendance records of the Audit Committee members are set out on page 99 of this Annual Report.

NOMINATION COMMITTEE

The Nomination Committee consists of nine members, including the Independent Non-executive Chairman, Mr. Tse, who serves as chairman of the Nomination Committee, and the remaining eight Independent Non-executive Directors, Mr. So, Mr. Chow, Mr. Harrison, Mr. Yeo, Professor Lau, Ms. Teo, Dr. Narongchai and Mr. Purisima. The Nomination Committee is delegated with the authority from the Board to review the Board's composition and diversity, formulate and implement the Directors' Nomination Policy, make recommendation to the Board on the appointment/re-appointment of Directors and members of the Board committees, and assess the independence of the Independent Non-executive Directors.

The duties performed by the Nomination Committee during the year under review included reviewing and making recommendations to the Board on the structure, size and composition of the Board, with due regard to the skills, knowledge, experience and diversity of background and experience of its members; overseeing the identification and assessment of potential candidates for directorship; providing oversight and direction in respect of the succession planning for directors and determining the composition of the Board committees.

To promote greater transparency on the Nomination Committee's processes and criteria for selecting and making recommendations to the Board on the appointment, election or re-election of Directors, the Directors' Nomination Policy was adopted by the Board on 14 March 2019 upon the recommendation of the Nomination Committee.

A summary of the Directors' Nomination Policy is set out below:

- In assessing the suitability of a candidate proposed for appointment, election or re-election as a Director, the Nomination Committee shall consider the candidate on the basis of the selection criteria set out in the Directors' Nomination Policy, which includes, amongst other things, whether his/her skills, knowledge, experience and background can complement and enhance those of the existing Board members with due regards to the benefits of diversity perspectives set out in the Board Diversity Policy; his/her character, reputation, integrity and standard of competence; and the ability to devote sufficient time to discharge his/her duties as a Director. For candidates proposed for nomination as an Independent Non-executive Director, the satisfaction of the independence requirement under Rule 3.13 of the Listing Rules is also required.

- For appointment or election of a new Director, the Nomination Committee shall take the lead in identifying candidates suitably qualified to become a Director. It may consider referrals from existing Directors, and use open advertising or the services of external advisers to facilitate the search based on the selection criteria set out in the Directors' Nomination Policy. Shareholders may also propose a person for election as a Director of the Company at a general meeting, relevant procedures of which are set out on the website of the Company. The Nomination Committee shall evaluate the suitability of a candidate through interviews, background checks, third party reference checks, and/or any process as it deems necessary and appropriate.
- For re-election of a retiring Director, the Nomination Committee will review the overall past contributions of the retiring Director to the Company, and determine whether he/she continues to meet the selection criteria set out in the Directors' Nomination Policy.

These processes aim to ensure that every Director has the requisite character, experience and integrity, and that he/she is able to demonstrate a standard of competence commensurate with his/her position as a Director.

Furthermore, the Board Diversity Policy, which was first adopted by the Board in 2013 and revised in 2021, describes the Company's approach to ensuring adequate diversity. A summary of the Board Diversity Policy is set out below:

- The Company understands that a Board composed of appropriately qualified members with a broad range of relevant experience, in addition to diversity in thought and background, is essential to the effective governance of its business and ensuring long-term sustainable growth;
- The Company remains committed to non-discrimination in all aspects of its business, including the appointment of Board members. Consideration and selection of candidates for appointment to the Board will be based on merit which shall include a review of the candidate's integrity, experience, educational background, industry or related experience and more general experience;
- Within that overriding emphasis on merit, the Nomination Committee shall seek to address Board vacancies by actively considering candidates that bring a diversity of background and opinion from amongst those candidates with the appropriate background and industry or related expertise and experience. The Nomination Committee's considerations shall include achieving an appropriate level of diversity having regard to factors such as gender, age, ethnicity, nationality, cultural and educational background;
- The Nomination Committee will (a) in reviewing the Board composition, consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience, knowledge and character on the Board; and (b) as part of the performance evaluation of the Board, consider the balance of skills, experience, knowledge and independence of the Board;
- As part of the Nomination Committee's annual review of the structure, size and composition of the Board, the Nomination Committee will expressly consider and include commentary to the Board on the subject of the Board's diversity; and
- The measurable objectives on board diversity under the Board Diversity Policy include (a) selection of candidates for nomination as a Director be based on the Directors' Nomination Policy with due regard to the diversity perspectives set out in the policy; (b) to maintain the Board with a majority of independent non-executive directors; and (c) to ensure that the Board be made up of members with diverse backgrounds and experience, including diversity of nationality, ethnicity and gender, with such members demonstrating appropriate knowledge, experience and understanding of the markets in which the Company operates its business.

The Nomination Committee held one meeting during the year ended 31 December 2020. The attendance records of the Nomination Committee members are set out on page 99 of this Annual Report.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, all of whom are Independent Non-executive Directors. They are Mr. So, who serves as chairman of the Remuneration Committee, Mr. Yeo and Mr. Tse. The duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policy covering the Directors and senior management of the Group and to review and approve remuneration offered to the Executive Director and senior management of the Group.

The Remuneration Committee held five meetings during the year ended 31 December 2020. The attendance records of the Remuneration Committee members are set out on page 99 of this Annual Report. Details of the role of the Remuneration Committee, and the key activities performed by the Remuneration Committee during the year under review have been set out in the Remuneration Report, which forms part of this Corporate Governance Report.

RISK COMMITTEE

The Risk Committee consists of six members, five of whom are Independent Non-executive Directors, including Mr. Chow, who serves as chairman of the Risk Committee, Mr. Harrison, Professor Lau, Ms. Teo, Mr. Tse and Mr. Lee, the sole Executive Director, who became a member of the Risk Committee in place of Mr. Ng on 1 June 2020. The Risk Committee is delegated with the authority from the Board to, amongst other things, determine the Group's risk appetite, including the risk appetite statement, risk principles and risk tolerances, oversee and review the adequacy and effectiveness of the Risk Management Framework of the Group, ensure that the material risks facing the Group have been identified and that the risk profile adequately represents any significant issues relating to the Group's control environment with mitigating actions put in place, and to advise the Board on risk-related issues.

The duties performed by the Risk Committee during the year under review included providing advice to the Board on the risk profile and risk management strategy of the Group; considering and reviewing disclosures in interim and annual reports, risk management-related policies and guidelines, statutory solvency positions, risk appetite and metrics; overseeing the risk management and compliance framework; reviewing the risk management and internal control systems; endorsing the Company's risk governance structure; and reviewing major risks. Details of how the Risk Committee reviews the effectiveness of the risk management and internal control systems of the Group are set out in the Risk Management and Internal Control section of this report.

The Risk Committee held four meetings during the year ended 31 December 2020. The attendance records of the Risk Committee members are set out on page 99 of this Annual Report.

EXTERNAL AUDITOR

The external auditor of the Company is PricewaterhouseCoopers. The Audit Committee is responsible for making recommendations to the Board on the external auditor's appointment, re-appointment and removal, which are subject to approval by the Board and by the shareholders at a general meeting of the Company. In assessing the external auditor, the Audit Committee will take into account relevant experience, performance, objectivity and independence of the external auditor. The Board has adopted policies on nomination and appointment of and services performed by the external auditor to enhance related governance practices.

The Audit Committee also reviews the non-audit services provided by the external auditor and its remuneration on a regular basis. For the year ended 31 December 2020, the total estimated remuneration payable by the Group to PricewaterhouseCoopers was US\$25.2 million (2019: US\$26.0 million), an analysis of which is set out below:

US\$ millions	2020	2019
Audit services	20.0	18.9
Non-audit services, including:		
Audit-related services ⁽¹⁾	3.9	5.1
Tax services	1.2	1.4
Other services	0.1	0.6
Total	25.2	26.0

Note:

(1) audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Group's financial statements. They include, among others, due diligence services pertaining to potential business acquisitions (excluding valuation services); services related to implementation new accounting and financial reporting guidance from regulatory authorities; and agreed-upon or expanded audit procedures related to compliance with financial, accounting or regulatory reporting matters.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The annual results of the Company and other financial information were published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best practice. When preparing the Company's financial reports, the Board endeavours to present this information in a comprehensible, informative and user-friendly manner.

The Directors acknowledge their responsibility for preparing the Company's consolidated financial statements and ensuring that the preparation of the Company's consolidated financial statements is in accordance with the relevant requirements and applicable standards.

The statement of the Company's auditor concerning its reporting responsibilities on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 125 to 131 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board, assisted by its committees, is responsible for overseeing the Group's risk management and internal control systems on an ongoing basis. The Board reviews the effectiveness of risk management and internal control systems on an annual basis.

The Group's RMF does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the sustainability of the business and the creation of long-term value, and can only provide reasonable and not absolute assurance against material misstatement or loss. The main features and other information on the RMF and the process used to identify, evaluate and manage significant risks are set out in the Risk Management section of this Annual Report.

The Company has an internal audit function (Internal Audit). The key features of the Company's internal control system include independent reviews and testing of internal controls, taking a risk-based approach and developing an annual audit plan presented to the Audit Committee. Reports of significant audit findings are prepared and communicated to management and the Audit Committee and where control weaknesses or defects are identified, recommendations are provided to resolve them. This includes issues formally identified from internal audits, forensic investigations, regulatory reports and special projects. Management is responsible for the design, implementation and evaluation of the internal control system, including ongoing mitigation, across the business and processes.

The Board has, through the Risk Committee and Audit Committee, reviewed the adequacy and effectiveness of the Group's risk management and internal control systems (covering all material controls such as financial, operational and compliance controls), including:

- the adequacy of resources, staff qualifications and experience, training programmes and the budget of the Group's accounting, internal audit and financial reporting functions;
- areas of risk identified by management as well as the quality and scope of management's ongoing monitoring of risks and the risk management system;
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in the external environment and its business;
- the quality and scope of the internal control system implemented by management and the work and effectiveness of Internal Audit as well as any significant risks reported by Internal Audit;
- the extent and frequency of communication of monitoring results to the Board and its committees, to enable the assessment of the effectiveness of the Group's risk management and internal control systems;
- the incidence of any significant control failings or weaknesses that have been identified during the year and the extent to which they have resulted in a material impact on the Group's financial performance or condition;
- the effectiveness of the Group's processes in relation to financial reporting and regulatory compliance;
- the scope of work performed by both internal and external auditors and any significant issues arising from internal and external audit reports; and
- the results of management's control self-assessment exercises.

The annual review of the Group's risk management and internal control systems was supported by an internal certification process performed by management (at both the Company's and subsidiaries' levels), the Risk & Compliance function and Internal Audit of the Company.

Management has confirmed to the Board that the Group's risk management and internal control systems are adequate and effective. Based on the review result and management's confirmation, the Board considered the Group's risk management and internal control systems to be adequate and effective for the year ended 31 December 2020.

INSIDE INFORMATION

The Company has implemented proper procedures and internal controls for the handling and dissemination of inside information:

- The Company has established a policy on the disclosure of inside information to ensure that all current and prospective investors of the Company, market participants and the public are provided with appropriate information relating to the Group in a timely and simultaneous manner. The policy has been communicated to all relevant staff and related training has also been provided to them; and
- A written communications protocol has also been established to implement a control process within the Group for the management of communications with various internal and external stakeholders. Such protocol identifies a list of spokespersons who are authorised to provide information about the Group to the relevant stakeholders. The Company's Code of Conduct further contains a strict prohibition on the unauthorised use of confidential or non-public information.

COMPANY SECRETARY

All the Directors have access to the advice and services of the Company Secretary at any time in respect of their duties and the effective operation of the Board and Board committees. The Company Secretary advises the Board on all corporate governance matters; facilitates the induction and professional development of Directors; and ensures good information flows and communications within the Board and its committees, and between management and the Non-executive Directors. The Company Secretary also plays an important role in ensuring that Board and Board committee policies and procedures are followed and the Board's obligations to shareholders pursuant to the Listing Rules are discharged. During the year under review, Ms. Nicole Pao had undertaken at least 15 hours of relevant continuing professional education.

ENGAGEMENT WITH SHAREHOLDERS

The Board recognises the importance of maintaining an ongoing dialogue with the Company's shareholders and does so through general meetings, press releases, announcements and corporate communications such as the annual report, interim report and circulars. The Board is committed to the timely disclosure of information. The latest information regarding the Group's activities, announcements, results presentations, webcasts and corporate communications is made available on the Company's website at www.aia.com in a timely manner. The financial calendar highlighting the key dates for shareholders is set out on page 295 of this Annual Report.

The Investor Relations function oversees the Company's engagement with investors. The Company's institutional shareholder base is geographically diversified and the Company is also extensively covered by research analysts from a wide range of broker houses. An active and open dialogue with institutional investors is maintained through regular investor interactions, including meetings, investment conferences and roadshows. Investor feedback and analysts' reports on the Company are circulated to the Board and the Executive Committee on a regular and systematic basis to promote an understanding of external views on the Company's performance.

The Board has adopted a Shareholders' Communication Policy and such policy will be reviewed on a regular basis to ensure its effectiveness. The Board welcomes views, questions and concerns from shareholders and other stakeholders. Shareholders and other stakeholders may send their enquiries and concerns to the Board. The contact details are set out on page 296 of this Annual Report.

2020 ANNUAL GENERAL MEETING

The most recent general meeting of the Company was the 2020 AGM which was held at the Grand Ballroom, Lower Level 1, Kowloon Shangri-La, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 29 May 2020. The Chairman and all other members of the Board at that time, together with the Group's senior management and external auditor, attended the 2020 AGM. The poll voting results are available on the websites of both the Company and the Hong Kong Exchanges and Clearing Limited. The matters resolved at the 2020 AGM are summarised below:

- Receipt of the audited consolidated financial statements of the Company, the Report of the Directors and the Independent Auditor's Report for the year ended 31 December 2019;
- Declaration of a final dividend of 93.30 Hong Kong cents per share for the year ended 31 December 2019;
- Re-election, by separate ordinary resolutions, of Mr. Tse and Mr. So as Independent Non- executive Directors of the Company;
- Re-appointment of PricewaterhouseCoopers as auditor of the Company until the conclusion of the next annual general meeting and authorising the Board to fix its remuneration;
- General mandate to Directors to cause the Company to issue additional shares of the Company, not exceeding 10 per cent of the aggregate number of shares of the Company in issue on the date of the 2020 AGM, and the discount for any shares to be issued not exceeding 10 per cent to the benchmarked price;
- General mandate to Directors to cause the Company to buy back shares of the Company, not exceeding 10 per cent of the aggregate number of shares of the Company in issue on the date of the 2020 AGM; and
- Approval of the 2020 SO Scheme and termination of the 2010 SO Scheme.

The forthcoming annual general meeting of the Company will be held on Thursday, 20 May 2021. Further details will be set out in the Company's circular to be issued to the shareholders of the Company for the AGM.

SHAREHOLDERS' RIGHTS

GENERAL MEETING

Shareholder(s) representing at least 5 per cent of the total voting rights of all the shareholders of the Company having a right to vote at general meetings, may request to call a general meeting. If such request is made, a general meeting must be called. Such request, either in hard copy form or in electronic form and being authenticated by the person or persons making it, must be deposited at the registered office of the Company at 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong or sent by email to ir@aia.com for the attention of the Company Secretary. Shareholder(s) of the Company should make reference to the provisions under Sections 566 to 568 of the Hong Kong Companies Ordinance for calling a general meeting.

MOVING A RESOLUTION AT AN ANNUAL GENERAL MEETING

Shareholder(s) of the Company may request the Company to give notice of a resolution and move such resolution at an annual general meeting. Such notice of resolution must be given by the Company if it has received such request from:

- (a) shareholder(s) of the Company representing at least 2.5 per cent of the total voting rights of all the shareholders of the Company who have a right to vote on the resolution at the annual general meeting to which the request relates; or
- (b) at least 50 shareholders of the Company who have a right to vote on the resolution at the annual general meeting to which the request relates.

Such a request must identify the resolution of which notice is to be given, be either in hard copy form or in electronic form and be authenticated by the person or persons making it, and be received by the Company not later than six weeks before the annual general meeting to which the request relates or, if later, the time at which notice is given of that meeting. The request must be deposited at the registered office of the Company at 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong or sent by email to ir@aia.com for the attention of the Company Secretary. Shareholder(s) of the Company should make reference to Sections 615 and 616 of the Hong Kong Companies Ordinance for the relevant procedures to move a resolution at an annual general meeting.

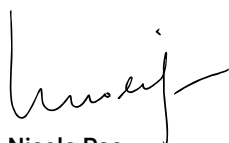
PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

Shareholders can propose a person (other than a retiring Director himself/herself) for election as a Director at a general meeting of the Company. Relevant procedures are available on the Company's website at www.aia.com.

CONSTITUTIONAL DOCUMENTS

The Company's Articles of Association (in both English and Chinese) is available on the websites of both the Company and the Hong Kong Exchanges and Clearing Limited. During the year under review, there has been no change to the Articles of Association of the Company.

By Order of the Board



Nicole Pao

Company Secretary

12 March 2021

REMUNERATION REPORT

STATEMENT OF THE CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of the Remuneration Committee, I am pleased to present the Report on Remuneration for Directors and Key Management Personnel for the period ended 31 December 2020.

The Remuneration Committee continued its work of ensuring that the Group's remuneration framework is dedicated to delivering value and fair outcomes. Individual remuneration arrangements for our senior executives that align to performance indicators are supportive of the Group's strategy and allow us to recognise and motivate key executives and encourage positive behaviour.

The Remuneration Committee continued to conduct its rigorous annual review of the Group's executive remuneration, taking into account our regulatory environment, AIA's risk management framework, market practice and the interests of our stakeholders.

During 2020, the Remuneration Committee worked with its independent advisor to review and assess the impact of the COVID-19 pandemic on compensation trends in the insurance industry globally and in our key markets, and continued to monitor other external factors, such as the evolving technology focus in the industry.

The Remuneration Committee had been kept abreast of the regulatory landscape in Hong Kong under the HKIA, as well as developments in AIA's other markets such as Australia and Mainland China. As in previous years, the Remuneration Committee will work with its independent advisor to monitor and respond to emerging regulations throughout the region that may impact the remuneration of AIA's senior executives and key management personnel.

In 2020, the Group's equity-linked schemes reached or were soon reaching the end of their intended term of 10 years. As part of the review of the Group's remuneration policy during the year, the Remuneration Committee reviewed and approved four new equity-linked schemes to replace the expiring schemes, each to be effective for a period of 10 years from their respective dates of adoption. The four schemes are:

- The Restricted Share Unit Scheme (2020 RSU Scheme) aligns the long-term interests of senior executives and other key talents with shareholders by granting primarily performance-vesting share units deferred over a multi-year period;
- The shareholder-approved Share Option Scheme (2020 SO Scheme) focuses the senior executives on long-term, sustainable shareholder returns by granting share options with a 10-year term;
- The Employee Share Purchase Plan (2020 ESPP) encourages long-term ownership of the Company's shares by allowing our employees to purchase shares of the Company up to pre-determined monthly limits and providing matching shares to employees if they remain with the Group for three-years; and
- The Agency Share Purchase Plan (2021 ASPP) allows our top performing agents and agency leaders the opportunity to purchase shares of the Company in order to recognise their contribution to the Group's success, encourage retention and motivate future sales performance.

The new schemes, which replace substantially similar prior schemes, remain in line with the relevant regulations, support shareholders' best interests, remain consistent with market best practices, and will allow us to continue to attract and engage critical talents, including our employees and best performing agents.

Following the 2019 announcement that Mr. Lee Yuan Siong would succeed Mr. Ng Keng Hooi as Group Chief Executive and President, the Remuneration Committee also reviewed and subsequently approved the retirement terms and conditions provided to Mr. Ng after over 10 years of service to AIA in a number of leadership roles.

While the overall remuneration framework for senior executives remains largely unchanged in 2020 and will continue to apply in 2021, the Remuneration Committee continues to adopt enhancements to improve remuneration governance, encourage behaviours designed to create sustainable value and discourage excessive risk taking. To these ends, in 2020 the Remuneration Committee approved a share ownership policy for the Group Chief Executive and President and updated the malus and clawback provisions attached to long-term incentive grants.

As in prior years, a significant proportion of total remuneration granted in 2020 is subject to multi-year performance-based vesting conditions which ensure that our executives' interests are closely aligned with those of our long-term stakeholders. Further, an annual briefing to the Board's Risk Committee on the Remuneration Committee's key activities took place in the course of 2020.

Overall, the Remuneration Committee believes that the Group's current remuneration framework and individual remuneration arrangements for senior executives are aligned with and support our strategy.



Jack Chak-Kwong So

Chairman, Remuneration Committee

12 March 2021

REMUNERATION GOVERNANCE

ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee is responsible for determining the employment terms and conditions, including the remuneration, of the Group Chief Executive and President and approving such terms and conditions of Key Management Personnel (the members of the Group's Executive Committee who, by the nature and accountabilities of their respective positions, participate directly in the development, implementation, monitoring and reporting of the overall business strategies of the Group). Further, the Remuneration Committee makes recommendations to the Board on the remuneration policy and structure to be applied for the Chairman and Non-executive Directors.

The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing remuneration policies and structures. In making its determinations and recommendations, the Remuneration Committee considers such factors as the responsibilities of the Group Chief Executive and President and Key Management Personnel, the remuneration paid by comparable companies, remuneration levels within the Group and the application of performance-based remuneration programmes.

The Remuneration Committee also oversees the design and operation of the Company's equity-linked and other Group incentive schemes, recommending equity-based employee grants for approval by the Board as well as reviewing and, where appropriate, amending the terms of the schemes as may be required.

The Remuneration Committee is authorised by the Board to discharge its duties as outlined in its Terms of Reference. It is also authorised to seek any remuneration information it requires from the Group Chief Executive and President and/or Key Management Personnel and may obtain external independent professional advice if necessary.

The full Terms of Reference of the Remuneration Committee can be accessed at www.aia.com.

MEMBERS AND MEETINGS

As of 31 December 2020, the Remuneration Committee consisted of three Independent Non-executive Directors, being Mr. Jack Chak-Kwong So, who is the Chairman of the Remuneration Committee, Mr. George Yong-Boon Yeo and Mr. Edmund Sze-Wing Tse.

The Remuneration Committee held five meetings during the year ended 31 December 2020. The attendance records of the Remuneration Committee members are set out on page 99 of this Annual Report.

ACTIVITIES OF THE REMUNERATION COMMITTEE

The Remuneration Committee performed the following major activities in 2020.

Area	Summary of activities
Remuneration decisions for the Group Chief Executive and President and Key Management Personnel	<ul style="list-style-type: none"> Reviewed and approved employment terms and conditions, including remuneration for the new Group Chief Executive and President and at the start of the year, the 2020 remuneration of the Key Management Personnel Recommended the 2020 long-term incentive grant for the Group Chief Executive and President for approval by the Independent Non-executive Directors of the Board Reviewed and approved the 2020 remuneration and the retirement terms and conditions for the retiring Group Chief Executive and President Reviewed the executive benchmarking results ahead of the 2020/21 annual review cycle
Design and operation of the Group's incentive schemes	<ul style="list-style-type: none"> Reviewed and approved the 2019 short-term incentive plan pay-outs and the vesting of the 2017 long-term incentive awards for the Group Chief Executive and President, Key Management Personnel, and all other plan participants Reviewed and approved grants under the long-term incentive plan, including share option (SO) grants and performance-vesting restricted share unit (RSU) grants for the 2020 to 2023 vesting period Reviewed and approved the performance measures and targets for the 2021 short-term and long-term incentive plans Updated and approved four new equity-linked schemes in place of the expiring schemes, ensuring continued alignment with regulatory requirements, market best practices, AIA's business strategy and shareholders' interests
Remuneration governance and disclosure	<ul style="list-style-type: none"> Reviewed and approved the 2019 Remuneration Report Introduced a share ownership policy for the Group Chief Executive and President Strengthened malus and clawback provisions under the long-term incentive schemes for all scheme participants Reviewed the Group's remuneration and benefits arrangements and practices to ensure they align with stakeholders' interests and do not encourage excessive risk-taking, and provided the Board's Risk Committee with a summary of this review Reviewed the regulatory and corporate governance environment impacting executive remuneration practices and governance in the Group's key markets, including Hong Kong, Mainland China and Australia Reviewed the emerging remuneration trends for AIA's international insurance peer companies and for Asia and other regions, especially with respect to the COVID-19 pandemic

EXECUTIVE REMUNERATION POLICY

OBJECTIVES OF THE EXECUTIVE REMUNERATION POLICY

The Company's executive remuneration policies and practices are designed to provide equitable, motivating and competitive remuneration to foster a strong performance-oriented culture within a robust risk management framework.

