



HEALTHIER, LONGER,  
BETTER LIVES

AIA GROUP LIMITED  
友邦保險控股有限公司  
STOCK CODE 1299

# LIVING OUR PURPOSE

ANNUAL  
REPORT  
2021



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


The business that is now AIA was first established in Shanghai more than a century ago in 1919. It is a market leader in Asia (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$340 billion as of 31 December 2021.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia, AIA serves the holders of more than 39 million individual policies and over 16 million participating members of group insurance schemes.

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

Notes:

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



**OUR PURPOSE  
IS TO HELP  
PEOPLE LIVE  
HEALTHIER,  
LONGER,  
BETTER  
LIVES.**

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This past year saw AIA deepen our commitment to the regional community while accelerating the expansion of our businesses in key growth markets, notably Mainland China.

We clearly and demonstrably articulated our long-term Environmental, Social and Governance (ESG) strategy, which is integral to our Purpose of helping people live Healthier, Longer, Better Lives. We also addressed the immediate challenge of the COVID-19 pandemic in all 18 markets where we operate.

A photograph of three children running happily in a park. On the left, a young boy in a light brown shirt is laughing. In the center, another boy in a pinkish-brown shirt is running with a joyful expression. On the right, a girl in a white sleeveless top with floral embroidery and red shorts is running and smiling broadly. The background is a lush green park with trees and sunlight filtering through the leaves.

# 2021 HIGHLIGHTS

# AIA forms exclusive 15-year bancassurance partnership with The Bank of East Asia

Under this strategic bancassurance partnership, The Bank of East Asia distributes AIA's life and long-term savings products on an exclusive basis to its affluent customer base via more than 140 outlets in Hong Kong and Mainland China.



THE GREATER BAY AREA OFFERS IMMENSE POTENTIAL FOR AIA WITH A COMBINED POPULATION OF

# 86 MILLION

AND GDP OF CLOSE TO US\$

# 1.7 TRILLION<sup>(1)</sup>

## AIA captures further growth in Mainland China through our investment in China Post Life

AIA has invested in China Post Life for a 24.99 per cent equity stake. This investment increases AIA's engagement with the growth opportunities in the China life insurance market and complements our existing strategy in Mainland China.

## AIA named #1 MDRT company for the seventh year running

AIA is the only multinational firm in history to have the largest number of Million Dollar Round Table (MDRT) members for seven consecutive years. This is a testament to AIA's investments in building our Premier Agency workforce and our agents' uninterrupted professional services to their communities amidst the pandemic.



## AIA China launches operations in Hubei and Sichuan

The launches of the new Sichuan and Hubei branches accelerate AIA's geographical expansion in Mainland China and enable replications of our differentiated Premier Agency in new locations.

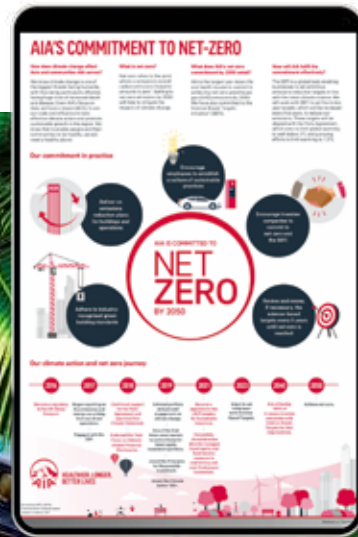
Note:

(1) The Guangdong Province, Hong Kong SAR Government and Macau SAR Government figures, 2020.



## AIA commits to achieving net-zero greenhouse gas emissions by 2050

AIA is the largest pan-Asian life and health insurer to commit to net-zero emissions. This builds on AIA's long-term commitment to sustainability and supports the delivery of sustainable value for our customers, shareholders and communities across Asia.



### AIA releases new ESG strategy

AIA's ESG strategy empowers the Group to deliver long-term value for stakeholders and deliver our Purpose, by addressing material ESG topics through clear goals and tangible actions. This strategy is built around five pillars: Health and Wellness; Sustainable Operations; Sustainable Investment; People and Culture; and Effective Governance.



**“Driven by our Purpose of helping people live Healthier, Longer, Better Lives, we have a responsibility to help address climate change and contribute to sustainable and healthier development for Asia.”**

LEE YUAN SIONG  
GROUP CHIEF EXECUTIVE AND PRESIDENT

### AIA completes divestment from coal mining and coal-fired power seven years ahead of schedule

AIA divested entirely from our directly-managed listed equity and fixed income exposure to coal mining and coal-fired power businesses in October 2021, seven years ahead of our original schedule. AIA will make no new investments in businesses directly involved in coal mining or generating electricity from coal.

### AIA commits to the Science Based Targets initiative

Science Based Targets initiative (SBTi) is a global body that enables businesses to set ambitious emissions reduction targets, in line with the latest climate science. AIA will integrate the SBTi commitment into our investment portfolio engagement processes, with the goal that 100 per cent of in-scope investee companies will establish their own targets by 2040.

## AIA grants first 100 scholarship awards to university students in Hong Kong

AIA has granted our first 100 scholarship awards to university students in Hong Kong as part of our pledge of US\$100 million to support 100 undergraduates every year over the next several decades.



## AIA supports communities to combat the COVID-19 pandemic

AIA has made meaningful and significant contributions in all 18 of our markets to help front-line medical staff and the wider communities battle the ongoing pandemic. These include expanding COVID-19 coverage and insurance plans for customers; incentivising employees, agents, and customers to get vaccinated; distributing protective equipment and supplies to medical personnel; and purchasing vaccinations for communities. In particular, the Group has made a US\$2.5 million contribution to support relief efforts in India.



### AIA launches inaugural Regional Ambassador Programme to help communities live Healthier, Longer, Better Lives

This regional programme provides AIA's ambassadors, some of the most influential health and well-being advocates across Asia, a platform to co-create new ideas and inspirational content to promote health and wellness, as well as cultural diversity.