The policy aims to ensure that all rewards, including incentives, relate directly to the performance of individuals, the operations and functions in which they work or for which they are responsible, and the overall performance of the Group. The compensation and benefits arrangements designed under the policy provide incentives that are consistent with the interests of the Company's stakeholders and do not encourage executives to take excessive risks that may threaten the sustainability or long-term value of the Group.

COMPONENTS OF OUR EXECUTIVE REMUNERATION POLICY

The table below summarises the Company’s remuneration elements and their application to the Group Chief Executive and President and the Key Management Personnel for the year ended 31 December 2020 and will continue to apply in 2021.

Element	Basis of determination	Notes on practices
<p>Base salary</p> <p>This is the fixed cash element of remuneration to recruit and retain talent</p>	<p>Base salary is determined with reference to the size and nature of the role, geographical location, and scope and relevant individual experience, whilst also considering competitive market positioning and internal equity to attract and retain employees with required capabilities to achieve the Group’s business objectives</p>	<p>The Remuneration Committee reviews base salaries annually against AIA’s international insurance peers and wider market levels</p> <p>Base salary increases, where applicable, typically take effect from 1 March</p>
<p>Short-term incentives</p> <p>These are delivered in the form of a discretionary, performance-based cash award to incentivise, recognise and reward achievement of the Group’s objectives and individual contribution</p>	<p>Short-term incentive target opportunities are determined with reference to roles and responsibilities of the individual and market competitiveness of variable and total compensation</p>	<p>Pay-out of short-term incentives is based on the achievement of the Group’s pre-defined financial performance targets as well as individual contribution</p>
<p>Long-term incentives</p> <p>These are delivered in the form of RSUs and SOs</p> <p>These grants are used to align the long-term interests of executives with those of shareholders, and to reward and motivate participants who have made important contributions to the Group’s success or are expected to play a significant role in the future</p>	<p>Long-term incentive grant values are determined with reference to roles and responsibilities as well as performance and potential of the individual, whilst also considering the market competitiveness of variable and total compensation opportunities</p> <p>A significant proportion of the remuneration of the Group Chief Executive and President and Key Management Personnel is provided in the form of long-term incentive grants</p>	<p>Long-term incentive grants are discretionary and participation is determined on an annual basis</p> <p>Grants are made in RSUs and SOs to deliver a balanced mix of ownership and incentives, as well as reward executives for sustainable performance, and generally vest after a three-year period</p> <p>RSUs are subject to pre-defined performance vesting requirements</p>
<p>Benefits and allowances</p> <p>These include those that may be required by regulations and / or in line with local market practices. They contribute to the value of total remuneration</p>	<p>The benefits programme and allowances are designed to ensure market competitiveness of the overall rewards and are fully compliant with local regulations</p>	<p>The Group Chief Executive and President and Key Management Personnel participate in retirement schemes and receive welfare related benefits, for example, medical and life insurance</p>
<p>Employee share purchase plan (ESPP)</p> <p>This provides employees with a share investment opportunity with matching offer to facilitate and encourage AIA share ownership</p>	<p>Except where prohibited by local regulations, ESPP is open to all employees who have completed probation and is subject to a maximum contribution indicated as a percentage of base salary or the plan’s maximum dollar limit</p>	<p>Participants receive matching shares for the Company’s shares they have purchased and held for three years, subject to an investment limit approved by the Remuneration Committee</p> <p>Matching shares vest after three years</p>

Further details on the operation of our short and long-term incentives, along with the ESPP, are provided on the following pages.

VARIABLE REMUNERATION

Variable remuneration opportunities are designed to motivate employees to deliver on key short-term and long-term objectives. Depending on business and individual performance results, such incentives may result in award levels above or below target, reflecting superior performance and performance below expectations, respectively.

AIA's short-term and long-term incentive plans are described below.

SHORT-TERM INCENTIVE PLAN

Short-term incentives help employees to focus on the accomplishment of key objectives set at the beginning of the year and are linked to financial, operational and individual performance over the relevant financial year.

2020 short-term incentive plan performance levels, including target and maximum opportunities, were determined by the Remuneration Committee and communicated to the Group Chief Executive and President and Key Management Personnel at the beginning of the financial year ended 31 December 2020.

Performance Measures and Awards

For 2020, the performance measures used in the short-term incentive plan were as follows:

VONB	60% WEIGHTING	Value of new business (VONB) is an estimate of the economic value of one year's sales as published by the Company
UFSG	15% WEIGHTING	Underlying Free Surplus Generation (UFSG) is the free surplus generated by the business excluding the free surplus invested in new business, investment return variances and other items
OPAT	25% WEIGHTING	Operating Profit after Tax (OPAT) is the IFRS operating profit after tax based on the IFRS results published by the Company

Consistent with prior years, an individual's performance contribution was also considered when determining the amounts to be paid to the Group Chief Executive and President and Key Management Personnel

The total value of short-term incentive awards that will be paid to Mr. Lee Yuan Siong (Group Chief Executive and President), Mr. Ng Keng Hooi (retired Group Chief Executive and President) and the Key Management Personnel for the year ended 31 December 2020 is US\$15,215,600.

The short-term incentive amounts for the year ended 31 December 2020 are included in note 41 to the financial statements as "Bonuses" for Mr. Lee Yuan Siong and Mr. Ng Keng Hooi, and as part of the "Salaries and other short-term employee benefits" for the Key Management Personnel.

LONG-TERM INCENTIVE PLAN

The purpose of AIA's long-term incentive plan is to retain key employees and align the behaviour and remuneration of the most senior individuals with the key interests of AIA and its stakeholders, taking into account the long-term nature of the business we operate.

Long-term incentives are reserved for the most senior positions in the Group that have significant impact on the sustainable financial results and the overall risk profile of the Group. Other individuals may be considered for long-term incentives, for example on the basis of market competitiveness due to their skills and areas of expertise.

Grants of long-term incentives are discretionary and are determined on an annual basis with reference to an individual's overall variable remuneration, total remuneration competitiveness, role and responsibilities, as well as performance and potential.

The grants under the long-term incentive plan are delivered in the form of performance-vesting RSUs and time-vesting SOs for a balanced mix of incentives and ownership. The grants generally vest after a three-year period and, in the case of the RSUs, performance goals are met. As applicable to other remuneration payments, long-term incentive vesting is subject to the Remuneration Committee's approval and our long-term incentive schemes are reviewed regularly to ensure their design, process, structure and governance work together to balance risk and incentives.

The 2010 RSU Scheme and the 2010 SO Scheme were both adopted by the Company on 28 September 2010, each with a term of 10 years from the date of adoption.

The 2020 RSU Scheme, under substantially the same terms as the 2010 RSU Scheme, was adopted by the Company on 1 August 2020 in place of the 2010 RSU Scheme. The 2020 RSU Scheme is effective for a period of 10 years from the date of adoption.

Due to the expiry of the 2010 SO Scheme in 2020, the Company sought and obtained the approval from its shareholders at the annual general meeting of the Company held on 29 May 2020 for the termination of the 2010 SO Scheme and the adoption of the 2020 SO Scheme, each as of 29 May 2020. The 2020 SO Scheme is also effective for a period of 10 years from the date of adoption.

Summaries of the 2010 RSU Scheme, 2020 RSU Scheme (together, RSU Schemes), 2010 SO Scheme and 2020 SO Scheme (together, SO Schemes) are provided later in this section and in note 40 to the financial statements.

RESTRICTED SHARE UNIT SCHEMES

The objective of the RSU Schemes is to align the interests of scheme participants with those of the Company's shareholders and reward the creation of sustainable value through the grant of the Company's shares to participants when rigorous performance conditions have been achieved.

Under the RSU Schemes, the Company may grant RSUs to employees, directors (excluding independent non-executive directors) and officers of the Company or any of its subsidiaries. However, despite remaining in full force and effect to the extent necessary to give effect to the vesting of any RSUs granted prior to its termination, no further grants will be made under the 2010 RSU Scheme.

During the year ended 31 December 2020, the Company granted 13,451,940 RSUs under the 2010 RSU Scheme. Since the adoption of the 2010 RSU Scheme on 28 September 2010 and up to 31 December 2020, a cumulative total of 99,780,673 RSUs have vested under the 2010 RSU Scheme, representing approximately 0.828 per cent of the shares in issue as at the Company's listing date. No new shares have been issued under the 2010 RSU Scheme since its adoption.

No grants have been made under the 2020 RSU Scheme since its adoption and up to 31 December 2020.

RSUs Granted in 2020

Consistent with prior years, the vesting of the performance-vesting RSUs granted in 2020 will be contingent on service requirements and the extent of achievement of three-year performance targets for the following three performance measures:

VONB	1/3 WEIGHTING	VONB is an estimate of the economic value of one year's sales as published by the Company
EV EQUITY	1/3 WEIGHTING	Equity Attributable to Shareholders of the Company on the Embedded Value Basis (EV Equity) is the total of embedded value, goodwill and other intangible assets as published by the Company. Embedded value is an estimate of the economic value of in-force life insurance business, including the net worth on the Group's balance sheet but excluding any economic value attributable to future new business
TSR	1/3 WEIGHTING	Relative Total Shareholder Return (TSR) is the compound annual return from the ownership of a share over a period of time measured by calculating the change in the share price and the gross value of dividends received (and reinvested) during that period. AIA's TSR is compared with the TSR of the peer companies* over the performance period

* TSR peer companies for the performance-vesting RSUs granted in 2020 include 19 life and health or multi-line insurance companies identified within the Dow Jones Insurance Titans 30 index (DJTINN) at the start of the performance period.

The performance-vesting RSUs are tested against pre-defined performance targets at the end of a three-year performance period. Achievement of each performance measure will independently determine the vesting of one-third of the grant.

- Threshold performance levels (for TSR, the 25th percentile of peer companies' performance) are required for any RSUs to vest.
- At target performance levels (for TSR, the median of peer companies' performance), 50 per cent of the RSUs will vest.
- At maximum performance levels (for TSR, the 75th percentile or above of peer companies' performance), the full allocation of RSUs will vest.

The performance measures determining the vesting of the 2020 RSU grants will be assessed over a three-year period from 1 January 2020 to 31 December 2022.

RSUs Vested in 2020

The performance-vesting RSUs granted in 2017 vested on 13 March 2020. After assessing the performance of the Company against the pre-determined performance targets for the VONB, EV Equity and relative TSR measures (with each measure having an equal weighting) over the three-year period from 1 December 2016 to 30 November 2019, the Remuneration Committee approved the vesting of the 2017 performance-vesting RSU grants at 185.28 per cent of target.

RSUs to be Granted and to Vest in 2021

The Remuneration Committee will grant performance-vesting RSUs to selected participants after the Company's year-end financial results announcement. Details of the grant will be disclosed in the Company's Annual Report 2021.

Consistent with prior years, VONB, EV Equity and relative TSR targets will continue to be used to assess the performance outcomes of the RSU grants that will be granted in 2021. The three performance measures will continue to be equally weighted and will be assessed over a three-year period starting 1 January 2021.

Similar to the 2020 performance-vesting RSUs, for relative TSR assessment only those DJTINN companies that are considered life and health or multi-line insurance companies will be considered peers (19 companies).

CORPORATE GOVERNANCE REMUNERATION REPORT

The Remuneration Committee recognised the extraordinary contributions many AIA employees exhibited during the unprecedented and challenging year, and the positive impact these efforts had on the Company's operations in 2020. To recognise and reward those contributions, selected individuals will be granted in early 2021 an ex-gratia award in the form of time-vesting RSUs. Such ex-gratia award will not be provided to the Group Chief Executive and President. Details of the grant will be disclosed in the Company's Annual Report 2021.

The performance-vesting RSUs granted in 2018 will vest in March 2021 after the Company's year-end financial results announcement. The final vesting results will be disclosed in the Company's Annual Report 2021.

RSU Movements During the Year Ended 31 December 2020

The table below summarises the movements in RSUs under the 2010 RSU Scheme during the year ended 31 December 2020.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) ⁽³⁾	Date of Vesting (day / month / year) ⁽⁴⁾	RSUs outstanding as at 1 January 2020	RSUs granted during the year ended 31 December 2020	RSUs vested during the year ended 31 December 2020	RSUs cancelled / lapsed / reclassified during the year ended 31 December 2020 ⁽⁹⁾	RSUs outstanding as at 31 December 2020 ⁽¹⁰⁾
Group Chief Executive and President Mr. Lee Yuan Siong	13/3/2020	21/2/2025 ⁽⁵⁾	–	206,470	–	–	206,470
	13/3/2020	See note ⁽⁶⁾	–	1,893,366	(315,561)	–	1,577,805
	25/3/2020	25/3/2023 ⁽⁷⁾	–	420,426	–	–	420,426
Retired Group Chief Executive and President ⁽¹⁾ Mr. Ng Keng Hooi	10/3/2017	10/3/2020 ⁽⁷⁾	267,659	–	(247,960)	(19,699)	–
	31/7/2017	1/6/2020 ⁽⁷⁾	213,164	–	(197,476)	(15,688)	–
	15/3/2018	15/3/2021 ⁽⁷⁾	439,258	–	–	(439,258)	–
	27/3/2019	27/3/2022 ⁽⁷⁾	403,768	–	–	(403,768)	–
	25/3/2020	25/3/2023 ⁽⁷⁾	–	477,758	–	(477,758)	–
Key Management Personnel (excluding the current and retired Group Chief Executive and President)	10/3/2017	10/3/2020 ⁽⁷⁾	1,156,660	–	(1,071,535)	(85,125)	–
	31/7/2017	1/6/2020 ⁽⁷⁾	311,947	–	(217,637)	(94,310)	–
	15/3/2018	15/3/2021 ⁽⁷⁾	1,090,256	–	–	(109,816)	980,440
	12/9/2018	12/9/2021 ⁽⁷⁾	61,010	–	–	(61,010)	–
	27/3/2019	27/3/2022 ⁽⁷⁾	970,244	–	–	(137,650)	832,594
	15/5/2019	1/5/2022 ⁽⁷⁾	27,182	–	–	–	27,182
	30/12/2019	30/12/2022 ⁽⁸⁾	445,308	–	–	–	445,308
25/3/2020	25/3/2023 ⁽⁷⁾	–	963,062	–	–	963,062	
Other eligible employees and participants ⁽²⁾	10/3/2017	10/3/2020 ⁽⁷⁾	10,232,397	–	(9,387,319)	(845,078)	–
	31/7/2017	1/6/2020 ⁽⁷⁾	28,519	–	(26,421)	(2,098)	–
	15/3/2018	15/3/2021 ⁽⁷⁾	8,626,971	–	(66,531)	(117,251)	8,443,189
	29/6/2018	15/3/2021 ⁽⁷⁾	108,956	–	–	–	108,956
	27/3/2019	27/3/2022 ⁽⁷⁾	8,334,202	–	(27,453)	(175,330)	8,131,419
	15/5/2019	1/5/2022 ⁽⁷⁾	16,480	–	–	–	16,480
	25/3/2020	25/3/2023 ⁽⁷⁾	–	9,459,716	(4,566)	147,444	9,602,594
	10/6/2020	10/6/2023 ⁽⁷⁾	–	31,142	–	–	31,142

Notes:

- (1) Effective 31 May 2020, Mr. Ng Keng Hooi retired as Group Chief Executive and President and from the Board. Mr. Ng's RSUs outstanding as at 1 June 2020 were reclassified from "Retired Group Chief Executive and President" to "Other eligible employees and participants".
- (2) Includes the RSUs outstanding as at 1 January 2020 of the retired Group Chief Executive and President, Mr. Mark Edward Tucker.
- (3) The measurement dates (i.e. the dates used to determine the value of the grants for accounting purposes) for grants made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement dates for grants made during the thirteen months ended 31 December 2018 were determined to be 15 March 2018, 29 June 2018 and 12 September 2018. The measurement dates for grants made during the financial year ended 31 December 2019 were determined to be 27 March 2019, 15 May 2019 and 30 December 2019. The measurement dates for grants made during the year ended 31 December 2020 were determined to be 13 March 2020, 25 March 2020 and 10 June 2020. These measurement dates were determined in accordance with IFRS 2.
- (4) The date of vesting is subject to applicable dealing restrictions.

- (5) Reference is made to the Company's announcement on 22 November 2019. The vesting of these RSUs is service-based only (i.e. there are no further performance conditions attached except for continued employment). Subject to continued employment, all RSUs will vest on 21 February 2025.
- (6) Reference is made to the Company's announcement on 22 November 2019. The vesting of these RSUs is service-based only (i.e. there are no further performance conditions attached except for continued employment). Subject to continued employment, the RSUs will vest in six equal tranches (i.e., 315,561 units each). The first tranche vested on 13 September 2020 and the remaining tranches are scheduled to vest on 21 February 2021, 21 February 2022, 21 February 2023, 21 February 2024 and 21 February 2025.
- (7) The vesting of these RSUs is subject to service requirements and the achievement of performance measures shown on page 117 of this Annual Report.
- (8) The vesting of these RSUs is service-based only (i.e. there are no further performance conditions attached except for continued employment). Subject to continued employment, all RSUs will vest on 30 December 2022.
- (9) These RSUs lapsed or were reclassified during the year ended 31 December 2020. The reclassification of RSUs was a result of the retirement of Mr. Ng Keng Hooi as Group Chief Executive and President during that period. There were no RSUs cancelled during the year ended 31 December 2020.
- (10) Includes RSUs outstanding as at 31 December 2020 that, in accordance with the 2010 RSU Scheme rules, will lapse on or before the respective vesting date.

SHARE OPTION SCHEMES

The objective of the SO Schemes is to align the interests of scheme participants with those of the Company's shareholders by allowing participants to share in the long-term, sustainable value created for our shareholders.

Under the 2020 SO Scheme, the Company may grant SOs to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. The 2010 SO Scheme remains in full force and effect for SOs granted prior to its termination, however, no further grants can be made under the 2010 SO Scheme. The exercise of all SOs granted under the 2010 SO Scheme will be subject to and in accordance with the terms pursuant to which they were granted and the Listing Rules.

No amount is payable by participants on the acceptance of an SO. Each SO entitles the eligible participant to subscribe for one ordinary share of the Company. Benefits are realised only to the extent that the share price exceeds the exercise price when exercised. The prescribed formula for determining the exercise price of SOs is the higher of (i) the closing price of the shares on the date of grant and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant.

According to the rules of the SO Schemes, the minimum holding period of an SO is six months from date of acceptance, and an SO shall have a maximum life of 10 years from grant before expiry. Generally, SOs granted by the Company become exercisable three years after the date of grant and remain exercisable for another seven years, subject to the participants' continued employment in good standing or retirement.

During the year ended 31 December 2020, the Company granted 5,856,668 SOs under the 2010 SO Scheme to the Group Chief Executive and President and certain employees and officers of the Company and a number of its subsidiaries. No SOs were granted under the 2020 SO Scheme.

The aggregate number of shares that may be issued upon exercise of all SOs granted by the Company (excluding SOs that have lapsed) pursuant to all SO schemes of the Company (i.e., the 2010 and 2020 SO Schemes) must not exceed 2.5 per cent of the number of shares in issue on 29 May 2020, the adoption date of the 2020 SO Scheme. Since the adoption of the 2020 SO Scheme and up to 31 December 2020, a cumulative total of 4,340,018 new shares were issued under the 2010 SO Scheme, representing approximately 0.036 per cent of the shares in issue as at the 2020 SO Scheme adoption date. No grants have been made under the 2020 SO Scheme since its adoption and up to 31 December 2020.

The total number of shares available for issue for all outstanding share options and share options that can be granted under the SO Schemes in future is 297,919,960 shares, representing approximately 2.46 per cent of the number of shares in issue as at the date of this report.

Unless shareholders' approval is obtained in accordance with the relevant procedural requirements under the Listing Rules, the maximum number of shares under option that may be granted to any participant in any 12-month period up to and including a proposed date of grant is 0.25 per cent (0.1 per cent for a substantial shareholder of the Company) of the number of shares in issue as of the proposed date of grant. No SOs have been granted to substantial shareholders or in excess of the individual limit pursuant to the SO Schemes since their adoption.

CORPORATE GOVERNANCE REMUNERATION REPORT

SOs Granted in 2020

The SOs granted in 2020 pursuant to the 2010 SO Scheme will vest in 2023, assuming all service requirements are met. Details of the valuation of the SOs are set out in note 40 to the financial statements.

SOs Vested in 2020

The SOs granted in 2017 in accordance with the 2010 SO Scheme rules (excluding any of such SOs that have lapsed in the intervening period) vested on 10 March 2020 and became exercisable on 13 March 2020, being the first trading date after the Hong Kong regulatory blackout period.

SOs to be Granted and to Vest in 2021

The Remuneration Committee will grant SOs to selected participants in March 2021 after the Company's year-end financial results announcement. Details of these grants will be disclosed in the Company's Annual Report 2021.

The SOs granted in 2018 will vest in March 2021 after the Company's year-end financial results announcement.