**TRANSFORMING  
THROUGH**

# **TECHNOLOGY, DIGITAL AND ANALYTICS**



AIA has a rich history of helping millions of people in Asia live Healthier, Longer, Better Lives. Over the past two years, health and wellness have become increasingly important for our communities, driving greater demand for our compelling propositions and leading customer experience.

AIA's accelerated use of technology, digital and analytics (TDA) across our business has been crucial in better supporting our customers, employees, agents, distributors, partners, and communities, whilst continuing our strong track record of growing shareholder value. By leveraging the power of TDA in our businesses, we are transforming into a simpler, faster, and more connected organisation. Our journey to becoming a customer-centric, digitally-enabled insurer allows us to better engage our stakeholders, drive greater business efficiencies, and capture sustainable and significant growth opportunities across Asia.

PROCESSED

**75%**

OF CLAIMS SUBMISSIONS  
AND

**73%**

OF SERVICE REQUESTS VIA DIGITAL  
CHANNELS IN 2021

ACHIEVED AN OVER

**70%**

CLOUD TECHNOLOGY  
ADOPTION RATE,  
AHEAD OF THE GLOBAL  
FINANCIAL SERVICES  
AND INSURANCE  
INDUSTRY AVERAGES







**AIA Vitality**  
integrated with  
our digital health  
and wellness  
ecosystem to  
motivate people  
to lead  
healthier lives

CLOSE TO  
**2 MILLION**  
MEMBERS OF AIA VITALITY IN 10 MARKETS  
AND AIA CHINA'S WELLNESS PROGRAMME

MORE THAN  
**1 MILLION**  
FOOD LOGS UPLOADED ON OUR EXCLUSIVE  
AI FOOD SCORING TOOL IN 5 MARKETS



RECRUITED DIGITALLY OVER **98%** OF NEW FINANCIAL ADVISERS IN 3 KEY MARKETS



Empowered our agents with enhanced digital tools to drive business productivity and engage customers better



Telemedicine saw a year-on-year growth of 73 per cent in online consultations across 10 markets in 2021



GENERATED MORE THAN  
**2 MILLION**  
LEADS THROUGH SOCIAL MEDIA PLATFORMS

Awarded "2021 Insurtech Initiative of the Year in Mainland China" by Insurance Asia for Xiao Bang, our AI-powered personal assistant



我是小邦!



# AIA

# AT-A-GLANCE

## THE LARGEST LISTED COMPANY ON THE HONG KONG STOCK EXCHANGE

which is incorporated and headquartered in Hong Kong<sup>(1)</sup>



## THE LARGEST LIFE INSURER

in the world by market capitalisation<sup>(1)</sup>

Present in  
**18 MARKETS**  
and **100% FOCUSED ON ASIA**

**NO.1 WORLDWIDE FOR MDRT REGISTERED MEMBERS**

The only multinational company to top the table for **SEVEN CONSECUTIVE YEARS**



Serving the holders of more than **39 MILLION** individual policies and over **16 MILLION** participating members of group insurance schemes

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



Benefits and claims exceeded **US\$16 BILLION** in 2021

**COMMITTED TO NET-ZERO GREENHOUSE GAS EMISSIONS BY 2050**

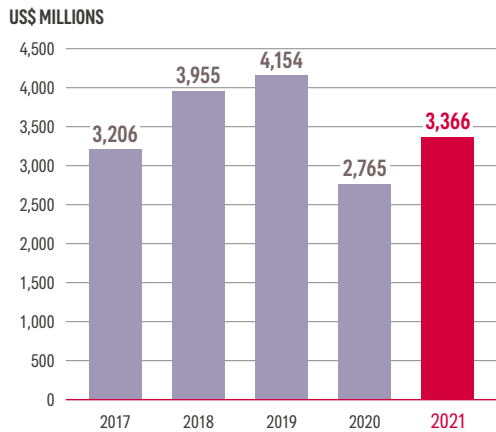
**TOP RATED PERFORMER** by Sustainalytics in the industry and region for ESG

**“DIGITAL INSURER OF THE YEAR IN 2021”** by InsuranceAsia News

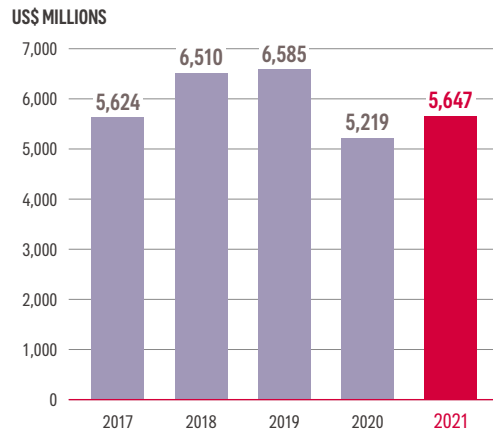
Note:  
(1) As at 31 December 2021.

# 2021 RESULTS AT-A-GLANCE

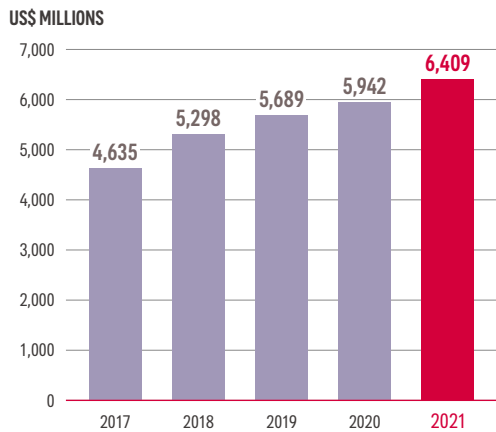
## VALUE OF NEW BUSINESS<sup>(1)(7)</sup>