SO Movements During the Year Ended 31 December 2020

The table below summarises the movements in SOs under the 2010 SO Scheme during the year ended 31 December 2020.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) ⁽³⁾	Period during which SOs are exercisable (day / month / year)	SOs outstanding as at 1 January 2020	SOs granted during the year ended 31 December 2020	SOs vested during the year ended 31 December 2020	SOs cancelled / lapsed / reclassified during the year ended 31 December 2020 ⁽¹⁵⁾	SOs exercised during the year ended 31 December 2020	Exercise price (HK\$)	SOs outstanding as at 31 December 2020 ⁽¹⁹⁾	Weighted average closing price of shares immediately before the dates on which SOs were exercised (HK\$)
Group Chief Executive and President Mr. Lee Yuan Siong	25/3/2020	25/3/2023 - 24/3/2030 ⁽⁴⁾	–	1,197,133	–	–	–	68.10	1,197,133	n/a
Retired Group Chief Executive and President ⁽¹⁾ Mr. Ng Keng Hooi	5/3/2014 12/3/2015 9/3/2016 10/3/2017 31/7/2017 15/3/2018 27/3/2019 25/3/2020	5/3/2017 - 4/3/2024 ⁽⁵⁾ 12/3/2018 - 11/3/2025 ⁽⁶⁾ 9/3/2019 - 8/3/2026 ⁽⁷⁾ 10/3/2020 - 9/3/2027 ⁽⁸⁾ 1/6/2020 - 30/7/2027 ⁽⁹⁾ 15/3/2021 - 14/3/2028 ⁽¹⁰⁾ 27/3/2022 - 26/3/2029 ⁽¹¹⁾ 25/3/2023 - 24/3/2030 ⁽⁴⁾	602,486 541,692 851,026 732,574 476,786 1,105,066 1,115,158 –	– – – – – – – 1,360,379	– – – 732,574 476,786 – – –	(602,486) (541,692) (851,026) (732,574) (476,786) (1,105,066) (1,115,158) (1,360,379)	– – – – – – – –	37.56 47.73 41.90 50.30 61.55 67.15 76.38 68.10	– – – – – – – –	n/a n/a n/a n/a n/a n/a n/a n/a
Key Management Personnel (excluding the current and retired Group Chief Executive and President)	1/6/2011 15/3/2012 11/3/2013 5/3/2014 12/3/2015 9/3/2016 10/3/2017 31/7/2017 15/3/2018 12/9/2018 27/3/2019 15/5/2019 25/3/2020	1/4/2014 - 31/5/2021 ⁽¹²⁾ 15/3/2015 - 14/3/2022 ⁽¹³⁾ 11/3/2016 - 10/3/2023 ⁽¹⁴⁾ 5/3/2017 - 4/3/2024 ⁽⁵⁾ 12/3/2018 - 11/3/2025 ⁽⁶⁾ 9/3/2019 - 8/3/2026 ⁽⁷⁾ 10/3/2020 - 9/3/2027 ⁽⁸⁾ 1/6/2020 - 30/7/2027 ⁽⁹⁾ 15/3/2021 - 14/3/2028 ⁽¹⁰⁾ 12/9/2021 - 11/9/2028 ⁽¹⁵⁾ 27/3/2022 - 26/3/2029 ⁽¹¹⁾ 1/5/2022 - 14/5/2029 ⁽¹⁶⁾ 25/3/2023 - 24/3/2030 ⁽⁴⁾	100,000 544,337 593,011 527,584 473,259 1,413,600 2,430,952 697,732 2,627,326 161,951 2,575,511 72,856 –	– – – – – – – – – – – – 2,742,235	– – – – – – 2,430,952 525,460 – – – – –	– – – – – – – (172,272) (276,267) (161,951) (380,169) – –	– – – – – – – (171,810) – – – – –	27.35 28.40 34.35 37.56 47.73 41.90 50.30 61.55 67.15 63.64 76.38 78.70 68.10	– – 76,937 527,584 473,259 1,413,600 1,499,764 353,650 2,351,059 – 2,195,342 72,856 2,742,235	71.60 75.04 88.24 n/a n/a n/a 74.84 74.84 n/a n/a n/a n/a n/a
Other eligible employees and participants ⁽²⁾	1/6/2011 1/6/2011 15/3/2012 11/3/2013 5/3/2014 12/3/2015 9/3/2016 10/3/2017 31/7/2017 15/3/2018 27/3/2019 15/5/2019 25/3/2020	1/4/2014 - 31/5/2021 ⁽¹²⁾ 1/4/2014 - 31/5/2021 ⁽¹⁷⁾ 15/3/2015 - 14/3/2022 ⁽¹³⁾ 11/3/2016 - 10/3/2023 ⁽¹⁴⁾ 5/3/2017 - 4/3/2024 ⁽⁵⁾ 12/3/2018 - 11/3/2025 ⁽⁶⁾ 9/3/2019 - 8/3/2026 ⁽⁷⁾ 10/3/2020 - 9/3/2027 ⁽⁸⁾ 1/6/2020 - 30/7/2027 ⁽⁹⁾ 15/3/2021 - 14/3/2028 ⁽¹⁰⁾ 27/3/2022 - 26/3/2029 ⁽¹¹⁾ 1/5/2022 - 14/5/2029 ⁽¹⁶⁾ 25/3/2023 - 24/3/2030 ⁽⁴⁾	592,790 324,277 574,170 438,536 558,745 501,480 482,643 1,707,433 – 489,354 476,342 9,365 –	– – – – – – – – – – – – 556,921	– – – – – – – 1,707,433 – – – – –	– – – – 602,486 541,692 851,026 732,574 476,786 1,061,957 1,074,941 – 1,360,379	– – – – (880,279) (16,819) (922,083) (330,577) – – – – –	27.35 27.35 28.40 34.35 37.56 47.73 41.90 50.30 61.55 67.15 76.38 78.70 68.10	235,861 217,457 574,170 438,536 280,952 1,026,353 411,586 2,109,430 476,786 1,551,311 1,551,283 9,365 1,917,300	81.78 85.14 n/a n/a 77.50 86.65 78.04 84.00 n/a n/a n/a n/a n/a

Notes:

- (1) Effective 31 May 2020, Mr. Ng Keng Hooi retired as Group Chief Executive and President and from the Board. Mr. Ng's SOs outstanding as at 1 June 2020 were reclassified from "Retired Group Chief Executive and President" to "Other eligible employees and participants".
- (2) Includes the SOs outstanding as at 1 January 2020 of the retired Group Chief Executive and President, Mr. Mark Edward Tucker.
- (3) The measurement date (i.e. the date used to determine the value of the grants for accounting purposes) for grants made during the year ended 30 November 2011 was determined to be 15 June 2011. The measurement date for grants made during the year ended 30 November 2012 was determined to be 15 March 2012. The measurement date for grants made during the year ended 30 November 2013 was determined to be 11 March 2013. The measurement date for grants made during the year ended 30 November 2014 was determined to be 5 March 2014. The measurement date for grants made during the year ended 30 November 2015 was determined to be 12 March 2015. The measurement date for grants made during the year ended 30 November 2016 was determined to be 9 March 2016. The measurement dates for grants made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement dates for grants made during the thirteen months ended 31 December 2018 were determined to be 15 March 2018 and 12 September 2018. The measurement dates for grants made during the year ended 31 December 2019 were determined to be 27 March 2019 and 15 May 2019. The measurement date for grants made during the year ended 31 December 2020 was determined to be 25 March 2020. These measurement dates were determined in accordance with IFRS 2.
- (4) The closing price of the Company's shares immediately before the date on which SOs were granted was HK\$63.90. The vesting of SOs is service-based only. Subject to continued employment, all SOs will vest on 25 March 2023.
- (5) The vesting of SOs is service-based only. All SOs vested on 5 March 2017.
- (6) The vesting of SOs is service-based only. All SOs vested on 12 March 2018.
- (7) The vesting of SOs is service-based only. All SOs vested on 9 March 2019.
- (8) The vesting of SOs is service-based only. All SOs vested on 10 March 2020.
- (9) The vesting of SOs is service-based only. All SOs vested on 1 June 2020.
- (10) The vesting of SOs is service-based only. Subject to continued employment, all SOs will vest on 15 March 2021.
- (11) The vesting of SOs is service-based only. Subject to continued employment, all SOs will vest on 27 March 2022.
- (12) The vesting of SOs is service-based only. All SOs vested on 1 April 2014.
- (13) The vesting of SOs is service-based only. All SOs vested on 15 March 2015.
- (14) The vesting of SOs is service-based only. All SOs vested on 11 March 2016.
- (15) The vesting of SOs is service-based only. Subject to continued employment, all SOs will vest on 12 September 2021.
- (16) The vesting of SOs is service-based only. Subject to continued employment, all SOs will vest on 1 May 2022.
- (17) The vesting of SOs is service-based only. One-third of SOs vested on 1 April 2014, one-third vested on 1 April 2015, and one third vested on 1 April 2016.
- (18) These SOs lapsed or were reclassified during the year ended 31 December 2020. The reclassification of SOs was a result of the retirement of Mr. Ng Keng Hooi as Group Chief Executive and President during the period. There were no SOs cancelled during the year ended 31 December 2020.
- (19) Includes SOs outstanding as at 31 December 2020 that, in accordance with the 2010 SO Scheme rules, will lapse on or before the end of the respective periods during which the SOs are exercisable.

EMPLOYEE SHARE PURCHASE PLANS

The 2011 ESPP and the 2020 ESPP (together, ESPPs) are designed to facilitate and encourage long-term AIA share ownership by employees and to encourage employee retention.

The Company adopted the 2011 ESPP on 25 July 2011 for a term of 10 years from the date of adoption. In view of the pending expiry of the 2011 ESPP, the Company adopted the 2020 ESPP on 1 August 2020 in place of, and with substantially the same terms as, the 2011 ESPP. The 2020 ESPP is effective for a period of 10 years from the date of adoption.

Under the ESPPs, eligible employees of the Group may elect to purchase the Company's shares and, through the grant of matching restricted stock purchase units (RSPUs), receive one matching share for every two shares purchased and held until the end of the vesting period. In 2020, prior to the adoption of the new ESPP, each eligible employee's participation level was capped under the 2011 ESPP at a maximum purchase of the lower of 8 per cent of his or her base salary or HK\$9,750 (or local currency equivalent) per calendar month. Subsequent to the adoption of the 2020 ESPP, each eligible employee's participation level was capped at the lower of 10 per cent of his or her base salary or HK\$12,500 (or local currency equivalent) per calendar month.

Upon vesting of the matching RSPUs, i.e., three years from the first share purchase date in a plan year, those employees who are still in employment with the Group will receive one matching share for each RSPU granted to him or her. The matching shares can either be provided to recipients through the issuance by the Company of new shares or purchased on market by the trustee of the ESPP.

CORPORATE GOVERNANCE REMUNERATION REPORT

The aggregate number of shares which can be issued by the Company under the 2011 ESPP and 2020 ESPP during the respective 10-year periods shall not exceed 2.5 per cent of the number of shares in issue on 25 July 2011 (the 2011 ESPP adoption date) and on 29 May 2020 (the ESPP Reference Date as specified in the 2020 ESPP rules), respectively. No new shares have been issued under the 2011 ESPP nor the 2020 ESPP since their adoption.

During the year ended 31 December 2020, 1,274,789 matching RSPUs were granted, 1,101,823 matching RSPUs vested and no new shares were issued for the RSPUs, in each case pursuant to the 2011 ESPP. Since the 2011 ESPP adoption date and up to 31 December 2020, a cumulative total of 5,657,450 matching RSPUs vested under the 2011 ESPP, representing approximately 0.047 per cent of the shares in issue as at the 2011 ESPP adoption date. Since the 2020 ESPP adoption date and up to 31 December 2020, a cumulative total of 278,101 matching RSPUs were granted, 57 matching RSPUs vested and no new shares were issued for the RSPUs, in each case pursuant to the 2020 ESPP.

For further information on the ESPPs, please refer to note 40 to the financial statements.

DIRECTORS AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

EXECUTIVE DIRECTOR

Upon Mr. Ng Keng Hooi's retirement as Group Chief Executive and President and from the Board, each effective 31 May 2020, Mr. Lee Yuan Siong assumed the role effective 1 June 2020. Mr. Lee Yuan Siong and Mr. Ng Keng Hooi received remuneration exclusively for their role as Group Chief Executive and President for their respective appointment period and neither received separate fees for their respective roles as a Board Director or for acting as a director of any subsidiary companies.

The table below provides details of annualised target level of remuneration, excluding benefits and allowances, for Mr. Lee Yuan Siong and Mr. Ng Keng Hooi as the Group Chief Executive and President.

US\$ thousands	Annualised Target Pay Opportunity ⁽¹⁾		
	2020 Mr. Lee Yuan Siong	2020 Mr. Ng Keng Hooi	2019 Mr. Ng Keng Hooi
Base Salary ⁽²⁾	1,092	1,092	1,080
Target short-term incentive	1,980	1,980	1,980
Target long-term incentive	3,960	4,500	3,960
Total Annualised Target Pay Opportunity	7,032	7,572	7,020

Notes:

- (1) Upon Mr. Ng Keng Hooi's retirement as Group Chief Executive and President and from the Board effective 31 May 2020, Mr. Lee Yuan Siong assumed the role effective 1 June 2020. The target remuneration levels shown in the table above represent the annualised amount for each of them excluding benefits and allowances. Mr. Lee Yuan Siong and Mr. Ng Keng Hooi also each received an annualised housing allowance of HK\$3,000,000 for each of the years 2020 and 2019.
- (2) Mr. Lee Yuan Siong's base salary represents the annualised amount as of his date of appointment, and Mr. Ng Keng Hooi's base salary represents the annualised amount as of 1 March (being the annual review salary effective date) for each of the years 2020 and 2019. Base salaries are paid in Hong Kong Dollars and converted to U.S. dollars using exchange rates as of the end of each year.

Details of the actual remuneration costs incurred by the Company during the year ended 31 December 2020 in relation to the Group Chief Executive and President are included in note 41 to the financial statements.

NON-EXECUTIVE DIRECTORS

Remuneration for the Non-executive Directors was paid during the year ended 31 December 2020 and included fees for their services provided to the Board Committees. All remuneration of the Non-executive Directors was on a flat annual fee basis, with no variable component linked to either corporate or individual performance.

Details of the Non-executive Directors' remuneration cost incurred by the Company during the year ended 31 December 2020 are included in note 41 to the financial statements.

Board Chairman

As previously approved by the Board, the Board Chairman Basic Fees, inclusive of Board Membership fee, was US\$600,000 per annum for the year ended 31 December 2020.

Non-executive Directors

Board Membership fees for the Non-executive Directors were US\$168,000 per annum effective 1 January 2020, which is similar to market rates provided by our global insurance peers.

Additional annual fees for Committee Membership and Chair positions are also provided to the Non-executive Directors as follows:

	Chair	Member
Audit Committee	US\$55,000	US\$40,000
Nomination Committee	US\$25,000	US\$15,000
Remuneration Committee	US\$45,000	US\$30,000
Risk Committee	US\$45,000	US\$30,000

KEY MANAGEMENT PERSONNEL

The total remuneration cost charged to the consolidated income statement for the Key Management Personnel during year ended 31 December 2020 was US\$62,478,862.

Details of remuneration provided during the year ended 31 December 2020 are included in note 41 to the financial statements.

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羅兵咸永道

TO THE SHAREHOLDERS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of AIA Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 132 to 264, which comprise:

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

Our opinion

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

Basis for Opinion

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

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

Independence

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

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



Key Audit Matters

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

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

Key audit matter	How our audit addressed the key audit matter
a) Valuation of insurance contract liabilities	
Refer to the following notes in the consolidated financial statements: Note 2.4 for related accounting policies, Note 3 for critical accounting estimates and judgements, Note 27, Note 29 and Note 48 for the effect of adoption of revised accounting policies.	
As at 31 December 2020, the Group has insurance contract liabilities of US\$223,071 million.	We tested how management made the estimate and performed audit procedures including the following:
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.	<ul style="list-style-type: none">• 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.
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.	<ul style="list-style-type: none">• 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:<ul style="list-style-type: none">• 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;

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



Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>a) Valuation of insurance contract liabilities (continued)</p> <p>During the reporting period, the Group revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities (“revised accounting policy”) of a type of traditional participating life policies.</p> <p>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.</p> <p>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.</p> <p>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).</p>	<ul style="list-style-type: none">• Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.• Regarding the revised accounting for a type of traditional participating life policies, we discussed with management and evaluated the rationale for and appropriateness of the change in accounting policy. We also tested the key assumptions and methodology applied to calculate the restated balances and evaluated the associated disclosures.• We checked the calculation of the liability adequacy test and assessed the related results in order to ascertain whether the insurance contract liabilities used for the inforce business are adequate in the context of a valuation on current best estimate assumptions. <p>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.</p>

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



Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>b) Amortisation of DAC</p> <p>Refer to the following notes in the consolidated financial statements: Note 2.4.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements, Note 11 and Note 20.</p> <p>As at 31 December 2020, the Group has reported DAC of US\$27,915 million.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We tested how management made the estimate and performed audit procedures including the following:</p> <ul style="list-style-type: none">• 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. <p>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.</p>



Other Information

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

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

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

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

Other Matter

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

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

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

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

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



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 HKSA's 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 HKSA's, 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.



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

(continued)

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

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

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

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

12 March 2021

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

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

Notes:

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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



Lee Yuan Siang
Director



Edmund Sze-Wing Tse
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Notes	Other comprehensive income									Total equity
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	
		14,129	(220)	(11,887)	40,372	14,663	(698)	1,163	(14)	448	57,956
	48	–	–	–	550	(2,994)	–	(90)	(27)	–	(2,561)
		14,129	(220)	(11,887)	40,922	11,669	(698)	1,073	(41)	448	55,395
		–	–	–	5,779	–	–	–	–	–	5,779
		–	–	–	–	4,850	–	–	–	15	4,865
		–	–	–	–	(1,345)	–	–	–	–	(1,345)
		–	–	–	–	–	941	–	–	10	951
		–	–	–	–	–	–	–	6	–	6
		–	–	–	–	(4)	(10)	–	–	–	(14)
		–	–	–	–	–	–	(46)	–	–	(46)
		–	–	–	–	–	–	–	(8)	–	(8)
		–	–	–	5,779	3,501	931	(46)	(2)	25	10,188
	14	–	–	–	(1,997)	–	–	–	–	(5)	(2,002)
		26	–	–	–	–	–	–	–	–	26
		–	–	(3)	–	–	–	–	–	–	(3)
		–	–	80	–	–	–	–	–	–	80
		–	(16)	–	–	–	–	–	–	–	(16)
		–	81	(81)	–	–	–	–	–	–	–
		14,155	(155)	(11,891)	44,704	15,170	233	1,027	(43)	468	63,668

Notes:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Notes:

- (1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.
- (2) Gross of tax, policyholders' participation and other shadow accounting related movements, US\$14,173m relates to the fair value gains on available for sale financial assets and US\$611m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year ended 31 December 2019.
- (3) The balances at 1 January 2019 previously reported reflect an opening adjustment on adoption of IFRS 16, as previously disclosed in the consolidated financial statements in the Group's Annual Report 2019, which increased property revaluation reserve and total equity by US\$482m. This opening adjustment reduced by \$73m as a result of the retrospective adjustments for change in accounting policy described in note 48. Excluding the net IFRS 16 opening adjustment of US\$409m, total equity as at 1 January 2019 was US\$40,856m.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

Note:

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss (FVTPL) or in other comprehensive income (FVOCI) and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An option is also available at initial recognition to irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. In addition, a revised Expected Credit Loss (ECL) model replaces the incurred loss impairment model under IAS 39. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The IASB made further changes to two areas of IFRS 9. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at FVOCI if the cash flow represents solely payments of principal and interest and the financial assets are held within a business model of "hold to collect" or "hold to collect and sell". Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss. The Group is conducting a detailed assessment of the new standard.

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

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option (known as the "deferral approach") for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of IFRS 17 and financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before IFRS 17 is applied. On 25 June 2020, the IASB issued the amendments to IFRS 4 and IFRS 17, the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023, and that the exemption currently in place for some insurers, including the Group, regarding the application of IFRS 9 will be extended to enable the implementation of both IFRS 9 and IFRS 17 at the same time.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

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

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

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

US\$m	Fair value as at 31 December 2020			Change in fair value for the year ended 31 December 2020		
	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

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

Notes:

- (1) Balance of other financial assets qualifying as SPPI includes loans and deposits, other receivables, accrued investment income and cash and cash equivalents.
- (2) Balance predominantly represents equity securities, derivative financial instruments and cash equivalents.
- (3) Certain financial assets included within the consolidated financial statements, including policy loans under loans and deposits, reinsurance receivables and insurance receivables under other receivables amounting to US\$6,348m (2019: US\$5,561m) are not included above since they will be accounted for under IFRS 17 where its adoption is in parallel with IFRS 9.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of HKFRS 17, Insurance Contracts. On 25 June 2020, the IASB issued the amendments to IFRS 17 and the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. In October 2020, the HKICPA has finalised the endorsement of, and issued, equivalent Amendments to HKFRS 17. The Group is in the midst of conducting a detailed assessment of the new standard.

(e) Voluntary change in accounting policy

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

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

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

2.2 Operating profit

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

Subsidiaries

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

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

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

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

Investment funds

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

Employee share-based trusts

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

Non-controlling interests

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Associates and joint ventures

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

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

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

The Company's investments

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

2.4 Insurance and investment contracts

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

Product classification

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

Note:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

2.4.1 Insurance contracts and investment contracts with DPF

Premiums

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

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

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

Unearned revenue liability

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

Deferred profit liability

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

Deferred acquisition costs

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Deferred acquisition costs (continued)

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

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

Deferred sales inducements

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

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

Unbundling

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

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

Bifurcation

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

Benefits and claims

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

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

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

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

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

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

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

Liability adequacy testing

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

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

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

Financial guarantees

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 Investment contracts

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

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

Investment contract fee revenue

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

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

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

Deferred origination costs

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

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

Investment contract liabilities

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 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.

2.4.3 Insurance and investment contracts

Reinsurance

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

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

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

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

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

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

Value of business acquired (VOBA)

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.3 Insurance and investment contracts (continued)

Shadow accounting

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

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

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

Other assessments and levies

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

2.5 Financial instruments

2.5.1 Classification of and designation of financial instruments

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Available for sale financial assets

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

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

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

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

Realised gains and losses on financial assets

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

Recognition of financial instruments

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

Derecognition and offset of financial assets

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

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

Loans and receivables

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Term deposits

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

Cash and cash equivalents

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

2.5.2 Fair values of non-derivative financial instruments

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

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

2.5.3 Impairment of financial assets

General

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

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

Available for sale financial instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.3 Impairment of financial assets (continued)

Loans and receivables

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

2.5.4 Derivative financial instruments

Derivative financial instruments primarily include foreign exchange contracts and interest rate swaps that derive their value mainly from underlying foreign exchange rates and interest rates. All derivatives are initially recognised in the consolidated statement of financial position at their fair value, which represents their cost excluding transaction costs, which are expensed, giving rise to a day one loss. They are subsequently remeasured at their fair value, with movements in this value recognised in profit or loss. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative instruments for economic hedging

Whilst the Group enters into derivative transactions to provide economic hedges under the Group's risk management framework, it adopts hedge accounting to these transactions only in limited circumstances. This is either because the transactions would not meet the specific IFRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. Where hedge accounting does not apply, these transactions are treated as held for trading and fair value movements are recognised immediately in investment experience.

Cash flow hedge

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

Embedded derivatives

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.5 The Company's financial instruments

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.5 The Company's financial instruments (continued)

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

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

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

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

2.6 Segment reporting

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

2.7 Foreign currency translation

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

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

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

2.8 Property, plant and equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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

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

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

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

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

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

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

2.9 Investment property

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

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

2.10 Goodwill and other intangible assets

Goodwill

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Goodwill and other intangible assets (continued)

Other intangible assets

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

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

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

2.11 Impairment of non-financial assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Securities lending including repurchase agreements

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

Assets sold under repurchase agreements (repos)

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

Assets purchased under agreements to resell (reverse repos)

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

2.13 Collateral

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

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

2.14 Borrowings

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

2.15 Income taxes

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Income taxes (continued)

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

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

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

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

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

2.16 Revenue

Investment return

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

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

Other fee and commission income

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

Annual leave and long service leave

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

Post-retirement benefit obligations

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

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

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

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

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

Share-based compensation and cash incentive plans

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

The Group's share-based compensation plans are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

Share-based compensation and cash incentive plans (continued)

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

The Group estimates the fair value of share options using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the share option.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

2.18 Provisions and contingencies

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

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

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

2.19 Leases

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

Lease term

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

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

Subleases

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

2.20 Share capital

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

Share issue costs

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

Dividends

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

2.21 Presentation of the consolidated statement of financial position

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

2.22 Earnings per share

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Fiduciary activities

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

2.24 Consolidated statement of cash flows

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

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

2.25 Related party transactions

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1 Product classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract.

The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.4.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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

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

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Deferred acquisition and origination costs

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

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

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

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

3.4 Liability adequacy testing

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

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

3.5 Fair value measurement

3.5.1 Fair value of financial assets

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Fair value measurement (continued)

3.5.1 Fair value of financial assets (continued)

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

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

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

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

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

3.6 Impairment of goodwill and other intangible assets

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

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

4. EXCHANGE RATES

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

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

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

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

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

5. CHANGE IN GROUP COMPOSITION

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

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

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

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

US\$m

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

Note:

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

6. PREMIUMS AND FEE INCOME

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

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

7. OPERATING PROFIT AFTER TAX

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

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

Notes:

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

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

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

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

8. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

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

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

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

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

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

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

TWPI (continued) US\$m	Year ended 31 December 2020	Year ended 31 December 2019
Renewal premiums by geography		
Hong Kong	11,943	10,764
Thailand	3,833	3,636
Singapore	2,614	2,423
Malaysia	1,871	1,794
Mainland China	4,441	3,567
Other Markets	5,872	5,674
Total	30,574	27,858
ANP by geography		
ANP US\$m	Year ended 31 December 2020	Year ended 31 December 2019
Hong Kong	1,138	2,393
Thailand	661	729
Singapore	520	538
Malaysia	369	406
Mainland China	1,197	1,248
Other Markets	1,334	1,271
Total	5,219	6,585

9. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

9. SEGMENT INFORMATION (continued)

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

9. SEGMENT INFORMATION (continued)

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

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

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

Note:

(1) Include unit-linked contracts.

9. SEGMENT INFORMATION (continued)

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

9. SEGMENT INFORMATION (continued)

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

Total assets include:

Investments in associates and joint ventures	3	–	–	4	–	608	–	615
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Segment information may be reconciled to the consolidated income statement as shown below:

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

Note:

(1) Include unit-linked contracts.

10. REVENUE

Investment return

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

Note:

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

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

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

Other operating revenue

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

11. EXPENSES

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

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

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

Notes:

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

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

11. EXPENSES (continued)

Depreciation consists of:

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

Finance costs may be analysed as:

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

Employee benefit expenses consist of:

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

12. INCOME TAX

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

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

Corporate income tax

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

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

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

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

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

Withholding tax on dividends

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

12. INCOME TAX (continued)

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

Notes:

- (1) Life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.
- (2) Provisions for uncertain tax positions relate to situations where the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities. Provisions are recognised based on management's judgement and best estimate in relation to the probability or likelihood of different outcomes arising, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

12. INCOME TAX (continued)

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

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

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

Notes:

- (1) Life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long-term fund. This primarily relates to Singapore and Malaysia.
- (2) Of the fair value reserve deferred tax charge/(credit) of US\$96m for 2020 (2019: US\$1,216m), US\$194m (2019: US\$1,282m) relates to fair value gains on available for sale financial assets and US\$(98)m (2019: US\$(66)m) relates to fair value gains on available for sale financial assets transferred to income on disposal.
- (3) The amount of US\$118m represents a one-time adjustment in respect of the acquisition of CMLA.