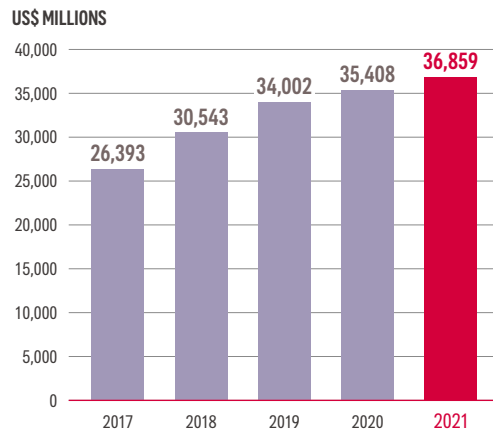
## ANNUALISED NEW PREMIUMS<sup>(2)(7)</sup>



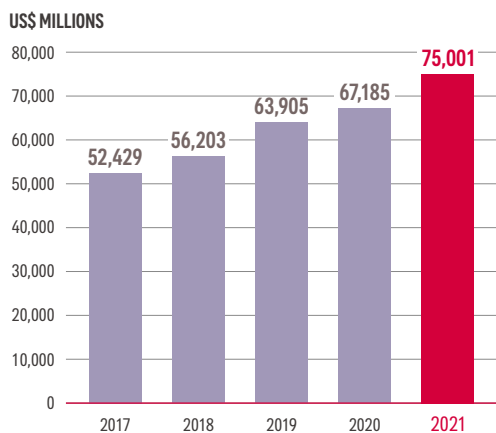
## OPERATING PROFIT AFTER TAX<sup>(3)(8)</sup>



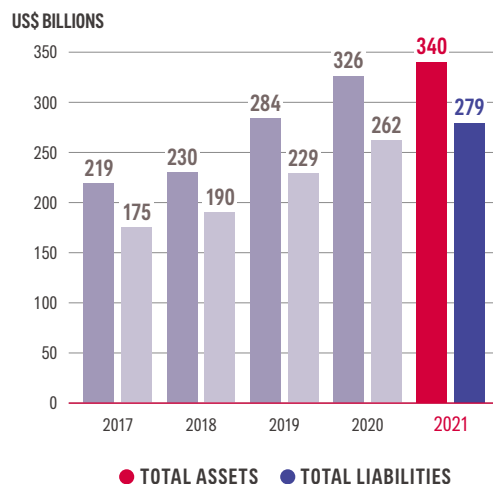
## TOTAL WEIGHTED PREMIUM INCOME<sup>(4)</sup>



## EV EQUITY<sup>(5)</sup>

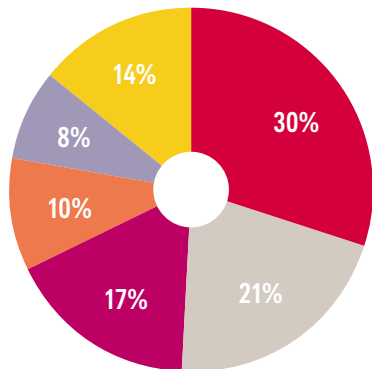


## TOTAL ASSETS AND TOTAL LIABILITIES<sup>(8)</sup>

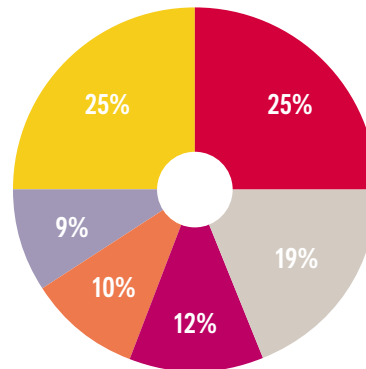


# 2021 BREAKDOWN BY MARKET SEGMENT

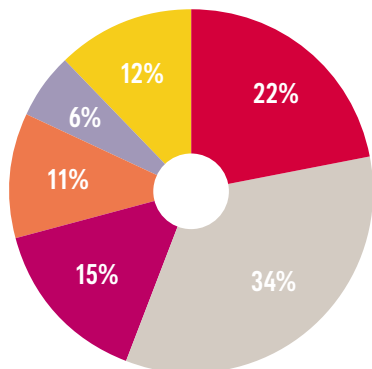
VALUE OF NEW BUSINESS<sup>(1)(6)</sup>



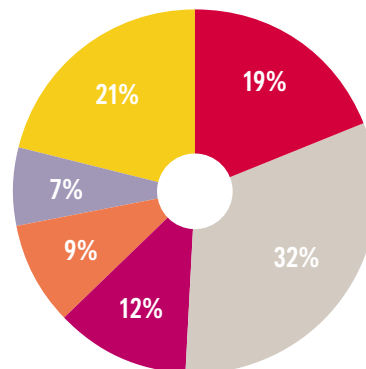
ANNUALISED NEW PREMIUMS<sup>(2)</sup>



OPERATING PROFIT AFTER TAX<sup>(3)</sup>



TOTAL WEIGHTED PREMIUM INCOME<sup>(4)</sup>



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

Notes:

- (1) 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.
- (2) 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.
- (3) Operating profit after tax (OPAT) is shown after non-controlling interests.
- (4) 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.
- (5) 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, after allowing for taxes.
- (6) 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.
- (7) 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.
- (8) AIA's IFRS accounting treatment for the recognition and measurement of insurance contract liabilities of Hong Kong participating business has been refined to reflect expected changes to policyholder bonuses. Comparative information has been adjusted for 2019. Comparative information for 2018 and prior years has not been restated.

# CHAIRMAN'S STATEMENT

AIA IS DEEPLY ROOTED WITHIN ASIA AND OUR GROWTH STRATEGY IS FULLY ALIGNED WITH ITS VAST POTENTIAL AND EVOLVING NEEDS. DESPITE THE PROFOUND GLOBAL CHALLENGES FROM THE ONGOING COVID-19 PANDEMIC, I AM INCREDIBLY PROUD OF HOW OUR COLLEAGUES HAVE RESPONDED WITH DEDICATION AND CARE FOR OUR CUSTOMERS AND DELIVERED VERY STRONG RESULTS FOR OUR SHAREHOLDERS.