12. INCOME TAX (continued)

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

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

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

13. EARNINGS PER SHARE

Basic

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

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

Diluted

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

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

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

Operating profit after tax per share

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

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

14. DIVIDENDS

Dividends to shareholders of the Company attributable to the year:

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

Note:

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

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

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

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

15. INTANGIBLE ASSETS

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

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

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

Impairment tests for goodwill

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

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

15. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

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

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

All associates and joint ventures are unlisted.

Aggregated financial information of associates and joint ventures

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

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

17. PROPERTY, PLANT AND EQUIPMENT

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

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

18. INVESTMENT PROPERTY

US\$m

Fair value

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

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

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

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

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

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

19. REINSURANCE ASSETS

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

Note:

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

20. DEFERRED ACQUISITION AND ORIGNATION COSTS

US\$m		As at 31 December 2020	As at 31 December 2019
Carrying amount			
Deferred acquisition costs on insurance contracts		27,549	25,915
Deferred origination costs on investment contracts		261	302
Value of business acquired		432	432
Less: Upfront reinsurance premium rebate		(327)	(321)
Total		27,915	26,328
		Year ended 31 December 2020	Year ended 31 December 2019
Movements in the year			
At beginning of financial year		26,328	24,626
Deferral and amortisation of acquisition and origination costs		1,220	2,242
Foreign exchange movements		559	403
Impact of assumption changes		(55)	(26)
Other movements		(137)	(917)
At end of financial year		27,915	26,328

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

21. FINANCIAL INVESTMENTS

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

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

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

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

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

21. FINANCIAL INVESTMENTS (continued)

Debt securities

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

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

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

Debt securities by type comprise the following:

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

Notes:

- (1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
- (2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2020, 99 per cent are rated as investment grades.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

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

Notes:

- (1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
- (3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (4) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (5) Debt securities of US\$9,188m are restricted due to local regulatory requirements.
- (6) AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9 amounted to US\$197,244m with 98 per cent are rated as investment grades.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

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

Notes:

- (1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
- (2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2019, 99 per cent are rated as investment grades.
- (3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

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

Notes:

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

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

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

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

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

21. FINANCIAL INVESTMENTS (continued)

Equity securities

Equity securities by type comprise the following:

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

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

Note:

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

Debt and equity securities

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

Note:

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

21. FINANCIAL INVESTMENTS (continued)

Interests in structured entities

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

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

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

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

Notes:

(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.

(2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

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

In addition, the Group receives management fees and trustee fees in respect of providing trustee, management and administrative services to certain retirement scheme funds and investment funds. These funds are not held and the associated investment risks are not borne by the Group, the Group does not have exposure to loss in these funds.

21. FINANCIAL INVESTMENTS (continued)

Loans and deposits

US\$m	As at 31 December 2020	As at 31 December 2019
Policy loans	3,547	3,246
Mortgage loans on residential real estate	590	606
Mortgage loans on commercial real estate	49	49
Other loans	760	776
Allowance for loan losses	(14)	(13)
Loans	4,932	4,664
Term deposits	2,683	3,696
Promissory notes ⁽¹⁾	1,720	1,726
Total	9,335	10,086

Note:

(1) The promissory notes are issued by a government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US\$2,057m (2019: US\$1,951m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 31 December 2020, the carrying value of such receivables is US\$271m (2019: US\$265m).

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative exposure was as follows:

US\$m	Notional amount	Fair value	
		Assets	Liabilities
31 December 2020			
Foreign exchange contracts			
Cross-currency swaps	8,172	313	(158)
Forwards	2,694	121	(17)
Foreign exchange futures	100	–	–
Total foreign exchange contracts	10,966	434	(175)
Interest rate contracts			
Interest rate swaps	8,510	561	(308)
Other			
Warrants and options	1,342	51	(45)
Forward contracts	10,658	18	(469)
Swaps	1,267	5	(6)
Netting	(100)	–	–
Total	32,643	1,069	(1,003)
31 December 2019			
Foreign exchange contracts			
Cross-currency swaps	8,338	396	(204)
Forwards	4,973	62	(24)
Foreign exchange futures	98	–	–
Currency options	3	–	–
Total foreign exchange contracts	13,412	458	(228)
Interest rate contracts			
Interest rate swaps	8,740	487	(161)
Other			
Warrants and options	147	3	–
Forward contracts	1,843	14	(17)
Swaps	1,333	9	(6)
Netting	(98)	–	–
Total	25,377	971	(412)

The column "notional amount" in the above table represents the pay leg of derivative transactions other than equity-index option. For certain equity-index call and put options with the same notional amount that are purchased to hedge the downside risk of the underlying equities by means of a collar strategy, the notional amount represents the exposure of the hedged equities.

Of the total derivatives, US\$25m (2019: US\$12m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to provide an economic hedge to financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

Foreign exchange contracts

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices and the timing of payments.

Interest rate swaps

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

Other derivatives

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Forward contracts are contractual obligations to buy or sell a financial instrument on a predetermined future date at a specified price. Swaps are OTC contractual agreements between the Group and a third party to exchange a series of cash flows based upon an index, rates or other variables applied to a notional amount.

Netting adjustment

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

Collateral under derivative transactions

At 31 December 2020, the Group had posted cash collateral of US\$86m (2019: US\$37m) and pledged debt securities with carrying value of US\$696m (2019: US\$266m) for liabilities and held cash collateral of US\$500m (2019: US\$581m), debt securities collateral with carrying value of US\$17m (2019: US\$7m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

23. FAIR VALUE MEASUREMENT

Fair value of financial instruments

The Group classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost, except for investment contracts with DPF which are accounted for under IFRS 4.

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

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
31 December 2020						
Financial investments	21					
Loans and deposits		–	–	9,335	9,335	9,333
Debt securities		36,775	165,106	–	201,881	201,881
Equity securities		59,182	–	–	59,182	59,182
Derivative financial instruments	22	1,069	–	–	1,069	1,069
Reinsurance receivables	19	–	–	671	671	671
Other receivables	24	–	–	3,053	3,053	3,053
Accrued investment income	24	–	–	1,822	1,822	1,822
Cash and cash equivalents	26	–	–	5,619	5,619	5,619
Financial assets		97,026	165,106	20,500	282,632	282,630
	Notes	Fair value through profit or loss		Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities	28	12,026		543	12,569	12,569
Borrowings	30	–		8,559	8,559	9,555
Obligations under repurchase agreements	31	–		1,664	1,664	1,664
Derivative financial instruments	22	1,003		–	1,003	1,003
Other liabilities	34	1,025		6,772	7,797	7,797
Financial liabilities		14,054		17,538	31,592	32,588

23. FAIR VALUE MEASUREMENT (continued)

Fair value of financial instruments (continued)

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
31 December 2019						
Financial investments	21					
Loans and deposits		–	–	10,086	10,086	10,086
Debt securities		33,132	138,852	–	171,984	171,984
Equity securities		50,322	–	–	50,322	50,322
Derivative financial instruments	22	971	–	–	971	971
Reinsurance receivables	19	–	–	683	683	683
Other receivables	24	–	–	2,983	2,983	2,983
Accrued investment income	24	–	–	1,710	1,710	1,710
Cash and cash equivalents	26	–	–	3,941	3,941	3,941
Financial assets		84,425	138,852	19,403	242,680	242,680
		Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities		28	11,391	515	11,906	11,906
Borrowings		30	–	5,757	5,757	6,169
Obligations under repurchase agreements		31	–	1,826	1,826	1,826
Derivative financial instruments		22	412	–	412	412
Other liabilities		34	1,116	8,301	9,417	9,417
Financial liabilities			12,919	16,399	29,318	29,730

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

Foreign currency exposure, including the net positions of foreign currency derivative, is shown in note 38 for the Group's key foreign exchange exposures.

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

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

23. FAIR VALUE MEASUREMENT (continued)

Fair value measurements on a recurring basis

The Group measures at fair value property held for own use, investment property, financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis.

The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

Fair value of properties is based on valuation by independent professional valuers.

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the year ended 31 December 2020.

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

Determination of fair value

Loans and receivables

For loans and advances that are repriced frequently and have not had any significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair values.

Debt securities and equity securities

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

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Derivative financial instruments

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

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

Property held for own use and investment property

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's properties at least on an annual basis. The valuation on an open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of certain other properties were derived using the Market Data Approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity. Certain other properties are valued using a combination of these two methods.

The properties held for own use and investment properties, in most cases, are valued on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. The current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the properties in use would be taken into account when they would maximise the fair value of the properties; the Group is occupying these properties for operational purposes.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

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

Fair value of securities sold under repurchase agreements and the associated payables

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

Other assets

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

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Investment contract liabilities

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

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 27. These are not measured at fair value.

Borrowings

The fair values of borrowings with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities or prices obtained from brokers.

Other liabilities

The fair values of other unquoted financial liabilities are estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those without stated maturity, where the carrying value approximates to fair value.

Fair value hierarchy for fair value measurement on a recurring basis

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three “levels” based on the observability of inputs available in the marketplace used to measure their fair values as discussed below:

- Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities. The Group considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.
- Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.
- Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

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

23. FAIR VALUE MEASUREMENT (continued)

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

A summary of assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
31 December 2020				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	1,025	1,025
Investment property	–	–	4,639	4,639
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	47,594	8	47,602
Other policyholder and shareholder	69	116,178	1,257	117,504
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	14	27,426	930	28,370
Unit-linked and consolidated investment funds	14	6,386	3	6,403
Other policyholder and shareholder	1	1,697	304	2,002
Equity securities				
Participating funds and other participating business with distinct portfolios	20,272	877	2,743	23,892
Unit-linked and consolidated investment funds	27,640	285	307	28,232
Other policyholder and shareholder	5,481	1,077	500	7,058
Derivative financial instruments				
Foreign exchange contracts	–	434	–	434
Interest rate contracts	–	561	–	561
Other contracts	13	61	–	74
Total assets on a recurring fair value measurement basis	53,504	202,576	11,716	267,796
<i>% of Total</i>	<i>20.0</i>	<i>75.6</i>	<i>4.4</i>	<i>100.0</i>
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
<i>% of Total</i>	<i>0.1</i>	<i>14.3</i>	<i>85.6</i>	<i>100.0</i>

23. FAIR VALUE MEASUREMENT (continued)

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

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
31 December 2019				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	1,019	1,019
Investment property	–	–	4,834	4,834
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	72	33,153	230	33,455
Other policyholder and shareholder	133	104,220	1,044	105,397
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	8	24,529	575	25,112
Unit-linked and consolidated investment funds	–	5,848	18	5,866
Other policyholder and shareholder	1	1,886	267	2,154
Equity securities				
Participating funds and other participating business with distinct portfolios	16,108	896	1,735	18,739
Unit-linked and consolidated investment funds	23,559	244	298	24,101
Other policyholder and shareholder	6,348	755	379	7,482
Derivative financial instruments				
Foreign exchange contracts	–	458	–	458
Interest rate contracts	–	487	–	487
Other contracts	14	12	–	26
Total assets on a recurring fair value measurement basis	46,243	172,488	10,399	229,130
<i>% of Total</i>	<i>20.2</i>	<i>75.3</i>	<i>4.5</i>	<i>100.0</i>
Financial liabilities				
Investment contract liabilities				
	–	–	11,391	11,391
Derivative financial instruments				
Foreign exchange contracts	–	228	–	228
Interest rate contracts	–	161	–	161
Other contracts	12	11	–	23
Other liabilities				
	–	1,116	–	1,116
Total liabilities on a recurring fair value measurement basis	12	1,516	11,391	12,919
<i>% of Total</i>	<i>0.1</i>	<i>11.7</i>	<i>88.2</i>	<i>100.0</i>

23. FAIR VALUE MEASUREMENT (continued)

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

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 31 December 2020, the Group transferred US\$127m (2019: US\$379m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$9m of assets (2019: US\$36m) from Level 2 to Level 1 during the year ended 31 December 2020.

The Group's Level 2 financial instruments include debt securities, equity securities, derivative instruments and other liabilities. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from private pricing services and brokers are not available, internal valuation techniques and inputs will be used to derive the fair value for the financial instruments.

The tables below set out a summary of changes in the Group's Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended 31 December 2020 and 2019. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 31 December 2020 and 2019.

Level 3 assets and liabilities

US\$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/(liabilities)	Investment contracts
At 1 January 2020	1,019	4,834	2,134	2,412	–	(11,391)
Net movement on investment contract liabilities	–	–	–	–	–	(635)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(15)	(292)	(26)	75	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	3	69	99	80	–	–
Purchases	18	29	798	1,141	–	–
Sales	–	(1)	(313)	(258)	–	–
Settlements	–	–	(233)	–	–	–
Transfer into Level 3	–	–	43	100	–	–
At 31 December 2020	1,025	4,639	2,502	3,550	–	(12,026)
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	(15)	(292)	(26)	(5)	–	–

23. FAIR VALUE MEASUREMENT (continued)

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

Level 3 assets and liabilities (continued)

US\$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/(liabilities)	Investment contracts
At 1 January 2019	982	4,794	1,850	1,333	–	(6,907)
Net movement on investment contract liabilities	–	–	–	–	–	(480)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(26)	103	(10)	(35)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	44	60	(6)	24	–	–
Acquisition of subsidiaries	–	–	247	448	–	(4,004)
Transfer from investment property	9	(9)	–	–	–	–
Purchases	10	9	559	706	–	–
Sales	–	(120)	(19)	(31)	–	–
Settlements	–	–	(487)	–	–	–
Transfer out of Level 3	–	(3)	–	(33)	–	–
At 31 December 2019	1,019	4,834	2,134	2,412	–	(11,391)
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	(26)	103	(3)	19	–	–

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 28.

Assets transferred out of Level 3 mainly relate to equity securities of which market-observable inputs became available during the year and were used in determining the fair value.

There are not any differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

23. FAIR VALUE MEASUREMENT (continued)

Significant unobservable inputs for level 3 fair value measurements

As at 31 December 2020 and 2019, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 31 December 2020 (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	997	Discounted cash flows	Risk adjusted discount rate	3.40% – 10.40%

Description	Fair value at 31 December 2019 (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	817	Discounted cash flows	Risk adjusted discount rate	3.69% – 14.14%

Fair value of the Group's properties are determined based on appropriate valuation techniques which may consider among others income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable.

Valuation processes

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses private pricing providers and, only in rare cases when third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment team analyses reported price exceptions and reviews price challenge responses from private pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Valuations Advisory Committee which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the debt securities and investment contracts. The unobservable inputs for determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

23. FAIR VALUE MEASUREMENT (continued)**Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date**

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2020 and 2019 is given below.

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
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
31 December 2019				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	2,959	2,769	4,358	10,086
Reinsurance receivables	–	683	–	683
Other receivables	55	2,855	73	2,983
Accrued investment income	36	1,674	–	1,710
Cash and cash equivalents	3,941	–	–	3,941
Total assets for which the fair value is disclosed	6,991	7,981	4,431	19,403
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	–	–	515	515
Borrowings	5,350	819	–	6,169
Obligations under repurchase agreements	–	1,826	–	1,826
Other liabilities	354	7,888	59	8,301
Total liabilities for which the fair value is disclosed	5,704	10,533	574	16,811

24. OTHER ASSETS

US\$m	As at 31 December 2020	As at 31 December 2019
Accrued investment income	1,822	1,710
Pension scheme assets		
Defined benefit pension scheme surpluses	46	44
Insurance receivables due from insurance and investment contract holders	1,983	1,459
Others ⁽¹⁾	1,982	2,392
Total	5,833	5,605

Note:

(1) Represents, among others, prepayments and investment-related receivables.

All amounts other than certain prepayments are generally expected to be recovered within 12 months after the end of the reporting period.

25. IMPAIRMENT OF FINANCIAL ASSETS

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

Available for sale debt securities

During the year ended 31 December 2020, no impairment loss (2019: nil) was recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2020 was nil (2019: nil).

Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 21 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 31 December 2020 was US\$15m (2019: US\$14m). The Group has a portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short-term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within one year and cover is cancelled if consideration is not received.

26. CASH AND CASH EQUIVALENTS

US\$m	As at 31 December 2020	As at 31 December 2019
Cash	2,877	3,158
Cash equivalents	2,742	783
Total⁽¹⁾	5,619	3,941

Note:

(1) Of cash and cash equivalents, US\$1,111m (2019: US\$703m) are held to back unit-linked contracts and US\$108m (2019: US\$49m) are held by consolidated investment funds.

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments with maturities at acquisition of three months or less and money market funds that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Accordingly, all such amounts are expected to be realised within 12 months after the end of the reporting period.

27. INSURANCE CONTRACT LIABILITIES

The movements of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) and ceded insurance contract liabilities (see note 19) are shown as follows:

US\$m	Note	Gross	Reinsurance	Net
At 1 January 2019 – As previously reported		164,764	(2,323)	162,441
Effect of change in accounting policy	48	(1,381)	–	(1,381)
At 1 January 2019 – As adjusted		163,383	(2,323)	161,060
Valuation premiums and deposits		33,822	(1,804)	32,018
Liabilities released for policy termination or other policy benefits paid and related expenses		(22,063)	1,269	(20,794)
Fees from account balances		(2,401)	–	(2,401)
Accretion of interest		5,542	(20)	5,522
Change in net asset values attributable to policyholders		9,996	–	9,996
Acquisition of subsidiaries		2,807	(285)	2,522
Foreign exchange movements		2,207	13	2,220
Other movements		(1,112)	–	(1,112)
At 31 December 2019 – As adjusted		192,181	(3,150)	189,031
Valuation premiums and deposits		35,438	(2,128)	33,310
Liabilities released for policy termination or other policy benefits paid and related expenses		(23,038)	1,720	(21,318)
Fees from account balances		(2,427)	–	(2,427)
Accretion of interest		6,056	(33)	6,023
Change in net asset values attributable to policyholders		11,491	–	11,491
Foreign exchange movements		3,657	(298)	3,359
Other movements		(287)	–	(287)
At 31 December 2020		223,071	(3,889)	219,182

27. INSURANCE CONTRACT LIABILITIES (continued)

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can also be analysed as follows:

US\$m	As at 31 December 2020	As at 31 December 2019 (As adjusted)
Deferred profit	24,972	20,500
Unearned revenue	1,751	2,091
Policyholders' share of participating surplus	31,151	21,870
Liabilities for future policyholder benefits	165,197	147,720
Total	223,071	192,181

27. INSURANCE CONTRACT LIABILITIES (continued)

Business description

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life	<p>Participating funds and other participating business with distinct portfolios</p> <p>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</p> <p>For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends</p> <p>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</p>	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> Investment performance Expenses Mortality Surrenders Morbidity 	Hong Kong, Singapore, Mainland China, Malaysia
	Other participating business without distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.

Type of contract	Market and credit risks				
	Direct exposure		Indirect exposure	Significant insurance and lapse risks	
	Insurance and investment contract liabilities	Risks associated with related investment portfolio			
Traditional participating life	Participating funds and other participating business with distinct portfolios	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Investment performance subject to smoothing through dividend declarations 	<ul style="list-style-type: none"> • Impact of persistency on future dividends • Mortality • Morbidity
	Other participating business without distinct portfolios	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Investment performance subject to smoothing through dividend declarations 	<ul style="list-style-type: none"> • Impact of persistency on future dividends • Mortality • Morbidity
Traditional non-participating life		<ul style="list-style-type: none"> • Guarantees • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Investment performance • Asset-liability mismatch risk • Credit risk 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Mortality • Persistency • Morbidity
Accident and health		<ul style="list-style-type: none"> • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Investment performance • Credit risk • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Morbidity • Persistency
Pension		<ul style="list-style-type: none"> • Net neutral • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Net neutral • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Performance-related investment management fees 	<ul style="list-style-type: none"> • Persistency
Unit-linked		<ul style="list-style-type: none"> • Net neutral 	<ul style="list-style-type: none"> • Net neutral 	<ul style="list-style-type: none"> • Performance-related investment management fees 	<ul style="list-style-type: none"> • Persistency • Mortality
Universal life		<ul style="list-style-type: none"> • Guarantees • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Investment performance • Credit risk • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Spread between earned rate and crediting rate to policyholders 	<ul style="list-style-type: none"> • Mortality • Persistency • Withdrawals

The Group is also exposed to foreign exchange rate risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

27. INSURANCE CONTRACT LIABILITIES (continued)**Methodology and assumptions** (continued)**Valuation interest rates**

As at 31 December 2020 and 2019, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by operating segment, year of issuance and products, within the first 20 years are as follows:

	As at 31 December 2020	As at 31 December 2019
Hong Kong	3.00% – 7.50%	3.50% – 7.50%
Thailand	2.49% – 9.00%	3.13% – 9.00%
Singapore	2.00% – 7.00%	2.00% – 7.00%
Malaysia	3.00% – 5.43%	3.70% – 5.43%
Mainland China	2.75% – 7.00%	2.75% – 7.00%
Australia	0.01% – 7.11%	0.51% – 7.11%
Indonesia	3.02% – 8.61%	3.02% – 8.61%
Philippines	2.20% – 9.20%	2.20% – 9.20%
South Korea	2.05% – 6.50%	2.17% – 6.50%
Sri Lanka	8.87% – 10.29%	8.61% – 10.96%
Taiwan (China)	1.75% – 6.50%	1.75% – 6.50%
Vietnam	5.53% – 11.48%	5.53% – 11.48%

28. INVESTMENT CONTRACT LIABILITIES

US\$m	Year ended 31 December 2020	Year ended 31 December 2019
At beginning of financial year	12,273	7,885
Investment contract benefits	1,305	992
Fees charged	(88)	(93)
Acquisition of subsidiaries	–	4,004
Net withdrawals and other movements	(1,046)	(603)
Foreign exchange movements	437	88
At end of financial year⁽¹⁾	12,881	12,273

Note:

(1) Of investment contract liabilities, US\$312m (2019: US\$367m) represents deferred fee income. Movement of deferred fee income of US\$55m (2019: US\$62m) represents revenue recognised as a result of performance obligations satisfied during the year.

29. EFFECT OF CHANGES IN ASSUMPTIONS AND ESTIMATES

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

US\$m	As at 31 December 2020	As at 31 December 2019
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	140	127
0.5 pps decrease in investment return	(162)	(143)
10% increase in expenses	(63)	(50)
10% increase in mortality rates	(92)	(80)
10% increase in lapse/discontinuance rates	(76)	(66)

Future policy benefits for the Group's majority traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of these traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group's traditional life products, except for a limited number of cases where statutory requirements are adopted in the applicable jurisdiction.

For interest sensitive insurance contracts, such as universal life products and unit-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US\$166m (2019: US\$38m) decrease in profit.

30. BORROWINGS

US\$m	As at 31 December 2020	As at 31 December 2019
Medium-term notes and securities		
Senior notes	6,824	5,757
Subordinated securities	1,735	–
Total	8,559	5,757

Interest expense on borrowings is shown in note 11. Further information relating to interest rates and the maturity profile of borrowings is presented in note 38.

The following table summarises the Company's outstanding medium-term notes and securities placed to the market at 31 December 2020:

Senior notes

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
13 March 2013 ⁽¹⁾	US\$500m	3.125%	10 years	13 March 2023
11 March 2014 ⁽¹⁾	US\$500m	4.875%	30 years	11 March 2044
11 March 2015 ⁽¹⁾	US\$750m	3.200%	10 years	11 March 2025
16 March 2016 ⁽¹⁾	US\$750m	4.500%	30 years	16 March 2046
23 May 2017 ⁽²⁾	US\$500m	4.470%	30 years	23 May 2047
6 April 2018 ⁽¹⁾	US\$500m	3.900%	10 years	6 April 2028
12 April 2018	HK\$3,900m	2.760%	3 years	12 April 2021
20 September 2018 ⁽¹⁾	US\$500m	3M LIBOR + 0.52%	3 years	20 September 2021
16 January 2019	HK\$1,300m	2.950%	3.5 years	16 July 2022
16 January 2019	HK\$1,100m	3.680%	12 years	16 January 2031
9 April 2019 ⁽¹⁾	US\$1,000m	3.600%	10 years	9 April 2029
7 April 2020 ⁽¹⁾	US\$1,000m	3.375%	10 years	7 April 2030
24 June 2020	A\$90m	2.950%	10 years	24 June 2030

Subordinated securities

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
16 September 2020 ⁽¹⁾⁽³⁾	US\$1,750m	3.200%	20 years	16 September 2040

Notes:

- (1) These medium-term notes and securities are listed on The Stock Exchange of Hong Kong Limited.
- (2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.
- (3) These medium-term securities are subordinated instruments of the Company. The Company has the right to redeem these securities in the event of a tax event, regulatory event or a minimal outstanding amount, or to conduct a make-whole redemption, subject to the satisfaction of the applicable redemption conditions.

The net proceeds from issuance during the year ended 31 December 2020 are used for general corporate purposes.

The Group has access to an aggregate of US\$2,290m unsecured committed credit facilities, which includes a US\$100m revolving three-year credit facility expiring in 2023 and a US\$2,190m five-year credit facility expiring in 2025, both subject to certain extension options. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 31 December 2020 and 2019.

31. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not de-recognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each year end:

US\$m	As at 31 December 2020	As at 31 December 2019
Debt securities – AFS		
Repurchase agreements	1,444	1,947
Debt securities – FVTPL		
Repurchase agreements	232	41
Total	1,676	1,988

Collateral

At 31 December 2020, the Group had pledged debt securities of US\$1m (2019: nil). No cash collateral (2019: US\$1m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

At 31 December 2020, the obligations under repurchase agreements were US\$1,664m (2019: US\$1,826m).

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Offsetting, enforceable master netting agreements and similar agreements

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

US\$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2020						
Financial assets:						
Derivative assets	1,069	–	1,069	(17)	(500)	552
Reverse repurchase agreements	271	–	271	(271)	–	–
Total	1,340	–	1,340	(288)	(500)	552

US\$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2019						
Financial assets:						
Derivative assets	971	–	971	(7)	(581)	383
Reverse repurchase agreements	265	–	265	(265)	–	–
Total	1,236	–	1,236	(272)	(581)	383

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Offsetting, enforceable master netting agreements and similar agreements (continued)

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

US\$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2020						
Financial liabilities:						
Derivative liabilities	1,003	–	1,003	(696)	(86)	221
Repurchase agreements	1,664	–	1,664	(1,664)	–	–
Total	2,667	–	2,667	(2,360)	(86)	221

US\$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2019						
Financial liabilities:						
Derivative liabilities	412	–	412	(266)	(37)	109
Repurchase agreements	1,826	–	1,826	(1,826)	–	–
Total	2,238	–	2,238	(2,092)	(37)	109

The Group entered into enforceable master netting agreements for derivative transactions, as well as the repurchase agreements for debt instruments with various counterparties. Except for certain futures contracts executed through clearing house mechanism where the settlement arrangement satisfied the IFRS netting criteria, the transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the IFRS netting criteria. The provision in the master netting agreement and similar agreements enables a party to terminate transactions early and settle at a net amount if a default or termination event occurs.

33. PROVISIONS

US\$m	Employee benefits	Other	Total
At 1 January 2019	130	38	168
Charged to the consolidated income statement	13	34	47
Charged to other comprehensive income	25	–	25
Acquisition of subsidiaries	–	15	15
Exchange differences	9	1	10
Released during the year	–	(6)	(6)
Utilised during the year	(7)	(33)	(40)
Other movements	6	–	6
At 31 December 2019	176	49	225
Charged to the consolidated income statement	14	36	50
Charged to other comprehensive income	10	–	10
Exchange differences	–	2	2
Released during the year	–	(13)	(13)
Utilised during the year	(5)	(39)	(44)
At 31 December 2020	195	35	230

Other provisions

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

34. OTHER LIABILITIES

US\$m	As at 31 December 2020	As at 31 December 2019
Trade and other payables	4,850	6,262
Lease liabilities	502	556
Third-party interests in consolidated investment funds	1,025	1,116
Reinsurance-related payables	1,420	1,483
Total	7,797	9,417

Third-party interests in consolidated investment funds consist of third-party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period. The realisation of third-party interests in investment funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third-party investors.

Reinsurance-related payables of US\$563m (2019: US\$573m) are expected to be settled more than 12 months after the end of the reporting period.

35. SHARE CAPITAL AND RESERVES

Share capital

	As at 31 December 2020		As at 31 December 2019	
	Million shares	US\$m	Million shares	US\$m
Ordinary shares⁽¹⁾, issued and fully paid				
At beginning of the financial year	12,089	14,129	12,077	14,073
Shares issued under share option scheme and agency share purchase plan	6	26	12	56
At end of the financial year	12,095	14,155	12,089	14,129

Note:

(1) Ordinary shares have no nominal value.

The Company issued 4,876,916 shares under share option scheme (2019: 10,552,614 shares) and 1,185,442 shares under agency share purchase plan (2019: 1,260,386 shares) during the year ended 31 December 2020.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2020 with the exception of 1,552,886 shares (2019: 3,127,664 shares) of the Company purchased by and nil share (2019: 911,718 shares) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the year ended 31 December 2020, 12,667,066 shares (2019: 15,525,163 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 31 December 2020, 28,748,261 shares (2019: 39,862,439 shares) of the Company were held by the employee share-based trusts.

Reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

Property revaluation reserve

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

Other reserves

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

36. NON-CONTROLLING INTERESTS

US\$m	As at 31 December 2020	As at 31 December 2019
Equity shares in subsidiaries	69	69
Share of earnings	369	374
Share of other reserves	30	5
Total	468	448

37. GROUP CAPITAL STRUCTURE

Capital Management Approach

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely and satisfying regulatory capital requirements at all times.

The Group's capital management function oversees all capital-related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining AIA's capacity to pay dividends to shareholders.

Regulatory Solvency

The Group supervisor is the Hong Kong Insurance Authority (HKIA). The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's principal operating companies are AIA Co. and AIA International Limited (AIA International) which are required by the HKIA to meet the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.

AIA has given an undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in each of AIA Co. and AIA International.

The capital positions of the Group's two principal operating companies as of 31 December 2020 and 2019 are as follows:

US\$m	31 December 2020			31 December 2019		
	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	9,780	2,000	489%	11,856	3,272	362%
AIA International	9,382	3,122	301%	9,280	2,443	380%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

37. GROUP CAPITAL STRUCTURE (continued)

Group-wide Supervision Framework

In addition to the HKIO requirements for AIA Co. and AIA International, the HKIA has been developing a Group-wide Supervision (GWS) framework to align with international standards to supervise Hong Kong domiciled Internationally Active Insurance Groups (IAIGs). Legislation setting out the GWS framework was enacted on 17 July 2020. On 31 December 2020, the Government gazetted the commencement date of the legislation to be on 29 March 2021. In addition, the Insurance (Group Capital) Rules (Group Capital Rules) were tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. Under the Group Capital Rules, the GWS framework will be based on a "Summation Approach". The Group's available capital and minimum required capital will be calculated based on summing up of the available capital and required capital according to the regulatory requirements for each relevant regulated entity within the Group, also known as Group Local Capital Summation Method (LCSM).

Upon the effective date of the GWS framework, the Group will apply the LCSM to determine the group-level regulatory capital position and will disclose it in its financial statements for the six months ending 30 June 2021 and going forward. Following the new disclosure of the Group's regulatory capital position in the Group's consolidated financial statements, the solvency ratio disclosure for AIA Co. and AIA International will no longer be published in the Group's consolidated financial statements. AIA Co. and AIA International will continue to disclose their solvency ratios in their respective financial statements, and will submit annual filings to the HKIA of their solvency margin positions based on their annual audited financial statements.

Local Regulatory Solvency

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKIA of their solvency margin position based on their annual audited financial statements.

Dividends, remittances and other payments from individual branches and subsidiaries

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends, remittances and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends, remittances and other payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group.

37. GROUP CAPITAL STRUCTURE (continued)

Capital and Regulatory Orders Specific to the Group

As of 31 December 2020, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

Hong Kong Insurance Authority

AIA Group Limited has given to the HKIA an undertaking that AIA Group Limited will:

- (i) ensure that (a) each of AIA Co. and AIA International will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong (“minimum amount”); (b) it will not withdraw capital or transfer any funds or assets out of AIA Co. or AIA International that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; and (c) should the solvency ratio of either AIA Co. or AIA International fall below the respective minimum amounts, AIA Group Limited will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the HKIA;
- (ii) notify the HKIA in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;
- (iii) be subject to the supervision of the HKIA and AIA Group Limited will be required to continually comply with the HKIA’s guidance on the “fit and proper” standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company’s financial resources; the viability of a holding company’s business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Group’s legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Group’s corporate governance; the soundness of the Group’s risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and
- (iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidelines issued by the HKIA from time to time.

38. RISK MANAGEMENT

Risk management framework

AIA recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the Group. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

Insurance risk

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

Lapse

Lapse risk is the risk policies lapse, on average, earlier than assumed in the pricing or reserving assumptions.

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

Expense

Expense risk is the risk of greater than expected trends in, or sudden shocks to, the amount or timing of expenses incurred by the business.

Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Group's very substantial experience within the markets in which we operate.

Morbidity and Mortality

Morbidity and mortality risk is the risk that the incidence and/or amounts of medical/death claims are higher than the assumptions made in pricing and/or reserving.

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

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

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Group seeks to anticipate and respond promptly to potential adverse experience impacts on its products.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters.

38. RISK MANAGEMENT (continued)

Investment and financial risks

Credit risk

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

The Group's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of defence. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Group's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating determined by the investment teams. The Group's Risk Management function manages the Group's internal ratings framework and conducts periodic rating reviews. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Group's insurance liabilities.

AIA manages interest rate risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2020				
Financial assets				
Loans and deposits	1,020	7,421	894	9,335
Other receivables	69	1	2,636	2,706
Debt securities	10,735	191,146	–	201,881
Equity securities	–	–	59,182	59,182
Reinsurance receivables	–	–	671	671
Accrued investment income	–	–	1,822	1,822
Cash and cash equivalents	4,071	–	1,548	5,619
Derivative financial instruments	–	–	1,069	1,069
Total financial assets	15,895	198,568	67,822	282,285
Financial liabilities				
Investment contract liabilities	–	–	12,569	12,569
Borrowings	500	8,059	–	8,559
Obligations under repurchase agreements	1,664	–	–	1,664
Other liabilities	409	503	6,885	7,797
Derivative financial instruments	–	–	1,003	1,003
Total financial liabilities	2,573	8,562	20,457	31,592

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Exposure to interest rate risk (continued)

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2019				
Financial assets				
Loans and deposits	1,042	8,238	806	10,086
Other receivables	2	1	2,677	2,680
Debt securities	8,229	163,755	–	171,984
Equity securities	–	–	50,322	50,322
Reinsurance receivables	–	–	683	683
Accrued investment income	–	–	1,710	1,710
Cash and cash equivalents	3,639	–	302	3,941
Derivative financial instruments	–	–	971	971
Total financial assets	12,912	171,994	57,471	242,377
Financial liabilities				
Investment contract liabilities	–	–	11,906	11,906
Borrowings	500	5,257	–	5,757
Obligations under repurchase agreements	1,826	–	–	1,826
Other liabilities	682	141	8,594	9,417
Derivative financial instruments	–	–	412	412
Total financial liabilities	3,008	5,398	20,912	29,318

Equity price risk

Equity price risk arises from changes in the market value of equity securities. Investments in equity securities on a long-term basis are expected to align policyholders expectations, provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group's strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

38. RISK MANAGEMENT (continued)**Investment and financial risks** (continued)**Sensitivity analysis**

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 29. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholder participation ratios described in note 2.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

	31 December 2020			31 December 2019 – As adjusted		
	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)
US\$m						
Equity price risk						
10 per cent increase in equity prices	1,091	1,091	1,091	1,050	1,050	1,050
10 per cent decrease in equity prices	(1,091)	(1,091)	(1,091)	(1,050)	(1,050)	(1,050)
Interest rate risk						
+ 50 basis points shift in yield curves	(550)	(8,403)	(550)	(289)	(7,026)	(289)
– 50 basis points shift in yield curves	584	9,356	584	312	7,869	312

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in Asia and the translation of multiple currencies to US dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

However, assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

Foreign exchange rate net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2020						
Equity analysed by original currency	35,400	4,617	6,445	(4,644)	2,516	5,862
Net positions of currency derivatives	(9,942)	650	3,457	4,239	135	–
Currency exposure	25,458	5,267	9,902	(405)	2,651	5,862
5% strengthening of original currency						
Impact on profit before tax	260	71	9	25	5	41
Impact on other comprehensive income	(286)	141	485	(45)	128	252
Impact on total equity	(26)	212	494	(20)	133	293
5% strengthening of the US dollar						
Impact on profit before tax	260	(5)	(6)	(9)	(4)	(34)
Impact on other comprehensive income	(286)	(207)	(488)	29	(129)	(259)
Impact on total equity	(26)	(212)	(494)	20	(133)	(293)
US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2019 – As adjusted						
Equity analysed by original currency	29,978	3,483	6,703	(2,604)	2,312	4,612
Net positions of currency derivatives	(8,371)	592	3,349	3,274	(123)	(629)
Currency exposure	21,607	4,075	10,052	670	2,189	3,983
5% strengthening of original currency						
Impact on profit before tax	152	(2)	(17)	11	(8)	(25)
Impact on other comprehensive income	(180)	151	519	23	118	224
Impact on total equity	(28)	149	502	34	110	199
5% strengthening of the US dollar						
Impact on profit before tax	152	46	20	4	9	26
Impact on other comprehensive income	(180)	(195)	(522)	(38)	(119)	(225)
Impact on total equity	(28)	(149)	(502)	(34)	(110)	(199)

38. RISK MANAGEMENT (continued)**Investment and financial risks** (continued)**Liquidity risk**

The liquidity principle adopted by the Group Board is "We will maintain sufficient liquidity to meet our expected financial commitments as they fall due" and as such AIA has defined liquidity risk as the risk of failure to meet current and future financial commitments as they fall due. This incorporates the risks arising from the timing mismatch of cash inflows and outflows in day-to-day operations, including collateral requirements, as well as the market liquidity of assets required for policyholder liabilities.

AIA manages liquidity risk in accordance with the Group's liquidity framework. This framework contains the standards, procedures, and tools used by the Group to monitor and manage liquidity risk in base and stressed conditions across multiple time horizons from daily to twelve months. AIA further supports its liquidity by maintaining access to committed credit facilities, use of bond repurchase markets and debt markets via the Group's Global Medium-term Note and Securities Programme.

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity ⁽²⁾
31 December 2020						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	8,940	1,997	1,013	580	1,793	3,557
Other receivables	2,574	2,477	50	13	–	34
Debt securities	195,478	3,973	21,353	31,072	139,080	–
Equity securities	30,950	–	–	–	–	30,950
Reinsurance receivables	671	671	–	–	–	–
Accrued investment income	1,757	1,756	1	–	–	–
Cash and cash equivalents	4,400	4,400	–	–	–	–
Derivative financial instruments	1,016	189	189	249	389	–
Subtotal	245,786	15,463	22,606	31,914	141,262	34,541
Financial assets (Unit-linked contracts and consolidated investment funds)	36,499	–	–	–	–	36,499 ⁽³⁾
Total	282,285	15,463	22,606	31,914	141,262	71,040
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	169,477	4,316	15,559	17,309	132,293	–
Borrowings	8,559	1,002	1,414 ⁽¹⁾	2,548	3,595	–
Obligations under repurchase agreements	1,664	1,664	–	–	–	–
Other liabilities excluding lease liabilities	4,025	2,305	240	150	171	1,159
Lease liabilities	539	177	325	35	2	–
Derivative financial instruments	991	135	534	109	213	–
Subtotal	185,255	9,599	18,072	20,151	136,274	1,159
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	35,125	–	–	–	–	35,125
Total	220,380	9,599	18,072	20,151	136,274	36,284

Note:

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

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity ⁽²⁾
31 December 2019 – As adjusted						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	9,383	2,657	1,048	594	1,828	3,256
Other receivables	2,598	2,488	75	7	–	28
Debt securities	166,118	2,849	19,404	31,219	112,646	–
Equity securities	26,221	–	–	–	–	26,221
Reinsurance receivables	683	683	–	–	–	–
Accrued investment income	1,644	1,635	–	–	–	9
Cash and cash equivalents	3,189	3,189	–	–	–	–
Derivative financial instruments	937	167	189	196	385	–
Subtotal	210,773	13,668	20,716	32,016	114,859	29,514
Financial assets (Unit-linked contracts and consolidated investment funds)	31,604	–	–	–	–	31,604 ⁽³⁾
Total	242,377	13,668	20,716	32,016	114,859	61,118
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	144,801	3,297	12,025	13,676	115,803	–
Borrowings	5,757	–	1,665 ⁽⁴⁾	2,233	1,859	–
Obligations under repurchase agreements	1,826	1,826	–	–	–	–
Other liabilities excluding lease liabilities	7,716	5,868	234	162	229	1,223
Lease liabilities	605	178	368	55	4	–
Derivative financial instruments	397	40	165	79	113	–
Subtotal	161,102	11,209	14,457	16,205	118,008	1,223
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	31,098	–	–	–	–	31,098
Total	192,200	11,209	14,457	16,205	118,008	32,321

Notes:

- (2) Financial assets with no fixed maturity are equities or receivables on demand which the Group has the choice to call. Similarly, financial liabilities with no fixed maturity are payable on demand as the counterparty has a choice of when the amount is paid.
- (3) The total value of amounts within financial assets (Unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds). Included within financial assets (Unit-linked contracts and consolidated investment funds) are debt securities of US\$433m (2019: US\$668m) due in one year or less, US\$2,622m (2019: US\$2,392m) due after 1 year through 5 years, US\$1,934m (2019: US\$1,792m) due after 5 years through 10 years and US\$1,414m (2019: US\$1,014m) due after 10 years, in accordance with the contractual terms of the financial investments.
- (4) Including US\$665m which fall due after 2 years through 5 years.

39. EMPLOYEE BENEFITS

Defined benefit plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Indonesia, South Korea, the Philippines, Sri Lanka, Taiwan (China) and Vietnam. The latest independent actuarial valuation of the plans was at 31 December 2020 and was prepared by credentialed actuaries of Towers Watson Hong Kong Limited. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 39 per cent (2019: 40 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US\$96m (2019: US\$88m). The total expenses relating to these plans recognised in the consolidated income statement was US\$14m (2019: US\$13m).

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was US\$93m (2019: US\$90m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 22 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

40. SHARE-BASED COMPENSATION

Share-based compensation plans

During the year ended 31 December 2020, the Group made further grants of share options (SOs), restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (2010 SO Scheme) and the Restricted Share Unit Scheme (2010 RSU Scheme) and the Employee Share Purchase Plan (2011 ESPP). In addition, the Group made further grants of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

Due to the expiry of the 2010 SO Scheme in 2020, the Company has sought and obtained the approval from its shareholders at the annual general meeting of the Company held on 29 May 2020 (2020 AGM) for the termination of the 2010 SO Scheme and the adoption of a new share option scheme (2020 SO Scheme), each as of 29 May 2020. The 2020 SO Scheme is effective for a period of 10 years from the date of adoption. Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme, no further SOs can be granted thereunder. However, the 2010 SO Scheme shall remain in full force and effect for all SOs granted prior to its termination, and the exercise of such SOs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 SO Scheme and the Listing Rules.

In addition, the Company has adopted a new restricted share unit scheme (2020 RSU Scheme) and a new employee share purchase plan (2020 ESPP) on 1 August 2020, in place of the 2010 RSU Scheme and 2011 ESPP, which were terminated with effect from 31 July 2020 and 31 October 2020 respectively. Both the 2020 RSU Scheme and 2020 ESPP are also effective for a period of 10 years from the date of adoption. Following the termination of the 2010 RSU Scheme and the 2011 ESPP, no further RSUs or RSPUs can be granted thereunder. However, the 2010 RSU Scheme and the 2011 ESPP shall remain in full force and effect for all RSUs and RSPUs granted prior to their terminations, and the vesting of such RSUs and RSPUs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 RSU Scheme and 2011 ESPP respectively.

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

RSU Schemes

Under the 2010 and 2020 RSU Schemes, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. Restricted share unit (RSU) grants are vested either entirely after a specific period of time or in tranches over the vesting period during which, the eligible participants are required to remain in employment with the Group. For RSU grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting period. For most RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the granted RSUs are expected to be settled in equity. The total number of shares that can be granted under this scheme is 302,264,978 (2019: 301,100,000), representing 2.5 per cent of the number of shares in issue on the reference date, being the 2020 AGM date.

	Year ended 31 December 2020	Year ended 31 December 2019
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial year	32,733,981	37,801,324
Granted	13,451,940	10,672,622
Forfeited	(2,836,395)	(2,202,873)
Vested	(11,562,459)	(13,537,092)
Outstanding at end of financial year	31,787,067	32,733,981

SO Schemes

The objectives of the 2010 and 2020 SO Schemes are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which the eligible participants are required to remain in employment with the Group. For SO grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting periods. The granted SOs expire 10 years from the date of grant and each SO entitles the eligible participant to subscribe for one ordinary share. Subject to restrictions in the applicable laws, regulations and rules of the relevant jurisdictions, the granted SOs are expected to be settled in equity. The total number of shares under options that can be granted under this scheme is 302,264,978 (2019: 301,100,000), representing 2.5 per cent of the number of shares in issue on the date of adoption.

Information about SOs outstanding and SOs exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options	Weighted average exercise price (HK\$)	Number of share options	Weighted average exercise price (HK\$)
Share options				
Outstanding at beginning of financial year	23,798,042	53.86	30,403,944	46.22
Granted	5,856,668	68.10	4,412,153	76.42
Exercised	(4,876,916)	40.01	(10,552,614)	40.71
Forfeited or expired	(1,073,985)	69.34	(465,441)	66.45
Outstanding at end of financial year	23,703,809	59.53	23,798,042	53.86
Share options exercisable at end of financial year	10,115,925	45.22	9,119,636	37.93

At the respective dates on which the SOs were exercised, the weighted average share price of the Company was HK\$80.73 for the year ended 31 December 2020 (2019: HK\$78.65).

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

SO Schemes (continued)

The range of exercise prices for the SOs outstanding as of 31 December 2020 and 2019 is summarised in the table below.

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK\$26 – HK\$35	1,542,961	1.30	3,167,121	2.27
HK\$36 – HK\$45	2,633,722	4.57	4,436,084	5.42
HK\$46 – HK\$55	5,108,806	5.60	6,387,390	6.71
HK\$56 – HK\$65	830,436	6.58	1,336,469	7.72
HK\$66 – HK\$75	9,759,038	8.42	4,221,746	8.20
HK\$76 – HK\$85	3,828,846	8.24	4,249,232	9.24
Outstanding at end of financial year	23,703,809	6.83	23,798,042	6.65

ESPP

Under the 2011 and 2020 ESPPs, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will grant one matching restricted stock purchase unit (RSPU) to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the relevant vesting period, the eligible employees must hold the contribution shares purchased and remain employed by the Group in order to qualify to receive the matching shares upon the vesting of the matching RSPUs. The granted matching RSPUs are expected to be settled in equity. Under the 2010 ESPP, the level of qualified employee contribution was subject to a maximum amount equal to 8 per cent of the monthly base salary or HK\$9,750 (or local currency equivalent) per month, whichever is lower. Under the 2020 ESPP, the level of qualified employee contribution is subject to a maximum amount equal to 10 per cent of the monthly base salary or HK\$12,500 (or local currency equivalent) per month, whichever is lower. For the year ended 31 December 2020, eligible employees paid US\$32m (2019: US\$27m) to purchase 3,126,641 ordinary shares (2019: 2,640,834 ordinary shares) of the Company under the 2011 ESPP and 2020 ESPP.

ASPP

The structure of the ASPP generally follows that of the ESPP, the key difference being that the eligible agents are required to pay a subscription price of US\$1 to subscribe for each new share in the Company at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will grant one matching restricted stock subscription unit (RSSU) to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each RSSU entitles eligible agents to subscribe for one new share of the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased and maintain their agent contracts with the Group in order to qualify to receive the matching shares upon the vesting of the matching RSSUs. The granted matching RSSUs are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum amount of US\$15,000 per annum. For the year ended 31 December 2020, eligible agents paid US\$24m (2019: US\$25m) to purchase 2,411,360 ordinary shares (2019: 2,501,196 ordinary shares) of the Company.