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



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

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

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

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

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

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

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

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

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

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

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

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

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



**Edmund Sze-Wing Tse**

Independent Non-executive Chairman

11 March 2022

Notes:

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

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



# GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

AIA HAS ACHIEVED A VERY STRONG SET OF RESULTS IN 2021 WITH GROWTH IN ALL OF OUR KEY FINANCIAL METRICS. I AM CONFIDENT THAT THE FOCUSED EXECUTION OF OUR CLEAR AND AMBITIOUS STRATEGY BY OUR EXTRAORDINARY PEOPLE WILL CONTINUE TO CAPTURE THE SIGNIFICANT GROWTH OPPORTUNITIES IN ASIA AND EXTEND AIA'S TRACK RECORD OF VALUE CREATION FOR ALL OUR STAKEHOLDERS.



Mr. Lee Yuan Siong  
Group Chief Executive  
and President

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

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

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

## 2021 FINANCIAL PERFORMANCE HIGHLIGHTS

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

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

The Board has recommended an 8 per cent increase in final dividend to 108.00 Hong Kong cents per share which brings the total dividend for 2021 to 146.00 Hong Kong cents per share. This follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

AIA has significant opportunities to invest capital in superior profitable growth that generates increased shareholder value. With such attractive reinvestment economics, our ability to invest in new business growth remains an important priority and differentiator for AIA. As we have consistently demonstrated over time, our financial discipline and strategic focus on profitable new business growth support substantial free surplus generation that, in turn, funds further capital investment in organic new business and inorganic opportunities while optimising cash returns to shareholders.

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

## TRANSFORMING OUR COMPETITIVE ADVANTAGES

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

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

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

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

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

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

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

## OUR PEOPLE

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

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

## INVESTING IN ADDITIONAL GROWTH OPPORTUNITIES

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

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

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

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

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

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

## OUTLOOK

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

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

## GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

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

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



**Lee Yuan Siong**

Group Chief Executive and President

11 March 2022

Notes:

- (1) Growth on a like-for-like basis refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China following subsidiarisation and the exclusion of the one-off contribution from Commonwealth Bank of Australia (CBA) in the first quarter of 2020 for Other Markets.
- (2) Pro forma free surplus as at 31 December 2021 assumes immediate adoption of the new Hong Kong Risk-based Capital regime and the release of existing additional resilience margins held by the Group.

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

# FINANCIAL AND OPERATING REVIEW

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# GROUP CHIEF FINANCIAL OFFICER'S REVIEW

AIA HAS DELIVERED A VERY STRONG AND BROAD-BASED FINANCIAL PERFORMANCE. OUR RESULTS DEMONSTRATE THE POWER OF AIA'S UNIQUE BUSINESS MODEL THAT ENABLES US TO CAPTURE THE IMMENSE GROWTH OPPORTUNITIES ACROSS ASIA AND DELIVER SUPERIOR SHAREHOLDER VALUE.

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



Mr. Garth Jones  
Group Chief Financial Officer



## SUMMARY AND KEY FINANCIAL HIGHLIGHTS

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

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

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

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

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

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

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

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

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

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

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

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

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

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

## Notes:

- (1) Growth on a like-for-like basis refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China following subsidiarisation and the exclusion of the one-off contribution from Commonwealth Bank of Australia (CBA) in the first quarter of 2020 for Other Markets.
- (2) Pro forma free surplus as at 31 December 2021 assumes the immediate adoption of the new HKRBC regime and the release of existing additional resilience margins held by the Group.

## NEW BUSINESS PERFORMANCE

### VONB, ANP and Margin by Segment

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

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

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

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

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

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

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

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

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

## Note:

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

## EV EQUITY

### EV OPERATING PROFIT

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

Operating variances contributed US\$437 million to EV operating profit as our overall experience has continued to be favourable compared with our EV assumptions. Since our initial public offering (IPO) in 2010, operating variances have cumulatively added more than US\$3.6 billion to EV Equity.

#### EV Operating Earnings Per Share – Basic

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

#### EV Operating Earnings Per Share – Diluted

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

Note:

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

### EV MOVEMENT

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

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

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

US\$ millions, unless otherwise stated	2020		
	ANW	VIF	EV
<b>Opening EV</b>	28,241	33,744	61,985
Purchase price <sup>(1)</sup>	(18)	–	(18)
Acquired EV	–	–	–
Effect of acquisition	(18)	–	(18)
BEA Upfront Payment	–	–	–
Value of new business	(726)	3,491	2,765
Expected return on EV	5,591	(1,415)	4,176
Operating experience variances	538	(5)	533
Operating assumption changes	(31)	47	16
Finance costs	(247)	–	(247)
<b>EV operating profit</b>	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)
<b>Total EV profit</b>	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
<b>Closing EV</b>	28,503	36,744	65,247

## EV Equity

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

### Notes:

- (1) The purchase price in 2021 refers to the cost of acquiring AIA Everest as per note 5 to the consolidated financial statements, and the purchase price in 2020 refers to the purchase price adjustments for the alternative arrangements with CBA in relation to The Colonial Mutual Life Assurance Society Limited (CMLA) as per note 5 to the consolidated financial statements in the Company's Annual Report 2020.
- (2) As at 31 August 2021.
- (3) Refers to the consideration for the strategic bancassurance partnership.
- (4) Consistent with the consolidated financial statements. Net of tax, amounts attributable to participating funds and non-controlling interests.

## EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements, and including the impacts of management actions inclusive of strategic hedging programmes, are shown below. The interest rate sensitivities apply a 50 basis points movement in current government bond yields, our long-term investment return assumptions and risk discount rates. Interest rate sensitivities to both increasing and reducing interest rates overall are small, and primarily driven by the market interest rate level and the characteristics of the underlying assets and liabilities by business unit.

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

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

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

## IFRS PROFIT

OPAT<sup>(1)</sup> by Segment

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

Note:

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

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

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

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

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

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

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

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

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



## TWPI by Segment

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

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

## IFRS Operating Profit Investment Return

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

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

## Operating Expenses

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

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

Net Profit<sup>(1)</sup>

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

Notes:

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

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

## IFRS NON-OPERATING MOVEMENT

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

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

## Movement in Shareholders' Allocated Equity

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

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

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

Average shareholders' allocated equity grew by 10 per cent compared with last year.

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

## IFRS EARNINGS PER SHARE (EPS)

Basic EPS based on OPAT attributable to shareholders increased by 6 per cent to 53.12 US cents in 2021.

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

### IFRS EPS – Basic

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

### IFRS EPS – Diluted

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

Notes:

- (1) Attributable to shareholders of the Company only, excluding non-controlling interests.
- (2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 40 to the consolidated financial statements.

## IFRS BALANCE SHEET

### Consolidated Statement of Financial Position

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

### Movement in Shareholders' Equity

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

## Total Investments

US\$ millions, unless otherwise stated	As at 31 December 2021	Percentage of total	As at 31 December 2020	Percentage of total
Total policyholder and shareholder	253,585	86%	247,408	87%
Total unit-linked contracts and consolidated investment funds	40,059	14%	36,302	13%
<b>Total investments</b>	<b>293,644</b>	<b>100%</b>	<b>283,710</b>	<b>100%</b>

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

## Unit-Linked Contracts and Consolidated Investment Funds

US\$ millions, unless otherwise stated	As at 31 December 2021	Percentage of total	As at 31 December 2020	Percentage of total
<b>Unit-linked contracts and consolidated investment funds</b>				
Debt securities	6,660	17%	6,403	18%
Loans and deposits	365	1%	395	1%
Equity shares and interests in investment funds	31,909	80%	28,232	78%
Cash and cash equivalents	1,076	2%	1,219	3%
Derivatives	49	–	53	–
<b>Total unit-linked contracts and consolidated investment funds</b>	<b>40,059</b>	<b>100%</b>	<b>36,302</b>	<b>100%</b>

## Policyholder and Shareholder Investments

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

Note:

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

## ASSETS

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

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

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

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

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

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

## LIABILITIES

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

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

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

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

## EQUITY

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



## CAPITAL

### FREE SURPLUS

The Group's free surplus is the excess of adjusted net worth over required capital, including consolidated reserving and capital requirements, adjusted for certain assets not eligible for regulatory capital purposes. The Group holds free surplus to enable it to invest in organic new business growth, take advantage of inorganic opportunities and absorb the effects of capital market stress conditions.

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

UFSG of US\$6,451 million increased by 8 per cent, driven by continued growth and active management of our in-force portfolio. Free surplus invested in writing new business was US\$1,712 million, 18 per cent higher than 2020 and in line with VONB growth. Basic UFSG per share grew by 8 per cent to 53.46 US cents.

#### Underlying Free Surplus Generation Per Share – Basic

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

#### Underlying Free Surplus Generation Per Share - Diluted

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

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

The following table summarises the change in free surplus:

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

Notes:

(1) The effect of acquisition in 2021 refers to the cost of acquiring AIA Everest of US\$397 million as per note 5 to the consolidated financial statements, less the acquired free surplus of US\$85 million. The effect of acquisition in 2020 refers to the purchase price adjustments for the alternative arrangements with CBA in relation to CMLA as per note 5 to the consolidated financial statements in the Company's Annual Report 2020.

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

### Free Surplus Per Share

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

### GROUP LCSM SOLVENCY POSITION

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

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

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

- (i) US\$3,768 million<sup>(1)</sup> of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20 per cent per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and
- (ii) US\$5,820 million<sup>(1)</sup> of senior notes issued before designation that have been approved by the HKIA. Prior to maturity, the approved senior notes receive full capital credit until 14 May 2031, after which the capital credit reduces at the rate of 20 per cent per annum until 14 May 2036.

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

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

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

Note:

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

### GROUP LCSM COVER RATIO SENSITIVITIES

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

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

### RECONCILIATION BETWEEN GROUP LCSM SURPLUS AND FREE SURPLUS

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

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

Notes:

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

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

## LOCAL SOLVENCY REQUIREMENTS

The Group's individual branches and subsidiaries are also subject to supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 31 December 2021.

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

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

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

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

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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

## HOLDING COMPANY FINANCIAL RESOURCES

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

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

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

Assets recoverable and liabilities repayable within 12 months as follows:

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

## Notes:

- (1) Borrowings principally include medium-term notes and securities, other intercompany loans; and amounts outstanding, if any, from the Company's US\$2,290 million unsecured committed credit facilities.
- (2) As at 31 December 2021, loans to/amounts due from subsidiaries was US\$1,917 million (2020: US\$1,904 million). US\$103 million was recoverable within the 12 months after the year ended 31 December 2021 (2020: US\$90 million).
- (3) As at 31 December 2021, medium-term notes and securities placed to the market was US\$9,588 million (2020: US\$8,559 million). US\$167 million was repayable within the 12 months after the year ended 31 December 2021 (2020: US\$1,002 million). Details of the medium-term notes and securities placed to the market are included in note 30 to the consolidated financial statements.

## GLOBAL MEDIUM-TERM NOTE AND SECURITIES PROGRAMME

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

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

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

## CREDIT RATINGS

At 31 December 2021, AIA Co. had financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from S&P Global Ratings.

At 31 December 2021, the Company had issuer credit ratings of A1 (Low Credit Risk) with a stable outlook from Moody's; AA- (Very High Credit Quality) with a stable outlook from Fitch; and A+ (Strong) with a stable outlook from S&P Global Ratings.