40. SHARE-BASED COMPENSATION (continued)

Valuation methodology

The Group utilises a binomial lattice model to calculate the fair value of the SO grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, RSPU and RSSU grants, taking into account the terms and conditions upon which the grants were made. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange. The expected life of the SOs is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. An allowance for forfeiture prior to vesting is not included in the valuation of the grants.

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

	Year ended 31 December 2020			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	0.85%	0.31% – 0.78%*	0.09% – 1.68%	0.87%
Volatility	24%	24%	n/a	n/a
Dividend yield	1.60%	1.60%	1.60%	1.60%
Exercise price (HK\$)	68.10	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.84	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	15.51	63.20	79.07	59.48
	Year ended 31 December 2019			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.44% – 1.59%	1.36% – 1.67%*	1.44% – 1.76%	1.59%
Volatility	20%	20%	n/a	n/a
Dividend yield	1.50%	1.50% – 1.60%	1.50% – 1.60%	1.50%
Exercise price (HK\$)	76.38 – 78.70	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.97	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	15.55	67.32	75.36	65.08

* Applicable to RSU with market conditions.

The weighted average share price for SO valuation for grants made during the year ended 31 December 2020 is HK\$68.10 (2019: HK\$76.37). The total fair value of SO granted during the year ended 31 December 2020 is US\$12m (2019: US\$9m).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation grants made by the Group for the year ended 31 December 2020 is US\$80m (2019: US\$88m).

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directors' remuneration

The Executive Director receives compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long-term incentives represent the variable components in the Executive Director's compensation and are linked to the performance of the Group and the Executive Director. Details of share-based payment schemes are described in note 40.

US\$	Director's fees	Salaries, allowances and benefits in kind ⁽¹⁾	Bonuses	Share-based payments ⁽²⁾	Pension scheme contributions	Other benefits ⁽³⁾	Other payments ⁽⁴⁾	Total
Year ended 31 December 2020								
<i>Executive Directors</i>								
	–	688,987	2,839,400	7,631,345	40,933	112,203	–	11,312,868
	–	1,428,337	3,960,000	1,493,396	56,271	–	10,892,303	17,830,307
	–	2,117,324	6,799,400	9,124,741	97,204	112,203	10,892,303	29,143,175

US\$	Director's fees	Salaries, allowances and benefits in kind ⁽¹⁾	Bonuses	Share-based payments ⁽²⁾	Pension scheme contributions	Other benefits ⁽³⁾	Other payments	Total
Year ended 31 December 2019								
<i>Executive Director</i>								
	–	1,617,677	3,267,000	4,816,710	96,476	697,485	–	10,495,348
	–	1,617,677	3,267,000	4,816,710	96,476	697,485	–	10,495,348

Notes:

- (1) Includes non-cash benefits for housing, medical and life insurance, club and professional membership, company car and perquisites.
- (2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP based on the fair value at the respective grant dates.
- (3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay. Other benefits for the year ended 31 December 2019 include a tax reimbursement to relief double taxation in Singapore and Hong Kong.
- (4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.
- (5) Mr. Ng Keng Hooi's remuneration includes compensation and benefits up to his retirement as Group Chief Executive and President and Director effective 31 May 2020, with the bonus for the year ended 31 December 2020 to be paid on full-year basis and subject to actual performance assessments.
- (6) Mr. Lee Yuan Siong is currently the Group Chief Executive and President of the Company. He receives his remuneration exclusively for his role as Group Chief Executive and President of the Company and receives no separate fees for his role as a director of the Company or for acting as a director of any subsidiary of the Company.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

The remuneration of Independent Non-executive Directors of the Company at 31 December 2020 and 2019 are included in the tables below:

US\$	Director's fees ⁽¹⁾	Salaries, allowances and benefits in kind ⁽²⁾	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Other payments	Total
Year ended 31 December 2020								
<i>Independent Non-executive Directors</i>								
Mr. Edmund Sze-Wing Tse	685,000	143,315	-	-	-	-	-	828,315
Mr. Jack Chak-Kwong So	268,000	-	-	-	-	-	-	268,000
Mr. Chung-Kong Chow	228,000	-	-	-	-	-	-	228,000
Mr. John Barrie Harrison	268,000	-	-	-	-	-	-	268,000
Mr. George Yong-Boon Yeo	253,000	-	-	-	-	-	-	253,000
Mr. Mohamed Azman Yahya ⁽³⁾	87,295	-	-	-	-	-	-	87,295
Professor Lawrence Juen-Yee Lau	213,000	-	-	-	-	-	-	213,000
Ms. Swee-Lian Teo	213,000	-	-	-	-	-	-	213,000
Dr. Narongchai Akrasanee ⁽⁴⁾	281,333	-	-	-	-	-	-	281,333
Mr. Cesar Velasquez Purisima	183,000	-	-	-	-	-	-	183,000
Total	2,679,628	143,315	-	-	-	-	-	2,822,943

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

US\$	Director's fees ⁽¹⁾	Salaries, allowances and benefits in kind ⁽²⁾	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Other payments	Total
Year ended 31 December 2019								
<i>Independent Non-executive Directors</i>								
Mr. Edmund Sze-Wing Tse	627,500	149,080	–	–	–	–	–	776,580
Mr. Jack Chak-Kwong So	268,000	–	–	–	–	–	–	268,000
Mr. Chung-Kong Chow	228,000	–	–	–	–	–	–	228,000
Mr. John Barrie Harrison	268,000	–	–	–	–	–	–	268,000
Mr. George Yong-Boon Yeo	253,000	–	–	–	–	–	–	253,000
Mr. Mohamed Azman Yahya ⁽³⁾	213,000	–	–	–	–	–	–	213,000
Professor Lawrence Juen-Yee Lau	213,000	–	–	–	–	–	–	213,000
Ms. Swee-Lian Teo	213,000	–	–	–	–	–	–	213,000
Dr. Narongchai Akrasanee ⁽⁴⁾	273,000	–	–	–	–	–	–	273,000
Mr. Cesar Velasquez Purisima	183,000	–	–	–	–	–	–	183,000
Total	2,739,500	149,080	–	–	–	–	–	2,888,580

Notes:

- (1) Save as disclosed below, all Directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.
- (2) Includes non-cash benefits for housing, club and professional membership, medical insurance and company car.
- (3) Mr. Mohamed Azman Yahya retired as an Independent Non-executive Director of the Company with effect from 30 May 2020.
- (4) US\$58,333 and US\$50,000 which represented remuneration to Dr. Narongchai Akrasanee in respect of his services as Chairman of Advisory Board of AIA Thailand for the year ended 31 December 2020 and 2019 respectively are included in his fees stated above.

Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in each of the year ended 31 December 2020 and 2019 is presented in the table below.

US\$	Director's fees	Salaries, allowances and benefits in kind ⁽¹⁾	Bonuses	Share-based payments ⁽²⁾	Pension scheme contributions	Other benefits ⁽³⁾	Other payments ⁽⁴⁾	Total
Year ended 31 December 2020	–	5,367,242	9,502,800	15,162,153	303,157	112,203	10,892,303	41,339,858
Year ended 31 December 2019	–	5,806,998	5,878,400	10,892,582	313,044	765,257	–	23,656,281

Notes:

- (1) 2020 and 2019 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.
- (2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the five highest-paid individuals based on the fair value at the respective grant dates.
- (3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay. Other benefits for the year ended 31 December 2019 include relief of double taxation arrangement.
- (4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Remuneration of five highest-paid individuals (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK\$	Year ended 31 December 2020	Year ended 31 December 2019
23,500,001 to 24,000,000	–	1
25,000,001 to 25,500,000	–	1
26,500,001 to 27,000,000	–	1
27,500,001 to 28,000,000	–	1
28,500,001 to 29,000,000	1	–
30,500,001 to 31,000,000	1	–
35,000,001 to 35,500,000	1	–
82,000,001 to 82,500,000	–	1
87,500,001 to 88,000,000	1	–
138,000,001 to 138,500,000	1	–

Key management personnel remuneration

Key management personnel have been identified as the members of the Group's Executive Committee.

US\$	Year ended 31 December 2020	Year ended 31 December 2019
Key management compensation and other expenses		
Salaries and other short-term employee benefits	30,844,469	23,633,256
Post-employment benefits	1,118,468	1,422,732
Share-based payments ⁽¹⁾	28,808,491	16,552,154
Termination benefits	1,707,434	618,081
Total	62,478,862	42,226,223

Note:

(1) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the key management personnel based on the fair value at the respective grant dates.

The emoluments of the key management personnel are within the following bands:

US\$	Year ended 31 December 2020	Year ended 31 December 2019
Below 1,000,000	1	2
1,000,001 to 2,000,000	–	4
2,000,001 to 3,000,000	6	4
3,000,001 to 4,000,000	4	4
4,000,001 to 5,000,000	1	–
Over 10,000,000	2	1

42. RELATED PARTY TRANSACTIONS

Remuneration of Directors and key management personnel is disclosed in note 41.

43. COMMITMENTS AND CONTINGENCIES

Investment and capital commitments

US\$m	As at 31 December 2020	As at 31 December 2019
Not later than one year	2,504	1,911
Later than one and not later than five years	174	8
Later than five years	16	–
Total	2,694	1,919

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

Contingencies

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies, claims and taxes. The Group believes that these matters are adequately provided for in these financial statements.

The Group operates in many jurisdictions across Asia and in certain of those jurisdictions, the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities, which can result in disputes arising. The Group has made provisions to cover the potential tax implications, based on management's judgement and best estimate in relation to the probability or likelihood of the potential outcomes, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$479m at 31 December 2020 (2019: US\$462m). The liabilities and related reinsurance assets, which totalled US\$3m (2019: US\$6m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

44. SUBSIDIARIES

The principal subsidiary companies which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 31 December 2020		As at 31 December 2019	
				Group's interest %	NCI's interest %	Group's interest %	NCI's interest %
AIA Company Limited ⁽¹⁾	Hong Kong	Insurance	2,596,049,861 ordinary shares of US\$7,407,084,182 issued share capital	100%	–	100%	–
AIA International Limited	Bermuda	Insurance	3,000,000 ordinary shares of US\$1.20 each	100%	–	100%	–
AIA Australia Limited	Australia	Insurance	2,025,462,500 ordinary shares of A\$2,107,267,000 issued share capital	100%	–	100%	–
AIA Bhd.	Malaysia	Insurance	191,859,543 ordinary shares of RM810,000,000 issued share capital	100%	–	100%	–
AIA Singapore Private Limited	Singapore	Insurance	1,558,021,163 ordinary shares of S\$1 each	100%	–	100%	–
PT. AIA Financial	Indonesia	Insurance	1,910,844,141 ordinary shares of Rp1,000 each	100%	–	100%	–
The Philippine American Life and General Insurance (PHILAM LIFE) Company	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	100%	–	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND3,224,420,000,000	100%	–	100%	–
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US\$1 each	90%	10%	90%	10%
BPI-Philam Life Assurance (BPLAC) Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	51%	49%	51%	49%
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US\$1 each	100%	–	100%	–
AIA Life Insurance Co. Ltd.	South Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	100%	–	100%	–
AIA New Zealand Limited	New Zealand	Insurance	246,543,729 ordinary shares of NZD856,310,811 issued share capital	100%	–	100%	–
The Colonial Mutual Life Assurance Society Limited ⁽³⁾	Australia	Insurance	1,608,901,100 ordinary shares of A\$897,901,100 issued share capital	Note 3	Note 3	Note 3	Note 3
AIA Life Insurance Company Limited	Mainland China	Insurance	Registered share capital of RMB3,777,399,440	100%	–	–	–

Notes:

- (1) The Company's subsidiary.
- (2) All of the above subsidiaries are audited by PricewaterhouseCoopers.
- (3) The Group has not legally acquired the voting equity of this entity but has entered into a contractual joint cooperation agreement under which it exercises control over it with the exception of a stake in BoCommLife Insurance Company Limited. No non-controlling interest is recorded in relation to this subsidiary during the year ended 31 December 2020 and 2019.

All subsidiaries are unlisted.

45. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2021, a Committee appointed by the Board of Directors proposed a final dividend of 100.30 Hong Kong cents per share (2019: final dividend of 93.30 Hong Kong cents per share).

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US\$m	As at 31 December 2020	As at 31 December 2019
Assets		
Investment in subsidiaries	17,341	17,476
Financial investments:		
At fair value through other comprehensive income		
Debt securities ⁽²⁾	9,871	7,374
At fair value through profit or loss		
Debt securities	37	12
Equity securities	227	87
	10,135	7,473
Loans to/amounts due from subsidiaries	1,904	1,918
Other assets	78	235
Promissory notes from subsidiaries ⁽³⁾	1,844	997
Cash and cash equivalents	409	160
Total assets	31,711	28,259
Liabilities		
Borrowings	9,152	6,351
Derivative financial instruments	12	27
Other liabilities	92	238
Total liabilities	9,256	6,616
Equity		
Share capital	14,155	14,129
Employee share-based trusts	(155)	(220)
Other reserves	259	260
Retained earnings	7,360	7,079
Amounts reflected in other comprehensive income	836	395
Total equity	22,455	21,643
Total liabilities and equity	31,711	28,259

Notes:

- (1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.
- (2) Includes United States Treasury securities of US\$3,372m as at 31 December 2020 (2019: US\$2,561m).
- (3) The promissory notes from subsidiaries are repayable on demand.

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



Lee Yuan Siong
Director



Edmund Sze-Wing Tse
Director

47. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

US\$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2020	14,129	(220)	260	7,079	395	21,643
Net profit	–	–	–	2,278	–	2,278
Fair value gains on debt securities at fair value through other comprehensive income	–	–	–	–	549	549
Fair value gains on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	–	–	–	–	(108)	(108)
Dividends	–	–	–	(1,997)	–	(1,997)
Shares issued under share option scheme and agency share purchase plan	26	–	–	–	–	26
Share-based compensation	–	–	80	–	–	80
Purchase of shares held by employee share-based trusts	–	(16)	–	–	–	(16)
Transfer of vested shares from employee share-based trusts	–	81	(81)	–	–	–
Balance at 31 December 2020	14,155	(155)	259	7,360	836	22,455

US\$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2019	14,073	(258)	231	6,488	(79)	20,455
Net profit	–	–	–	2,552	–	2,552
Fair value gains on debt securities at fair value through other comprehensive income	–	–	–	–	303	303
Fair value losses on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	–	–	–	–	171	171
Dividends	–	–	–	(1,961)	–	(1,961)
Shares issued under share option scheme and agency share purchase plan	56	–	–	–	–	56
Share-based compensation	–	–	88	–	–	88
Purchase of shares held by employee share-based trusts	–	(21)	–	–	–	(21)
Transfer of vested shares from employee share-based trusts	–	59	(59)	–	–	–
Balance at 31 December 2019	14,129	(220)	260	7,079	395	21,643

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES

For the year ended 31 December 2020, the Group has revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios. Other participating business with distinct portfolios refer to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. Prior to this change in accounting policy, the Group recognised and measured the insurance contract liabilities for this business based on the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. With effect from 1 January 2020, and applied retrospectively, the Group now recognises and measures the insurance contract liabilities for this business based on the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance contract liability is recorded for the proportion of the net assets of this other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation. This approach is consistent with the existing accounting for insurance contract liabilities arising from participating business. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time; the current policyholder participation ratio applied for recognition and measurement of the insurance contract liabilities for Hong Kong ranged from 70% to 90%.

The Group believes that the new accounting policy is more relevant and no less reliable to the economic decision-making needs of users. It brings more consistency between assets and liabilities of the other participating business with distinct portfolios and more closely reflects its economic substance, thereby enhancing the understandability of the Group's performance.

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

The tables below show the quantitative effect of the adoption of the revised accounting policy on the consolidated financial statements.

(a) Consolidated Income Statement

US\$m	Year ended 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	Year ended 31 December 2020 (As reported)
REVENUE			
Premiums and fee income	35,780	–	35,780
Premiums ceded to reinsurers	(2,452)	–	(2,452)
Net premiums and fee income	33,328	–	33,328
Investment return	16,707	–	16,707
Other operating revenue	324	–	324
Total revenue	50,359	–	50,359
EXPENSES			
Insurance and investment contract benefits	35,090	1,775	36,865
Insurance and investment contract benefits ceded	(2,126)	–	(2,126)
Net insurance and investment contract benefits	32,964	1,775	34,739
Commission and other acquisition expenses	4,402	–	4,402
Operating expenses	2,695	–	2,695
Finance costs	292	–	292
Other expenses	944	–	944
Total expenses	41,297	1,775	43,072
Profit/(losses) before share of losses from associates and joint ventures	9,062	(1,775)	7,287
Share of losses from associates and joint ventures	(17)	–	(17)
Profit/(losses) before tax	9,045	(1,775)	7,270
Income tax expense attributable to policyholders' returns	(171)	–	(171)
Profit/(losses) before tax attributable to shareholders' profits	8,874	(1,775)	7,099
Tax expense	(1,489)	(2)	(1,491)
Tax attributable to policyholders' returns	171	–	171
Tax expense attributable to shareholders' profits	(1,318)	(2)	(1,320)
Net profit/(losses)	7,556	(1,777)	5,779
<i>Net profit/(losses) attributable to:</i>			
Shareholders of AIA Group Limited	7,556	(1,777)	5,779
Non-controlling interests	–	–	–
EARNINGS PER SHARE (US\$)			
Basic	0.63	(0.15)	0.48
Diluted	0.63	(0.15)	0.48

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(a) Consolidated Income Statement (continued)

US\$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
REVENUE			
Premiums and fee income	34,777	–	34,777
Premiums ceded to reinsurers	(2,166)	–	(2,166)
Net premiums and fee income	32,611	–	32,611
Investment return	14,350	–	14,350
Other operating revenue	281	–	281
Total revenue	47,242	–	47,242
EXPENSES			
Insurance and investment contract benefits	33,400	668	34,068
Insurance and investment contract benefits ceded	(1,940)	–	(1,940)
Net insurance and investment contract benefits	31,460	668	32,128
Commission and other acquisition expenses	4,283	–	4,283
Operating expenses	2,468	–	2,468
Finance costs	283	–	283
Other expenses	845	–	845
Total expenses	39,339	668	40,007
Profit/(losses) before share of losses from associates and joint ventures	7,903	(668)	7,235
Share of losses from associates and joint ventures	(8)	–	(8)
Profit/(losses) before tax	7,895	(668)	7,227
Income tax expense attributable to policyholders' returns	(179)	–	(179)
Profit/(losses) before tax attributable to shareholders' profits	7,716	(668)	7,048
Tax expense	(1,208)	(1)	(1,209)
Tax attributable to policyholders' returns	179	–	179
Tax expense attributable to shareholders' profits	(1,029)	(1)	(1,030)
Net profit/(losses)	6,687	(669)	6,018
<i>Net profit/(losses) attributable to:</i>			
Shareholders of AIA Group Limited	6,648	(669)	5,979
Non-controlling interests	39	–	39
EARNINGS PER SHARE (US\$)			
Basic	0.55	(0.05)	0.50
Diluted	0.55	(0.05)	0.50

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position

US\$m	As at 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	As at 31 December 2020 (As reported)
ASSETS			
Intangible assets	2,634	–	2,634
Investments in associates and joint ventures	606	–	606
Property, plant and equipment	2,722	–	2,722
Investment property	4,639	–	4,639
Reinsurance assets	4,560	–	4,560
Deferred acquisition and origination costs	27,915	–	27,915
Financial investments:			
Loans and deposits	9,335	–	9,335
Available for sale			
Debt securities	165,106	–	165,106
At fair value through profit or loss			
Debt securities	36,775	–	36,775
Equity securities	59,182	–	59,182
Derivative financial instruments	1,069	–	1,069
	271,467	–	271,467
Deferred tax assets	23	–	23
Current tax recoverable	103	–	103
Other assets	5,833	–	5,833
Cash and cash equivalents	5,619	–	5,619
Total assets	326,121	–	326,121
LIABILITIES			
Insurance contract liabilities	215,454	7,617	223,071
Investment contract liabilities	12,881	–	12,881
Borrowings	8,559	–	8,559
Obligations under repurchase agreements	1,664	–	1,664
Derivative financial instruments	1,003	–	1,003
Provisions	230	–	230
Deferred tax liabilities	6,945	(43)	6,902
Current tax liabilities	346	–	346
Other liabilities	7,797	–	7,797
Total liabilities	254,879	7,574	262,453

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US\$m	As at 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	As at 31 December 2020 (As reported)
EQUITY			
Share capital	14,155	–	14,155
Employee share-based trusts	(155)	–	(155)
Other reserves	(11,891)	–	(11,891)
Retained earnings	45,931	(1,227)	44,704
Fair value reserve	21,392	(6,222)	15,170
Foreign currency translation reserve	233	–	233
Property revaluation reserve	1,074	(47)	1,027
Others	35	(78)	(43)
Amounts reflected in other comprehensive income	22,734	(6,347)	16,387
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited	70,774	(7,574)	63,200
Non-controlling interests	468	–	468
Total equity	71,242	(7,574)	63,668
Total liabilities and equity	326,121	–	326,121

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)**(b) Consolidated Statement of Financial Position** (continued)

US\$m	As at 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2019 (As adjusted)
ASSETS			
Intangible assets	2,520	–	2,520
Investments in associates and joint ventures	615	–	615
Property, plant and equipment	2,865	–	2,865
Investment property	4,834	–	4,834
Reinsurance assets	3,833	–	3,833
Deferred acquisition and origination costs	26,328	–	26,328
Financial investments:			
Loans and deposits	10,086	–	10,086
Available for sale			
Debt securities	138,852	–	138,852
At fair value through profit or loss			
Debt securities	33,132	–	33,132
Equity securities	50,322	–	50,322
Derivative financial instruments	971	–	971
	233,363	–	233,363
Deferred tax assets	23	–	23
Current tax recoverable	205	–	205
Other assets	5,605	–	5,605
Cash and cash equivalents	3,941	–	3,941
Total assets	284,132	–	284,132
LIABILITIES			
Insurance contract liabilities	189,597	2,584	192,181
Investment contract liabilities	12,273	–	12,273
Borrowings	5,757	–	5,757
Obligations under repurchase agreements	1,826	–	1,826
Derivative financial instruments	412	–	412
Provisions	225	–	225
Deferred tax liabilities	6,237	(23)	6,214
Current tax liabilities	432	–	432
Other liabilities	9,417	–	9,417
Total liabilities	226,176	2,561	228,737

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)**(b) Consolidated Statement of Financial Position** (continued)

US\$m	As at 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2019 (As adjusted)
EQUITY			
Share capital	14,129	–	14,129
Employee share-based trusts	(220)	–	(220)
Other reserves	(11,887)	–	(11,887)
Retained earnings	40,372	550	40,922
Fair value reserve	14,663	(2,994)	11,669
Foreign currency translation reserve	(698)	–	(698)
Property revaluation reserve	1,163	(90)	1,073
Others	(14)	(27)	(41)
Amounts reflected in other comprehensive income	15,114	(3,111)	12,003
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited	57,508	(2,561)	54,947
Non-controlling interests	448	–	448
Total equity	57,956	(2,561)	55,395
Total liabilities and equity	284,132	–	284,132

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)**(b) Consolidated Statement of Financial Position** (continued)

US\$m	As at 31 December 2018 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2018 (As adjusted)
ASSETS			
Intangible assets	1,970	–	1,970
Investments in associates and joint ventures	610	–	610
Property, plant and equipment	1,233	–	1,233
Investment property	4,794	–	4,794
Reinsurance assets	2,887	–	2,887
Deferred acquisition and origination costs	24,626	–	24,626
Financial investments:			
Loans and deposits	7,392	–	7,392
Available for sale			
Debt securities	112,485	–	112,485
At fair value through profit or loss			
Debt securities	27,736	–	27,736
Equity securities	38,099	–	38,099
Derivative financial instruments	430	–	430
	186,142	–	186,142
Deferred tax assets	26	–	26
Current tax recoverable	164	–	164
Other assets	4,903	–	4,903
Cash and cash equivalents	2,451	–	2,451
Total assets	229,806	–	229,806
LIABILITIES			
Insurance contract liabilities	164,764	(1,456)	163,308
Investment contract liabilities	7,885	–	7,885
Borrowings	4,954	–	4,954
Obligations under repurchase and securities lending agreements	1,683	–	1,683
Derivative financial instruments	243	–	243
Provisions	168	–	168
Deferred tax liabilities	4,187	6	4,193
Current tax liabilities	532	–	532
Other liabilities	5,984	–	5,984
Total liabilities	190,400	(1,450)	188,950

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)**(b) Consolidated Statement of Financial Position** (continued)

US\$m	As at 31 December 2018 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2018 (As adjusted)
EQUITY			
Share capital	14,073	–	14,073
Employee share-based trusts	(258)	–	(258)
Other reserves	(11,910)	–	(11,910)
Retained earnings	35,661	1,219	36,880
Fair value reserve	2,211	247	2,458
Foreign currency translation reserve	(1,301)	–	(1,301)
Property revaluation reserve	538	(4)	534
Others	(8)	(12)	(20)
Amounts reflected in other comprehensive income	1,440	231	1,671
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited	39,006	1,450	40,456
Non-controlling interests	400	–	400
Total equity	39,406	1,450	40,856
Total liabilities and equity	229,806	–	229,806

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

The tables below set out the impacts of the adoption of the revised accounting policy on operating profit/(losses).