## DIVIDENDS

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

# BUSINESS REVIEW

## SUMMARY AND KEY BUSINESS HIGHLIGHTS

In 2021, AIA delivered a strong performance with an 18 per cent increase in VONB and growth in all of our key financial metrics. Our diversification is a key competitive advantage for AIA, and the execution of our strategic priorities has driven broad-based growth across our geographical markets and distribution channels as all our reportable segments delivered VONB growth on a like-for-like basis. VONB for the Group outside Hong Kong exceeded pre-pandemic levels after excluding the impact of withholding tax following our subsidiarisation in China. We have continued to accelerate the use of technology, digital and analytics (TDA) throughout our business to provide uninterrupted service to our customers, agents and partners even as the COVID-19 pandemic continued to impact the region throughout the year.

### DISTRIBUTION

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

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

### GEOGRAPHICAL MARKETS

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

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

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

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

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

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



## UNRIVALLED DISTRIBUTION

### AGENCY

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

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

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

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

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

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

## PARTNERSHIPS

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

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

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

## BANCASSURANCE, INTERMEDIATED CHANNELS AND DIRECT MARKETING

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

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

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

## DIGITAL PLATFORMS

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

## GEOGRAPHICAL MARKET HIGHLIGHTS

### MAINLAND CHINA

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

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

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

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

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

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

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

## BUSINESS REVIEW

## HONG KONG

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

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

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

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

## THAILAND

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

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

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

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

## SINGAPORE

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

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

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

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

## MALAYSIA

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

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

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

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

## BUSINESS REVIEW

## OTHER MARKETS

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

## Overview

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

## Geographical Market Highlights

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

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

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

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

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

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

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

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

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

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

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

## TECHNOLOGY, DIGITAL AND ANALYTICS

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

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

### WORLD-CLASS TECHNOLOGY

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

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

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

### DIGITAL ENABLEMENT

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



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

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

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

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

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

## **ANALYTICS POWERING EVERYTHING WE DO**

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

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

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

**BUSINESS REVIEW**

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

**CYBERSECURITY AND RESPONSIBLE USE OF ARTIFICIAL INTELLIGENCE**

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

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

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

## COMPELLING PROPOSITIONS

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

### HIGH-QUALITY ADVICE IS CORE TO OUR PROPOSITIONS

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

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

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

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

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

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

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

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

### INTEGRATED SOLUTIONS TO MEET CUSTOMER NEEDS

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

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

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

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

### ONGOING TRANSFORMATION FROM PAYOR TO PARTNER

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

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

## LEADING CUSTOMER EXPERIENCE

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

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

### DRIVING SATISFACTION WITH CUSTOMER INSIGHTS AND RAPID TURNAROUND

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

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

### LEVERAGING OUR TRUSTED RELATIONSHIP WITH CUSTOMERS

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

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

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

## ORGANISATION OF THE FUTURE

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

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

### SHAPING A SIMPLER, FASTER, MORE CONNECTED AIA

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

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

### BUILDING A FUTURE READY WORKFORCE

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

Additional details about our people-related strategies and initiatives supporting our Organisation of the Future are covered in the Our People section on page 68.

#### Notes:

- (1) Throughout all sections of the Business Review, growth on a "like-for-like basis" refers to the exclusion of the 5 per cent withholding tax applied since July 2020 for AIA China and the exclusion of the one-off contribution from CBA in the first quarter of 2020 for Other Markets.
- (2) Throughout the Distribution section, VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.
- (3) AIA's Other Markets VONB and ANP results include the results from our 49 per cent shareholding of Tata AIA Life Insurance Company Limited (Tata AIA Life). The IFRS results for Tata AIA Life are accounted for using the equity method. For clarity, TWPI does not include any contribution from Tata AIA Life. The results of Tata AIA Life are accounted for the twelve-month period ended 30 September 2021 and the twelve-month period ended 30 September 2020 in AIA's consolidated results for the full year of 2021 and the full year of 2020, respectively.
- (4) Growth rates and commentaries are provided on a constant exchange rate (CER) basis.
- (5) Overall number of employees includes full-time and part-time as well as employees on contract, and excludes interns, agents of the Group and employees of our joint venture, Tata AIA Life.

# 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.

**RISK MANAGEMENT**

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.

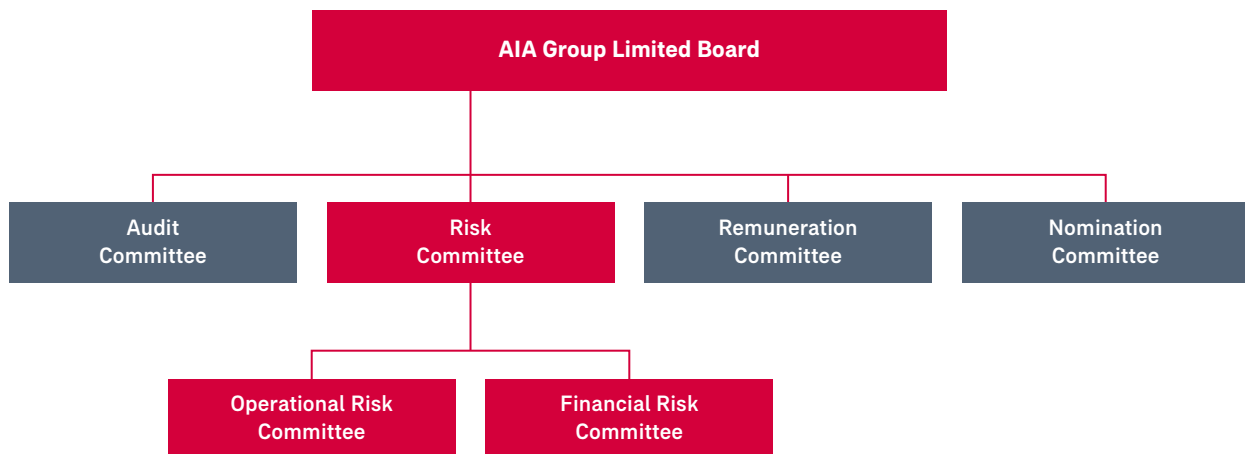
The Third Line of Defence (Third Line) is the Group Internal Audit (GIA) function, which reports to the Audit Committee of the Board. GIA is responsible for providing independent assurance over the effectiveness of the RMF, including key internal controls, and makes recommendations based on the audit 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 Chief Risk Officer 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 or Regional CROs, and a secondary reporting line to the business unit 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 business unit 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.