(c) Operating profit

US\$m	Year ended 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	Year ended 31 December 2020 (As reported)
Operating profit before tax	6,830	116	6,946
Tax on operating profit before tax	(957)	(3)	(960)
Operating profit after tax	5,873	113	5,986
<i>Operating profit after tax attributable to:</i>			
Shareholders of AIA Group Limited	5,829	113	5,942
Non-controlling interests	44	–	44
Operating profit after tax per share (US cents)			
Basic	48.33	0.94	49.27
Diluted	48.25	0.94	49.19

US\$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
Operating profit/(losses) before tax	6,816	(51)	6,765
Tax on operating profit/(losses) before tax	(1,030)	(1)	(1,031)
Operating profit/(losses) after tax	5,786	(52)	5,734
<i>Operating profit/(losses) after tax attributable to:</i>			
Shareholders of AIA Group Limited	5,741	(52)	5,689
Non-controlling interests	45	–	45
Operating profit/(losses) after tax per share (US cents)			
Basic	47.67	(0.43)	47.24
Diluted	47.56	(0.43)	47.13

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)**(c) Operating profit** (continued)

Operating profit/(losses) after tax may be reconciled to net profit/(losses) as follows:

US\$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
Operating profit/(losses) after tax	5,786	(52)	5,734
Non-operating items, net of related changes in insurance and investment contract liabilities and taxes:			
Short-term fluctuations in investment return related to equities and real estate	937	(632)	305
Reclassification of revaluation gains for property held for own use	(170)	17	(153)
Corporate transaction related costs	(85)	–	(85)
Implementation costs for new accounting standards	(39)	–	(39)
Other non-operating investment return and other items	258	(2)	256
Subtotal ⁽¹⁾	901	(617)	284
Net profit/(losses)	6,687	(669)	6,018
<i>Operating profit/(losses) after tax attributable to:</i>			
Shareholders of AIA Group Limited	5,741	(52)	5,689
Non-controlling interests	45	–	45
<i>Net profit/(losses) attributable to:</i>			
Shareholders of AIA Group Limited	6,648	(669)	5,979
Non-controlling interests	39	–	39

Note:

(1) The adjusted amount is net of tax of nil (As previously reported: US\$1m). The gross adjusted amount before tax is US\$284m (As previously reported: US\$900m).



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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The Supplementary Embedded Value Information (the "EV Information") of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 269 to 294, which comprises:

- the consolidated EV results as at and for the year ended 31 December 2020;
- the sensitivity analysis as at and for the year then ended; and
- a summary of significant methodology and assumptions and other explanatory notes.

Our opinion

In our opinion, the EV Information of the Group as at and for the year ended 31 December 2020 is prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the EV Information section of our report.

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

Independence

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

Emphasis of Matter – Basis of Preparation

We draw attention to Sections 4 and 5 of the EV Information, which describe the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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



羅兵咸永道

Other Matter

The Group has prepared a separate set of consolidated financial statements for the year ended 31 December 2020 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and International Financial Reporting Standards issued by the International Accounting Standards Board, on which we issued a separate auditor's report to the shareholders of the Company dated 12 March 2021.

Other Information

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

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

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

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

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



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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the EV Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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



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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

Certified Public Accountants

Hong Kong

12 March 2021

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

SUPPLEMENTARY EMBEDDED VALUE INFORMATION

CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of the changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

1. HIGHLIGHTS

Embedded Value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB) for all entities other than Tata AIA Life Insurance Company Limited (Tata AIA Life). This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. For Tata AIA Life, the Group uses the Indian Embedded Value (IEV) methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India.

The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company, after allowing for taxes. Prior to 2020, the Group reflected the impact of withholding tax under Group Corporate Centre. Starting from 2020, the segment information has been enhanced to present withholding tax under the appropriate operating segment. More details on the EV results, methodology and assumptions are covered in later sections of this report.

Unless otherwise stated, the growth rates provided in the commentaries are shown on a constant exchange rate (CER) basis.

Summary of Key Metrics⁽¹⁾ (US\$ millions)

	As at 31 December 2020	As at 31 December 2019	Change CER	Change AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	67,185	63,905	3%	5%
Embedded value (EV)	65,247	61,985	3%	5%
Adjusted net worth (ANW)	28,503	28,241	(1)%	1%
Value of in-force business (VIF)	36,744	33,744	7%	9%
	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
Value of new business (VONB)	2,765	4,154	(33)%	(33)%
Annualised new premiums (ANP)	5,219	6,585	(20)%	(21)%
VONB margin	52.6%	62.9%	(10.4) pps	(10.3) pps
EV operating profit	7,243	8,685	(17)%	(17)%
Operating return on EV (Operating ROEV)	11.7%	15.9%	(4.1) pps	(4.2) pps
Underlying free surplus generation (UFSG)	5,843	5,501	7%	6%

Note:

(1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

The EV as at 31 December 2020 is presented consistently with the segment information in the IFRS consolidated financial statements.

Summary of EV by Business Unit (US\$ millions)

Business Unit	As at 31 December 2020				
	ANW ⁽²⁾	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	7,735	17,319	2,159	15,160	22,895
AIA Thailand	3,008	5,145	1,096	4,049	7,057
AIA Singapore	2,984	4,416	814	3,602	6,586
AIA Malaysia	1,293	2,084	233	1,851	3,144
AIA China	3,439	8,409	4	8,405	11,844
Other Markets	5,983	5,018	1,561	3,457	9,440
Group Corporate Centre	11,472	–	–	–	11,472
Subtotal	35,914	42,391	5,867	36,524	72,438
Adjustment to reflect consolidated reserving and capital requirements ⁽³⁾	(7,064)	3,115	1,596	1,519	(5,545)
After-tax value of unallocated Group Office expenses	–	(1,138)	–	(1,138)	(1,138)
Total (before non-controlling interests)	28,850	44,368	7,463	36,905	65,755
Non-controlling interests	(347)	(173)	(12)	(161)	(508)
Total	28,503	44,195	7,451	36,744	65,247

Business Unit	As at 31 December 2019 (as adjusted) ⁽¹⁾				
	ANW ⁽²⁾	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	8,372	15,059	1,534	13,525	21,897
AIA Thailand	4,802	5,583	1,365	4,218	9,020
AIA Singapore	2,805	4,360	831	3,529	6,334
AIA Malaysia	1,211	1,946	215	1,731	2,942
AIA China	3,074	6,968	–	6,968	10,042
Other Markets	5,949	4,708	1,309	3,399	9,348
Group Corporate Centre	9,291	–	–	–	9,291
Subtotal	35,504	38,624	5,254	33,370	68,874
Adjustment to reflect consolidated reserving and capital requirements ⁽³⁾	(6,905)	3,180	1,583	1,597	(5,308)
After-tax value of unallocated Group Office expenses	–	(1,067)	–	(1,067)	(1,067)
Total (before non-controlling interests)	28,599	40,737	6,837	33,900	62,499
Non-controlling interests	(358)	(164)	(8)	(156)	(514)
Total	28,241	40,573	6,829	33,744	61,985

Notes:

- (1) In 2020, the Group enhanced the segment information to present withholding tax under the appropriate operating segment. The 2019 comparative information has been adjusted to conform to this presentation.
- (2) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS consolidated financial statements.
- (3) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

Derivation of the Consolidated ANW from IFRS Equity (US\$ millions)

	As at 31 December 2020	As at 31 December 2019 (as adjusted)
IFRS equity attributable to shareholders of the Company	63,200	54,947
Elimination of IFRS deferred acquisition and origination costs assets	(27,915)	(26,328)
Difference between IFRS policy liabilities and local statutory policy liabilities	(937)	5,949
Difference between net IFRS policy liabilities and local statutory policy liabilities	(28,852)	(20,379)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	(3)	–
Elimination of intangible assets	(2,634)	(2,520)
Recognition of deferred tax impacts of the above adjustments	3,735	3,008
Recognition of non-controlling interests impacts of the above adjustments	121	90
ANW (Business Unit)	35,567	35,146
Adjustment to reflect consolidated reserving requirements, net of tax	(7,064)	(6,905)
ANW (Consolidated)	28,503	28,241

IFRS equity attributable to shareholders of the Company as at 31 December 2019 has been adjusted to reflect the change in accounting policy as per note 48 to the IFRS consolidated financial statements.

2.3 Breakdown of ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.6 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

Free Surplus and Required Capital for the Group (US\$ millions)

	As at 31 December 2020		As at 31 December 2019	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	24,093	13,473	24,523	14,917
Required capital	11,474	15,030	10,623	13,324
ANW	35,567	28,503	35,146	28,241

The Company's subsidiaries, AIA Company Limited (AIA Co.) and AIA International Limited (AIA International), are both subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements. These regulatory reserving and capital requirements, and other consolidated reserving and capital requirements as determined by the Group, apply in addition to the relevant local requirements applicable to our Business Units.

2. EMBEDDED VALUE RESULTS (continued)

2.4 Earnings Profile

The tables below show how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the consolidated reserving and capital requirements.

Profile of Projected After-Tax Distributable Earnings for the Group's In-force Business (US\$ millions)

Expected period of emergence	As at 31 December 2020	
	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

Expected period of emergence	As at 31 December 2019	
	Undiscounted	Discounted
1 – 5 years	20,000	16,641
6 – 10 years	16,759	9,383
11 – 15 years	18,398	7,029
16 – 20 years	18,724	4,963
21 years and thereafter	166,423	9,052
Total	240,304	47,068

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$51,774 million (2019: US\$47,068 million) plus the free surplus of US\$13,473 million (2019: US\$14,917 million) shown in Section 2.3 of this report is equal to the EV of US\$65,247 million (2019: US\$61,985 million) shown in Section 2.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business

The VONB for the Group for the year ended 31 December 2020 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS consolidated financial statements. Section 4.1 of this report contains a list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 31 December 2020 was US\$2,765 million, a decrease of US\$1,389 million, or 33 per cent, from US\$4,154 million for the year ended 31 December 2019.

Summary of VONB by Business Unit (US\$ millions)

Business Unit	Year ended 31 December 2020			Year ended 31 December 2019		
	VONB before CoC	CoC	VONB after CoC	VONB before CoC	CoC	VONB after CoC
AIA Hong Kong	670	120	550	1,728	107	1,621
AIA Thailand	520	51	469	559	65	494
AIA Singapore	347	17	330	384	32	352
AIA Malaysia	239	17	222	276	18	258
AIA China	1,030	62	968	1,248	81	1,167
Other Markets	632	118	514	646	111	535
Total before unallocated Group Office expenses and non-controlling interests (Business Unit)	3,438	385	3,053	4,841	414	4,427
Adjustment to reflect consolidated reserving and capital requirements	(56)	47	(103)	(88)	(1)	(87)
Total before unallocated Group Office expenses and non-controlling interests (Consolidated)	3,382	432	2,950	4,753	413	4,340
After-tax value of unallocated Group Office expenses	(161)	–	(161)	(154)	–	(154)
Total before non-controlling interests (Consolidated)	3,221	432	2,789	4,599	413	4,186
Non-controlling interests	(25)	(1)	(24)	(32)	–	(32)
Total	3,196	431	2,765	4,567	413	4,154

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the year ended 31 December 2020.

The VONB margin and PVNBP margin are defined as VONB, gross of non-controlling interests and excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB used in the margin calculation is gross of non-controlling interests and excludes pension business to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the year ended 31 December 2020 was 52.6 per cent compared with 62.9 per cent for the year ended 31 December 2019. The Group PVNBP margin for the year ended 31 December 2020 was 9 per cent compared with 11 per cent for the year ended 31 December 2019.

Breakdown of VONB, ANP, VONB Margin and PVNBP Margin⁽¹⁾ (US\$ millions)

	VONB after CoC ⁽¹⁾	ANP ⁽¹⁾	VONB Margin ⁽¹⁾	PVNBP Margin ⁽¹⁾
Year				
Values for 2020				
Twelve months ended 31 December 2020	2,765	5,219	52.6%	9%
Values for 2019				
Twelve months ended 31 December 2019 ⁽¹⁾	4,154	6,585	62.9%	11%
Quarter				
Values for 2020				
Three months ended 31 March 2020	841	1,483	56.6%	10%
Three months ended 30 June 2020	569	1,096	51.4%	9%
Three months ended 30 September 2020	706	1,359	51.6%	9%
Three months ended 31 December 2020	649	1,281	50.2%	9%
Values for 2019				
Three months ended 31 March 2019 ⁽¹⁾	1,169	1,827	63.6%	11%
Three months ended 30 June 2019 ⁽¹⁾	1,106	1,616	67.9%	11%
Three months ended 30 September 2019 ⁽¹⁾	980	1,444	67.0%	12%
Three months ended 31 December 2019 ⁽¹⁾	899	1,698	54.1%	9%

Note:

(1) The VONB, ANP, VONB margin and PVNBP margin for the three-month periods up to 30 September 2019 are presented without the Group's share of Tata AIA Life and before deducting the amount attributable to non-controlling interests. The VONB, ANP, VONB margin and PVNBP margin in the three months and the twelve months ended 31 December 2019 are presented including the Group's share of Tata AIA Life for 2019 full year and, where relevant, after deducting the amount attributable to non-controlling interests for 2019 full year.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the VONB (excluding pension business), ANP, and VONB margin by Business Unit.

Summary of VONB Excluding Pension, ANP and VONB Margin by Business Unit (US\$ millions)

Business Unit	Year ended 31 December 2020			Year ended 31 December 2019		
	VONB Excluding Pension	ANP	VONB Margin	VONB Excluding Pension	ANP	VONB Margin
AIA Hong Kong	509	1,138	44.7%	1,583	2,393	66.1%
AIA Thailand	469	661	71.0%	494	729	67.7%
AIA Singapore	330	520	63.4%	352	538	65.5%
AIA Malaysia	221	369	59.9%	256	406	63.1%
AIA China	968	1,197	80.9%	1,167	1,248	93.5%
Other Markets	512	1,334	38.4%	533	1,271	41.9%
Total before unallocated Group Office expenses (Business Unit)	3,009	5,219	57.7%	4,385	6,585	66.6%
Adjustment to reflect consolidated reserving and capital requirements	(102)	–		(87)	–	
Total before unallocated Group Office expenses (Consolidated)	2,907	5,219	55.7%	4,298	6,585	65.3%
After-tax value of unallocated Group Office expenses	(161)	–		(154)	–	
Total	2,746	5,219	52.6%	4,144	6,585	62.9%

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of EV Movement (US\$ millions)

	Year ended 31 December 2020			Year ended 31 December 2019			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
Opening EV	28,241	33,744	61,985	24,637	29,880	54,517	14%
Purchase price ⁽²⁾	(18)	–	(18)	(1,454)	–	(1,454)	n/m ⁽¹⁾
Acquired EV ⁽³⁾	–	–	–	790	417	1,207	n/m
Effect of acquisition	(18)	–	(18)	(664)	417	(247)	n/m
Value of new business	(726)	3,491	2,765	(702)	4,856	4,154	(33)%
Expected return on EV	5,591	(1,415)	4,176	5,072	(967)	4,105	2%
Operating experience variances	538	(5)	533	394	206	600	n/m
Operating assumption changes	(31)	47	16	(18)	52	34	n/m
Finance costs	(247)	–	(247)	(208)	–	(208)	19%
EV operating profit	5,125	2,118	7,243	4,538	4,147	8,685	(17)%
Investment return variances	(3,446)	1,578	(1,868)	(942)	1,459	517	n/m
Effect of changes in economic assumptions	35	(1,048)	(1,013)	65	(319)	(254)	n/m
Other non-operating variances	160	(490)	(330)	2,491	(2,569)	(78)	n/m
Total EV profit	1,874	2,158	4,032	6,152	2,718	8,870	n/m
Dividends	(1,997)	–	(1,997)	(1,961)	–	(1,961)	2%
Other capital movements	81	–	81	136	–	136	(40)%
Effect of changes in exchange rates	322	842	1,164	(59)	729	670	n/m
Closing EV	28,503	36,744	65,247	28,241	33,744	61,985	5%

Notes:

(1) Not meaningful (n/m).

(2) The purchase price in 2020 refers to the purchase price adjustments for the alternative arrangements with Commonwealth Bank of Australia (CBA) in relation to The Colonial Mutual Life Assurance Society Limited (CMLA) as per note 5 to the IFRS consolidated financial statements.

(3) The acquired EV for CMLA is calculated as at 1 November 2019 net of the related reinsurance agreement.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV grew to US\$65,247 million at 31 December 2020, an increase of 3 per cent over the year from US\$61,985 million at 31 December 2019.

EV operating profit was US\$7,243 million (2019: US\$8,685 million), reflecting VONB of US\$2,765 million (2019: US\$4,154 million), an expected return on EV of US\$4,176 million (2019: US\$4,105 million), operating experience variances and operating assumption changes which were again positive and amounted to US\$549 million (2019: US\$634 million), net of finance costs of US\$247 million (2019: US\$208 million).

The VONB for the year ended 31 December 2020 is calculated at the point of sale for business written during the year. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB up to 31 December 2020. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the year and that expected based on the operating assumptions.

The operating experience variances, net of tax, increased EV by US\$533 million (2019: increased by US\$600 million), driven by:

- Expense variances of US\$6 million (2019: US\$28 million), partially offset by development costs of US\$5 million (2019: US\$24 million);
- Mortality and morbidity claims variances of US\$384 million (2019: US\$212 million); and
- Persistency and other variances of US\$148 million (2019: US\$384 million) including persistency variances of US\$(49) million (2019: US\$77 million) and other variances arising from management actions of US\$197 million (2019: US\$307 million).

The effect of changes in operating assumptions during the year was an increase in EV of US\$16 million (2019: increase in EV of US\$34 million).

The EV profit of US\$4,032 million (2019: US\$8,870 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances, reflecting short-term fluctuations in investment returns, arise from the impact of differences between the actual investment returns in the year and the expected investment returns. This amounted to a decrease in EV of US\$1,868 million (2019: an increase in EV of US\$517 million) driven by the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns.

The effect of changes in economic assumptions was a decrease in EV of US\$1,013 million (2019: a decrease in EV of US\$254 million).

Other non-operating variances reduced EV by US\$330 million (2019: reduced EV by US\$78 million) which comprised negative impacts from the application of withholding tax and other impacts due to the subsidiarisation of AIA China as described in Section 4.1, provisions for uncertain tax positions as disclosed in note 12 to the IFRS consolidated financial statements, and other items including modelling-related enhancements and certain non-operating expenses. These were partially offset by positive impacts from the subsidiarisation of New Zealand, the implementation of Risk-Based Capital 2 in Singapore, and adjustments to capital requirements on consolidation.

The Group paid total shareholder dividends of US\$1,997 million (2019: US\$1,961 million). Other capital movements increased EV by US\$81 million (2019: increased EV by US\$136 million).

Foreign exchange movements increased EV by US\$1,164 million (2019: increased EV by US\$670 million).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

Operating ROEV (US\$ millions)

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 11.7 per cent (2019: 15.9 per cent) for the year ended 31 December 2020.

	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
EV operating profit	7,243	8,685	(17)%	(17)%
Opening EV	61,985	54,517	12%	14%
Operating ROEV	11.7%	15.9%	(4.1) pps	(4.2) pps

2.7 EV Equity

The EV Equity grew to US\$67,185 million at 31 December 2020, an increase of 3 per cent from US\$63,905 million as at 31 December 2019.

Derivation of EV Equity from EV (US\$ millions)

	As at 31 December 2020	As at 31 December 2019	Change CER	Change AER
EV	65,247	61,985	3%	5%
Goodwill and other intangible assets ⁽¹⁾	1,938	1,920	(3)%	1%
EV Equity	67,185	63,905	3%	5%

Note:

(1) Consistent with the IFRS consolidated financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

2. EMBEDDED VALUE RESULTS (continued)

2.8 Free Surplus Generation

Free Surplus Generation (US\$ millions)

	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
Opening free surplus	14,917	14,751	1%	1%
Effect of acquisition ⁽¹⁾	(18)	(1,045)	n/m	n/m ⁽²⁾
Underlying free surplus generation	5,843	5,501	7%	6%
Free surplus used to fund new business	(1,428)	(1,477)	(2)%	(3)%
Investment return variances and other items	(3,505)	(588)	n/m	n/m
Unallocated Group Office expenses	(173)	(192)	(10)%	(10)%
Dividends	(1,997)	(1,961)	2%	2%
Finance costs and other capital movements	(166)	(72)	n/m	n/m
Closing free surplus	13,473	14,917	(11)%	(10)%

Notes:

(1) The effect of acquisition in 2020 refers to the purchase price adjustments for the alternative arrangements with CBA in relation to CMLA as per note 5 to the IFRS consolidated financial statements.

(2) Not meaningful (n/m).

Free surplus decreased by US\$1,444 million (2019: increased by US\$166 million) to US\$13,473 million (2019: US\$14,917 million) as of 31 December 2020.

Underlying free surplus generation, as defined in Section 4.8, increased by 7 per cent, to US\$5,843 million (2019: US\$5,501 million). Investment in writing new business reduced free surplus by US\$1,428 million (2019: US\$1,477 million).

Investment return variances and other items amounted to US\$(3,505) million (2019: US\$(588) million), reflecting the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns and other items, including the free surplus impacts arising from other non-operating variances as described in Section 2.6.

Unallocated Group Office expenses amounted to US\$173 million (2019: US\$192 million) in 2020.

3. SENSITIVITY ANALYSIS

The EV as at 31 December 2020 and the VONB for the year ended 31 December 2020 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 31 December 2020 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 December 2020); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 December 2020).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 December 2020 and the values of debt instruments and derivatives held at 31 December 2020 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 31 December 2020 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 31 December 2020 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

3. SENSITIVITY ANALYSIS (continued)

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV (US\$ millions)

Scenario	As at 31 December 2020		As at 31 December 2019	
	EV	Ratio	EV	Ratio
Central value	65,247		61,985	
<i>Impact of:</i>				
200 bps increase in risk discount rates	(9,098)	(13.9)%	(8,500)	(13.7)%
200 bps decrease in risk discount rates	14,409	22.1%	13,696	22.1%
10% increase in equity prices	1,099	1.7%	968	1.6%
10% decrease in equity prices	(1,095)	(1.7)%	(967)	(1.6)%
50 bps increase in interest rates	652	1.0%	719	1.2%
50 bps decrease in interest rates	(1,294)	(2.0)%	(797)	(1.3)%
5% appreciation in the presentation currency	(1,906)	(2.9)%	(1,837)	(3.0)%
5% depreciation in the presentation currency	1,906	2.9%	1,837	3.0%
10% increase in lapse/discontinuance rates	(891)	(1.4)%	(999)	(1.6)%
10% decrease in lapse/discontinuance rates	1,049	1.6%	1,087	1.8%
10% increase in mortality/morbidity rates	(4,556)	(7.0)%	(4,627)	(7.5)%
10% decrease in mortality/morbidity rates	4,665	7.1%	4,540	7.3%
10% decrease in maintenance expenses	882	1.4%	699	1.1%
Expense inflation set to 0%	1,063	1.6%	868	1.4%

Sensitivity of VONB (US\$ millions)

Scenario	Year ended 31 December 2020		Year ended 31 December 2019	
	VONB	Ratio	VONB	Ratio
Central value	2,765		4,154	
<i>Impact of:</i>				
200 bps increase in risk discount rates	(655)	(23.7)%	(956)	(23.0)%
200 bps decrease in risk discount rates	963	34.8%	1,527	36.8%
50 bps increase in interest rates	193	7.0%	151	3.6%
50 bps decrease in interest rates	(298)	(10.8)%	(207)	(5.0)%
5% appreciation in the presentation currency	(116)	(4.2)%	(129)	(3.1)%
5% depreciation in the presentation currency	116	4.2%	129	3.1%
10% increase in lapse/discontinuance rates	(176)	(6.4)%	(209)	(5.0)%
10% decrease in lapse/discontinuance rates	182	6.6%	224	5.4%
10% increase in mortality/morbidity rates	(357)	(12.9)%	(362)	(8.7)%
10% decrease in mortality/morbidity rates	337	12.2%	348	8.4%
10% decrease in maintenance expenses	89	3.2%	97	2.3%
Expense inflation set to 0%	54	2.0%	61	1.5%

4. METHODOLOGY

4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Co., a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International, a company incorporated in Bermuda and an indirect subsidiary of the Company. Furthermore, AIA Co. has branches located in Thailand and AIA International has branches located in Hong Kong, Macau and Taiwan.