- The Risk Appetite Statement (RAS) is an overarching statement on the enterprise's attitude to risk;
- Risk Principles and Risk Tolerances are qualitative statements and quantitative metrics that expand and validate the RAS; and
- 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 MANAGEMENT

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 risk limits, 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:

- 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;
- 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;
- 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;
- 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
- 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

## COMFRAME AND INSURANCE CAPITAL STANDARD (ICS)

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

In 2020 the IAIS began the first of two phases in the development and implementation of the ICS. Under the first phase, a “Reference ICS” is being assessed during a five-year Monitoring Period for reporting privately to group-wide supervisors. It is proposed that the second phase, beginning in 2025, will include implementation of the ICS as part of prescribed group capital requirements. The IAIS is also collecting data on the “aggregation method” (AM), an alternative proposed by US regulators, that would define group solvency by referencing the local regimes to which a group is subject. The IAIS will make a determination by the end of the Monitoring Period whether the AM can be considered to produce “comparable outcomes” to the Reference ICS and therefore be used in its place.

## GROUP-WIDE SUPERVISION (GWS)

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

## HONG KONG RISK-BASED CAPITAL (HKRBC) REGIME

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

## BEPS 2.0

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

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

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

# OUR PEOPLE

At AIA, we firmly believe our greatest asset is our people<sup>(1)</sup>. They span multiple geographies and communities, and make up the culture of our business, delivering on our Purpose to help millions of people across Asia to live Healthier, Longer, Better Lives. Our organisation and people strategy enables us to attract, retain and develop outstanding people, making AIA an employer-of-choice across our markets.

Nurturing and growing our culture, building leaders and workforce capability, and supporting and developing our people so that they can achieve their potential are key organisation and people priorities for AIA.

## NURTURING OUR CULTURE

AIA has an unparalleled history of operation in Asia. As we embark on our second century as an organisation, and in the context of the current global pandemic, we are mindful that our culture brings us together and sets us apart.

AIA is focused on nurturing a culture of empowerment balanced with accountability. Leaders are given the tools and autonomy to make decisions within the guidelines set and monitored by our Group Office.

In the first half of 2021, we evolved our Leadership Essentials framework to reflect the behaviours and mindsets required by AIA today and in the future. Our three deep-rooted Leadership Essentials of *Clarity, Courage and Humanity* provide a compass that guides each of us, regardless of where we are and what we do. Our Leadership Essentials remain at the core of how we work with each other and will continue to shape employee development.

Trust is the foundation of all interactions with our people, customers, and 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. Our belief is that *"Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come"*. The Code of Conduct provides clear guidance on how to conduct business at all times, by embedding ethics and strong risk management in all the decisions made by AIA employees.

## EMPLOYEE ENGAGEMENT

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, each year we conduct the Gallup Q12 employee engagement survey. 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 2021, 97 per cent of our people responded to the survey and the Group's employee engagement scores improved to place AIA at the 90th percentile of Gallup's global finance and insurance industry benchmark. We are proud that our employee engagement levels are in the top quartile of this benchmark for the fifth consecutive year.

## BUILDING FUTURE LEADERS

AIA is committed to developing strong internal leadership capability, with a succession pipeline that drives sustainable business growth and shapes our organisation for our people and customers.

## LEADERSHIP DEVELOPMENT

We continue to provide leading talent development programmes through the AIA Leadership Centre (ALC), our world-class learning facility in Bangkok, Thailand. The ALC collaborates with world renowned business schools and consulting firms to deliver customised programmes to our senior leaders, top agency leaders and key partner executives, with a clear focus on AIA's strategic and governance priorities. We are proud of the progress made in 2021 in delivering many of our leadership programmes virtually, enabling our development strategies to continue to build momentum.

During the last three years, we have taken significant steps in strengthening our approach to leadership development by rolling out “SPARK”, a bespoke and in-depth leadership programme for our most senior leaders. In addition, we have recently rolled out two further signature leadership programmes targeted at additional leadership segments: “Leading Across Boundaries” and “Voyage”.

## SUCCESSION AND ORGANISATION PLANNING

Our annual Group Organisation and People Review process identifies different talent segments to enable leaders to plan for the succession of all key leadership roles. The success of our targeted approach to talent development and succession planning continues to be evidenced by the many examples of internal promotions into key leadership roles across the Group.

At the same time, we continue to enrich our leadership pipeline by attracting top leadership talent from different backgrounds, with the skills needed to shape and drive our future organisation.

## BUILDING A FUTURE READY WORKFORCE

Building workforce capability and developing our people so they can achieve their potential is a key priority for AIA and is critical for us to fulfil our strategic ambitions.

We continue to invest in attracting talent and incubating capabilities in core business lines, strengthening our approach to capability building and designing new academies to reskill employees.

Between 1 July 2020 and 31 December 2021, we invested in technology, digital and analytics capabilities, resulting in an increase of 29 per cent<sup>(2)</sup> in our overall number of employees in this area. This material and ongoing investment supports our strategy in these areas and the delivery of compelling propositions and leading experiences for our customers.

## LEARNING AND DEVELOPMENT

Our learning culture actively supports people in their current roles, while providing a platform for growth and development within AIA. Our focus on learning is a key part of our ambition to make sure our people can reskill, upskill, work more flexibly, and adapt to the changing world of work. We take a holistic approach to learning and development that includes knowledge and skills accumulated from on-the-job experiences, mobility, collaborative projects, structured virtual lessons, and digital self-learning.

To ensure that we continue to develop talent 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. In addition, our people are required to regularly complete mandatory training on critical topics.