The following is a list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co., and the business acquired by the Group from CBA via a contractual joint cooperation agreement (CMLA), and AIA Sovereign Limited, a subsidiary of AIA International;
- AIA Cambodia refers to AIA (Cambodia) Life Insurance Plc., a subsidiary of AIA International;
- AIA China refers to AIA Life Insurance Company Limited, a subsidiary of AIA Co.⁽¹⁾;
- AIA Hong Kong refers to the total of the following three entities:
 - the Hong Kong and Macau branches of AIA International;
 - the Hong Kong and Macau business written by AIA Co.; and
 - AIA Pension and Trustee Co. Ltd., a subsidiary of AIA Co.;
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to AIA Life Insurance Co. Ltd., a subsidiary of AIA International;
- AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co. and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Bhd., and AIA General Bhd.;
- AIA Myanmar refers to AIA Myanmar Life Insurance Co. Ltd., a subsidiary of AIA Co.;
- AIA Philippines refers to The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance (BPLAC) Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and its Brunei branch;
- AIA Sri Lanka refers to AIA Insurance Lanka Limited, a subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.;
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International; and
- Tata AIA Life refers to Tata AIA Life Insurance Company Limited, an associate 49 per cent owned by AIA International.

Note:

- (1) On 9 July 2020, AIA Life Insurance Company Limited was incorporated in Shanghai, following the approval from the China Banking and Insurance Regulatory Commission (CBIRC) to convert the existing Shanghai branch of AIA Co. to a wholly-owned subsidiary. Subsequently, the conversion process was completed on 1 October 2020. After the conversion, any future remittances from this new subsidiary to the Group are subject to withholding tax at the applicable rate in Mainland China (currently set at 5%). In addition, the new subsidiary is no longer subject to the Hong Kong statutory minimum solvency margin requirement. The impact of withholding tax on future remittances has been reflected in the EV and VONB since the date of incorporation, while the impact due to the change in capital requirement has been reflected in the EV and VONB since the completion of the conversion.

Results are presented consistently with the segment information in the IFRS consolidated financial statements. The summary of the EV of the Group by Business Unit in this report also includes the ANW for the “Group Corporate Centre” segment, which is derived from the IFRS equity for this segment plus mark-to-market adjustments less the value of intangible assets. In the presentation of EV and VONB, the present value of withholding tax payable on future remittances from local business units is presented under the appropriate operating segment.

4. METHODOLOGY (continued)

4.2 Embedded Value and Value of New Business

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB for all entities other than Tata AIA Life. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the Group is calculated based on assumptions applicable at the point of sale, after allowing for any acquisition expense overruns in excess of the relevant expense assumptions.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed as per note 23 to the Group's IFRS consolidated financial statements as at the valuation date.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company.

A deduction has been made from the EV and VONB for the present value of future after-tax unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated to the Business Units. These unallocated Group Office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India. The EV and VONB reported for Tata AIA Life are reported on a one-quarter-lag basis.

4. METHODOLOGY (continued)

4.3 Definition of New Business

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group renewable business including group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds the prior year's premiums. For individually significant group cases, the VONB is calculated over each premium rate guarantee period entered upon contract inception or renewal.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For pension business, sales of new contracts during the period and any new contributions, including assets transferred in, are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using annualised new premiums (ANP), which is an internal measure of new business sales.

4.4 Consolidation of Branches and Subsidiaries of AIA Co. and AIA International

The Group's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities and subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the BMA reserving and capital requirements. AIA operates in a number of territories as branches and subsidiaries of these entities. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

The EV and VONB results for the Group shown in Section 2 of this report have been adjusted to reflect the consolidated reserving and capital requirements. This approach was taken to reflect the distribution of profits from AIA Co. and AIA International after allowing for the Hong Kong, BMA, and local regulatory requirements, and other reserving and capital requirements as determined by the Group. The EV and VONB for each Business Unit reflect the local reserving and capital requirements, as discussed in Section 4.6 of this report, before a Group-level adjustment to reflect the consolidated reserving and capital requirements.

4.5 Valuation of Future Statutory Losses

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. There are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the consolidated reserving and capital requirements have the effect of reducing the level of any future projected statutory losses. Based on the assumptions described in Section 5 of this report, and allowing for the consolidated statutory reserving and capital requirements, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4. METHODOLOGY (continued)

4.6 Capital Requirements

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of local capital requirement for each Business Unit are set out in the table below:

Business Unit	Capital requirements
AIA Australia	
• Australia	100% of regulatory capital adequacy requirement
• New Zealand	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	Higher of 135% of capital adequacy requirement and 80% of Tier 1 capital requirement under the regulatory Risk-Based Capital framework
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement ⁽¹⁾
AIA Vietnam	100% of required minimum solvency margin
Tata AIA Life	175% of required minimum solvency margin

Note:

(1) The Capital Requirement ratio assumed in the EV calculation is 120% up to year-end of 2021, and 140% thereafter, in line with the regulatory requirement under Thailand RBC 2.

Capital Requirements on Consolidation

The Group has an undertaking to the Hong Kong Insurance Authority (HKIA) to maintain required capital not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of AIA Hong Kong and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong.

AIA International and its subsidiaries hold required capital of no less than 120% of the BMA regulatory capital requirements.

As described in Section 4.1, the existing Shanghai branch of AIA Co. was converted to a wholly-owned subsidiary on 1 October 2020. After the conversion, AIA China is no longer subject to the Hong Kong statutory minimum solvency margin requirement.

In addition to the above, the reserving and capital requirements for the purpose of consolidation allow for the local regulatory requirements outlined above and other reserving and capital requirements as determined by the Group.

4. METHODOLOGY (continued)

4.7 Foreign Exchange

The EV as at 31 December 2020 and 31 December 2019 have been translated into US dollars using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US dollars using the corresponding average exchange rates for each quarter. The other components of the EV profit shown in the analysis of EV movement have been translated using average exchange rates for the period.

Change on actual exchange rates (AER) is calculated based on the translated figures as described above. Change on constant exchange rates (CER) is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for EV as at the end of the current year and as at the end of the prior year, which are translated using the CER.

4.8 Underlying Free Surplus Generation

The free surplus is defined as the ANW in excess of the required capital after reflecting consolidated reserving and capital requirements. The underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items, and before free surplus used to fund new business, unallocated Group Office expenses, finance costs, investment return variances and other non-operating items. The underlying free surplus generation is also calculated after reflecting consolidated reserving and capital requirements.

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 31 December 2020 and the VONB for the year ended 31 December 2020 and highlights certain differences in assumptions between the EV as at 31 December 2019 and the EV as at 31 December 2020.

5.2 Economic Assumptions

Investment Returns

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve. Therefore, the risk discount rate and long-term investment returns are not provided for Tata AIA Life.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk. For 2020 and prior, the risk margins assumed in the VONB calculations are equal to those assumed in the EV calculations as at the beginning of the reporting period. Starting from 2021, the risk margins assumed in the VONB calculations will be determined at a product level to better reflect the risk associated with the mix of products sold during the reporting period. If product level risk margins were applied in 2020, the impact on the 2020 reported VONB for the Group overall would be immaterial.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

Business Unit	Current market 10-year government bond yields referenced in EV calculations (%)	
	As at 31 December 2020	As at 31 December 2019
AIA Australia		
• Australia	0.97	1.37
• New Zealand	0.99	1.65
AIA China	3.15	3.14
AIA Hong Kong ⁽¹⁾	0.91	1.92
AIA Indonesia	5.89	7.06
AIA Korea	1.72	1.67
AIA Malaysia	2.65	3.31
AIA Philippines	3.00	4.46
AIA Singapore	0.84	1.74
AIA Sri Lanka	7.55	10.07
AIA Taiwan	0.32	0.67
AIA Thailand	1.28	1.49
AIA Vietnam	2.60	3.56

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that the VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

Business Unit	Risk discount rates assumed in EV calculations (%)			Long-term investment returns assumed in EV calculations (%)					
	As at 31 Dec 2020	As at 30 Jun 2020 (Unaudited)	As at 31 Dec 2019	10-year government bonds			Local equities		
				As at 31 Dec 2020	As at 30 Jun 2020 (Unaudited)	As at 31 Dec 2019	As at 31 Dec 2020	As at 30 Jun 2020 (Unaudited)	As at 31 Dec 2019
AIA Australia									
• Australia	6.45	6.45	6.45	2.30	2.30	2.30	6.60	6.60	6.60
• New Zealand	6.55	6.85	6.85	2.30	2.60	2.60	6.80	7.10	7.10
AIA China	9.75	9.75	9.75	3.70	3.70	3.70	9.30	9.30	9.30
AIA Hong Kong ⁽¹⁾	7.00	7.00	7.20	2.20	2.20	2.70	7.00	7.00	7.50
AIA Indonesia	13.00	13.00	13.00	7.50	7.50	7.50	12.00	12.00	12.00
AIA Korea	8.10	8.10	8.10	2.20	2.20	2.20	6.50	6.50	6.50
AIA Malaysia	8.55	8.55	8.55	4.00	4.00	4.00	8.60	8.60	8.60
AIA Philippines	11.80	11.80	11.80	5.30	5.30	5.30	10.50	10.50	10.50
AIA Singapore	6.60	6.60	6.90	2.20	2.20	2.50	6.70	6.70	7.00
AIA Sri Lanka	15.70	15.70	15.70	10.00	10.00	10.00	12.00	12.00	12.00
AIA Taiwan	7.25	7.55	7.55	1.00	1.30	1.30	5.60	5.90	5.90
AIA Thailand	7.80	7.90	7.90	2.70	2.70	2.70	7.70	7.70	7.70
AIA Vietnam	9.80	9.80	10.80	4.00	4.00	5.00	9.30	9.30	10.30

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.3 Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and retirement rates for pension products.

Assumptions have been developed by each of the Business Units based on their recent historical experience and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

5.4 Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

Group Office Expenses

Group Office expense assumptions have been set, after excluding non-operating expenses, based on actual acquisition and maintenance expenses in the year ended 31 December 2020. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

5. ASSUMPTIONS (continued)

5.5 Expense Inflation

The expected long-term expense inflation rates used by Business Units are set out below:

Expense Inflation Assumptions by Business Unit (%)

Business Unit	As at 31 December 2020	As at 31 December 2019
AIA Australia		
• Australia	2.05	2.05
• New Zealand	2.00	2.00
AIA China	2.00	2.00
AIA Hong Kong	2.00	2.00
AIA Indonesia	3.50	3.50
AIA Korea	3.50	3.50
AIA Malaysia	3.00	3.00
AIA Philippines	3.50	3.50
AIA Singapore	2.00	2.00
AIA Sri Lanka	6.50	6.50
AIA Taiwan	1.20	1.20
AIA Thailand	2.00	2.00
AIA Vietnam	4.00	4.00
Tata AIA Life ⁽¹⁾	5.60	7.25

Note:

(1) For Tata AIA Life, in accordance with the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, the inflation assumption is derived by applying a spread to the reference interest rate.

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5. ASSUMPTIONS (continued)

5.6 Mortality

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Group.

For annuity products that are exposed to longevity risk, an allowance has been made for expected future improvements in mortality; otherwise no allowance has been made for mortality improvements.

5.7 Morbidity

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

5.8 Reinsurance

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in-force as at the valuation date and the recent historical and expected future experience.

5.9 Policyholder Dividends, Profit Sharing and Interest Crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's expectation of future policies, strategies and operations consistent with the investment return assumptions used in the EV results.

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

5. ASSUMPTIONS (continued)

5.10 Taxation

The EV and VONB presented in this report are net of tax based on current taxation legislation. The projected corporate income tax payable in any year allows for the benefits arising from any tax loss carried forward where relevant. Where applicable, tax payable on investment income has been reflected in the projected investment returns. Any withholding tax payable on future remittances from local business units are also reflected under the appropriate operating segment.

The local corporate income tax rates used by each Business Unit are set out below:

Local Corporate Income Tax Rates by Business Unit (%)

Business Unit	As at 31 December 2020	As at 31 December 2019
AIA Australia		
• Australia	30.0	30.0
• New Zealand	28.0	28.0
AIA China	25.0	25.0
AIA Hong Kong	16.5	16.5
AIA Indonesia ⁽¹⁾	22.0	25.0
AIA Korea ⁽²⁾	27.5	27.5
AIA Malaysia	24.0	24.0
AIA Philippines	30.0	30.0
AIA Singapore	17.0	17.0
AIA Sri Lanka	28.0	28.0
AIA Taiwan	20.0	20.0
AIA Thailand	20.0	20.0
AIA Vietnam	20.0	20.0
Tata AIA Life	14.6	14.6

Notes:

- (1) During the reporting period, a change in corporate income tax rate has been enacted in Indonesia from 25% to 22% for fiscal years 2020 and 2021 and to 20% from fiscal year 2022 onwards.
- (2) From fiscal years 2019 to 2022 (extended from 2020 according to the latest tax regulation), AIA Korea is subject to an assumed corporate income tax of 27.5%, which includes an Accumulated Earnings Tax. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2023.

5. ASSUMPTIONS (continued)

5.11 Statutory Valuation Bases

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

5.12 Product Charges

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

6. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2021, a Committee appointed by the Board of Directors proposed a final dividend of 100.30 Hong Kong cents per share (2019: final dividend of 93.30 Hong Kong cents per share).

ADDITIONAL INFORMATION INFORMATION FOR SHAREHOLDERS

FINANCIAL CALENDAR

Announcement of 2020 Annual Results for the year ended 31 December 2020	12 March 2021
Book Close Period for the AGM	14 May 2021 to 20 May 2021 (both days inclusive)
Date of the AGM	20 May 2021
Announcement of 2021 Interim Results	17 August 2021

ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. (Hong Kong time) on Thursday, 20 May 2021 at the Grand Ballroom, Lower Level I, Kowloon Shangri-La, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. Details of the business to be transacted at the AGM are set out in the Company's circular to be issued to the shareholders of the Company for the AGM.

Details of voting results at the AGM can be found on the websites of both the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and the Company at www.aia.com on Thursday, 20 May 2021 after the AGM.

FINAL DIVIDEND

The Board has recommended an increase in the payment of a final dividend of 7.5 per cent to 100.30 Hong Kong cents per share for the year ended 31 December 2020 (2019: 93.30 Hong Kong cents per share), consistent with AIA's established prudent, sustainable and progressive dividend policy.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Thursday, 10 June 2021 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 26 May 2021, being the record date for determining the entitlements to the final dividend.

RELEVANT DATES FOR THE FINAL DIVIDEND

Ex-dividend date	Tuesday, 25 May 2021
Record date	Wednesday, 26 May 2021
Payment date	Thursday, 10 June 2021

ANNUAL STATEMENT ISSUED PURSUANT TO THE OFFSHORE FUND TAX EXEMPTION REGIME IN SINGAPORE

An indirect wholly-owned subsidiary of the Company, AIA Investment Management Private Limited, was incorporated in Singapore on 15 June 2016. Its businesses include the management of certain assets of the Company and its subsidiaries and branches, and it is required by the Income Tax (Exemption of Income of Prescribed Persons Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010 to issue an annual statement to each shareholder of the Company. To comply with the above legal requirement in Singapore, an annual statement containing the profit and market capitalisation information of the Company is available on the Company's website. You may visit the Company's website by clicking "Annual Statements issued pursuant to The Offshore Fund Tax Exemption Regime In Singapore" under the sub-section headed "Shareholder Centre" in the section headed "Investor Relations" to view the annual statement.

SHARE REGISTRAR

If you have any enquiries relating to your shareholding, please contact the Company's share registrar with the contact details set out below:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Telephone: +852 2862 8555

Email: aia.ecom@computershare.com.hk (for printed copies of the Company's corporate communications)

Website: www.computershare.com

www.computershare.com/hk/contact (for general enquiries)

ANNUAL REPORT

The English and Chinese versions of this Annual Report are available on the website of the Company. If you would like to have a printed version of this Annual Report, please contact the Company's share registrar using the contact details provided above.

The Company makes every effort to ensure consistency between the Chinese and English versions of this Annual Report. In the event of any inconsistency, the English version shall prevail.

For environmental and cost reasons, shareholders are encouraged to elect to receive corporate communications (as defined in the Listing Rules) electronically. You may at any time send written notice to the Company c/o the Company's share registrar or via email at aia.ecom@computershare.com.hk specifying your name, address and request to change your choice of language or means of receipt of all corporate communications.

INVESTMENT COMMUNITY AND NEWS MEDIA

Enquiries may be directed to:

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

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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

Mr. John Barrie HARRISON (*Chairman*)

Mr. Jack Chak-Kwong SO

Mr. George Yong-Boon YEO

Dr. Narongchai AKRASANEE

Mr. Cesar Velasquez PURISIMA

NOMINATION COMMITTEE

Mr. Edmund Sze-Wing TSE (*Chairman*)

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

REMUNERATION COMMITTEE

Mr. Jack Chak-Kwong SO (*Chairman*)

Mr. George Yong-Boon YEO

Mr. Edmund Sze-Wing TSE

RISK COMMITTEE

Mr. Chung-Kong CHOW (*Chairman*)

Mr. John Barrie HARRISON

Professor Lawrence Juen-Yee LAU

Ms. Swee-Lian TEO

Mr. Edmund Sze-Wing TSE

Mr. LEE Yuan Siong

REGISTERED OFFICE

35/F, AIA Central

No. 1 Connaught Road Central

Hong Kong

WEBSITE

www.aia.com

COMPANY SECRETARY

Ms. Nicole PAO

AUTHORISED REPRESENTATIVES

Mr. LEE Yuan Siong

Ms. Nicole PAO

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

17M Floor

Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

PRINCIPAL BANKERS

Citibank, N.A.

Standard Chartered Bank

The Hongkong and Shanghai Banking Corporation Limited

AUDITOR

PricewaterhouseCoopers

Certified Public Accountant

Registered Public Interest Entity Auditor

GLOSSARY

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.

active market	<p>A market in which all the following conditions exist:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
adjusted net worth or ANW	<p>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.</p>
AER	Actual exchange rates.
AGM	2021 Annual General Meeting of the Company to be held at 11:00 a.m. (Hong Kong time) on Thursday, 20 May 2021.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
AIG	American International Group, Inc.
ALC	The AIA Leadership Centre located in Bangkok, Thailand.
amortised cost	<p>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.</p>

annualised new premiums or ANP	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums.
Asia	Mainland China, Hong Kong SAR, Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei, Macau SAR, New Zealand and India.
available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
bancassurance	The distribution of insurance products through banks or other financial institutions.
BEPS 2.0	The common name for the Organisation for Economic Co-operation and Development's programme of work to develop a consensus based solution to the tax challenges arising from the digitalisation of the economy that has been agreed by the 139 jurisdictions that are members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting. This work contains two pillars. The first pillar deals with the allocation of taxing rights between jurisdictions, while the second pillar focuses on introducing a global minimum tax rate for multinational enterprises.
Board	The board of Directors.
CBA	Commonwealth Bank of Australia.
CER	Constant exchange rates. Change on constant exchange rates is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for balance sheet items as at the end of the current year and as at the end of the prior year, which is translated using the constant exchange rates.
CMLA	The Colonial Mutual Life Assurance Society Limited (including its affiliated companies), one of the largest life insurance providers in Australia.
Company	AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299).

consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.
COVID-19	COVID-19 is the infectious disease caused by a recently identified coronavirus.
Dealing Policy	Directors' and Chief Executives' Dealing Policy of the Company.
deferred acquisition costs or DAC	Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. Such assets are tested for recoverability at least annually.
deferred origination costs or DOC	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
Director(s)	The director(s) of the Company.
embedded value or EV	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
EPS	Earnings per share.

equity attributable to shareholders of the Company on the embedded value basis or EV Equity	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.
ExCo	The Executive Committee of the Group.
fair value through profit or loss or FVTPL	Under IAS 39, Financial Instruments: Recognition and Measurement, financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.
first half	The six months from 1 January to 30 June.
first quarter	The three months from 1 January to 31 March.
first year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
fourth quarter	The three months from 1 October to 31 December.
free surplus	ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements.
group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group LCSM surplus	The difference between the Group available capital and the Group minimum capital requirement.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HKFRS	Hong Kong Financial Reporting Standards.
HKIA	Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance.
HKICPA	Hong Kong Institute of Certified Public Accountants.
Holding company financial resources	Debt and equity securities, deposits, cash and cash equivalents and dividends paid but not settled by subsidiaries, net of obligations under repurchase agreements, at the Group's listed holding company, AIA Group Limited. These are presented in note 46 to the consolidated financial statements.

Hong Kong	The Hong Kong Special Administrative Region (SAR) of the PRC; in the context of our reportable market segments, Hong Kong includes Macau SAR.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Ordinance or HKIO	Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
ICS	A risk-based global insurance capital standard being developed by the IAIS.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the IASB comprising: <ul style="list-style-type: none"> • International Financial Reporting Standards; • IAS; and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).
ING Malaysia	ING Management Holdings (Malaysia) Sdn. Bhd.
investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
investment income	Investment income comprises interest income, dividend income and rental income.
investment return	Investment return consists of investment income plus investment experience.
IPO	Initial Public Offering.
LCSM	Local Capital Summation Method is the method to be used by the HKIA as a measure of group capital under the new Group-wide Supervision (GWS) framework. Group available capital is the sum of available capital of each relevant regulated entity within the Group. Group minimum capital requirement (MCR) is the sum of the minimum required capital of those same entities. Adjustments are made to eliminate double counting. Group LCSM surplus is the excess of Group available capital over the Group MCR. The Group LCSM cover ratio is the ratio of Group available capital to the Group MCR.

liability adequacy testing	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Million Dollar Round Table or MDRT	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Model Code	Model Code for Securities Transactions of Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.
net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable market segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable market segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.
n/a	Not available.
n/m	Not meaningful.
operating profit after tax or OPAT	Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or operating ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or operating ROE	Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
OTC	Over-the-counter.
other participating business with distinct portfolios	Business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.

participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation.
persistency	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co.
policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
pps	Percentage points.
PRC	The People's Republic of China.
protection gap	The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.
puttable liabilities	A puttable financial instrument is one in which the holder of the instrument has the right to put the instrument back to the issuer for cash (or another financial asset). Units in investment funds such as mutual funds and open-ended investment companies are typically puttable instruments. As these can be put back to the issuer for cash, the non-controlling interests in any such funds which have to be consolidated by AIA are treated as financial liabilities.
PVNB margin	VONB gross of non-controlling interests excluding pension business, expressed as a percentage of present value of new business premiums (PVNB). PVNB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RSPUs	Restricted stock purchase units.

RSSUs	Restricted stock subscription units.
second half	The six months from 1 July to 31 December.
SFO	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended from time to time.
share(s)	For the Company, shall mean ordinary share(s) in the capital of the Company.
shareholders' allocated equity	Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve.
Singapore	The Republic of Singapore; in the context of our reportable market segments, Singapore includes Brunei.
single premium	A single payment that covers the entire cost of an insurance policy.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
Sovereign	ASB Group (Life) Limited (renamed AIA Sovereign Limited in July 2018) and its subsidiaries, including Sovereign Assurance Company Limited, a licensed insurer in New Zealand.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA Life	Tata AIA Life Insurance Company Limited.
total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
underlying free surplus generation or UFSG	Underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items. It excludes free surplus used to fund new business, unallocated group office expenses, investment variances and other non-operating items. UFSG for AIA is stated after reflecting consolidated reserving and capital requirements.
unit-linked investments	Financial investments held to back unit-linked contracts.

unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
universal life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.
value of business acquired or VOBA	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
value of new business or VONB	VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB gross of non-controlling interests excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.