We have launched, and are in the process of designing, new programmes to incubate new talent capabilities in core lines of business across the Group and to reskill employees for new roles to support our organisation, including:

- A Group-wide digital learning journey, with over 20 modules focused on technology, digital and analytics, to accelerate capability and drive a digital culture across the business.
- New academies to develop capabilities needed for our Organisation of the Future, such as “Agile”, “Analytics” and “Design” programmes to help re-skill for critical roles and upskill existing talent.

### Notes:

- (1) As at 31 December 2021, AIA had a total of 23,981 employees, which includes full-time and part-time as well as employees on contract, and excludes interns, agents of the Group and employees of our joint venture, Tata AIA Life.
- (2) Includes full-time and part-time employees as well as employees on contract, and excludes interns, agents of the Group and employees of our joint venture, Tata AIA Life.

## OUR PEOPLE

Digital content and delivery methods play an important role in shaping a culture of continuous learning at AIA. All of our business units provide their employees with access to our Learning Hub, an online platform which provides access to thousands of digital learning courses.

### EMPLOYEE MOBILITY

We strongly believe that career mobility and assignments in different business units or functions provide our employees with new opportunities. These assignments serve as platforms to learn new skills, and help develop the individual's AIA network.

### EMPLOYEE COACHING AND INTERNSHIPS

We encourage our employees to expand their networks, seek guidance and foster communications across different departments and seniorities.

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 critical skills in a fast moving and customer focused environment. They also provide us with a great opportunity to identify future talent for our business.

## RECOGNISING AND REWARDING OUR PEOPLE

Robust dialogues on individual, and team progress are part of the ongoing performance development process at AIA. Our Performance Development Dialogue programme is designed to enable managers to continually assess the performance, impact and behaviours of their team and recommend development activities to help meet defined career objectives. The Performance Development Dialogue focuses on What employees and / or their teams have accomplished and, just as importantly, How they achieve their goals.

We provide competitive, fair and equitable total rewards programmes that use a combination of market competitive financial and non-financial rewards to attract, engage and retain diverse talent while motivating them to help execute our business goals. We believe that our existing reward programmes are well received by employees for their simplicity, transparency, and market alignment.

In addition, our Employee Share Purchase Plan provides our employees the opportunity to purchase AIA shares and receive 'matching shares' over time during their employment with us.

## EMBEDDING OUR PURPOSE

The health and well-being of our people and their families is a key priority for the Group. Our Group-wide benefits and workforce well-being programmes help our employees and their families live Healthier, Longer, Better Lives through a range of flexible benefits tailored to local circumstances and employee needs. 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 may include flexible working, discounted gym memberships, other sporting and recreational facilities, and mothers' rooms.

In 2021, we continued to strive to provide a safe and secure environment for our employees during the pandemic. Many of our business units operated remote working or flexible working arrangements to protect our employees, families, and communities. We also continued to provide virtual learning, resources and programmes to help support our employees.



## SUPPORTING A DIVERSE AND INCLUSIVE CULTURE

AIA's diversity, comprising talent from a wide range of backgrounds, is one of our key strengths. We foster an inclusive workplace and encourage open, constructive dialogue. We believe in actively embracing and celebrating differences. Diversity can be as much of a strength as the characteristics that unite us. Across our markets, we actively encourage and seek out diverse perspectives because we believe that this results in greater innovation, better decision-making, increased adaptability, and improved problem-solving.

As part of their orientation, all employees joining AIA are required to complete training on the Code of Conduct, which includes our approach to inclusion and non-discrimination. 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. In line with our Code of Conduct, AIA has zero tolerance for discrimination or harassment in any form, including on the basis of race, colour, religion, sex, nationality, age, disability, military service, marital status and sexual orientation.

We strive to provide an inclusive workplace and are proud to be an employer of choice for women across the region. Women represent 58 per cent of our employee population<sup>(3)</sup> and 42 per cent of our senior leaders across the Group as at 31 December 2021.

We recognise the importance of understanding different generational needs when shaping our policies and practices, and we aim to ensure that we create an inclusive workplace for all age groups. As at 31 December 2021, 65 per cent of our employees are Gen Y and Gen Z<sup>(4)</sup>.

We also believe that different cultural and national backgrounds enrich AIA's social fabric. As at 31 December 2021, over 70 nationalities are represented across AIA. AIA also values diverse perspectives for effective governance and decision making, with our Board representing different nationalities and ethnicities, as well as a range of educational backgrounds and experience.

## RECOGNISED AS AN EMPLOYER OF CHOICE

In 2021, our continued focus on our people has received several local and global accolades, including:

- AIA Group was named in the Forbes "World's Best Employers" list.
- AIA China was awarded the "Top Employer China" by Top Employers Institute.
- AIA China was awarded "Best Employers" by Kincentric.
- AIA China was awarded the "Employer Excellence of China" by 51job.com.
- AIA Thailand was awarded the "Top Employer Thailand" by Top Employers Institute.
- AIA Malaysia was voted as "Graduates' Top 25 Preferred Employer in 2022" by Graduates Choice Award.
- AIA Malaysia was the insurance sector winner of "Graduate Employer Of The Year", and AIA Shared Services, Malaysia, was the BPO and shared services sector winner of "Graduate Employer Of The Year", by GTI Media.
- AIA Singapore was the insurance and risk management sector winner in "Singapore's 100 Leading Graduate Employers" by GTI Media.
- AIA Vietnam and AIA Sri Lanka were certified as a "Great Place To Work" by Great Place to Work.
- AIA Thailand, AIA Vietnam, AIA Cambodia were named "Best Companies to Work for in Asia" by HR Asia.
- AIA New Zealand was named "Top Insurance Employers 2021" by Insurance Business New Zealand.

Additional details about our People and Culture initiatives are contained in our 2021 Environment, Social and Governance report which can be found on [www.aia.com](http://www.aia.com).

### Notes:

(3) Refers to employees on permanent and fixed-term contracts. This excludes interns, agents of the Group and employees of our joint venture, Tata AIA Life.

(4) Gen Y is defined as the generation born between 1981 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 87 to 113 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.

Under the group-wide supervision (GWS) framework by the Hong Kong Insurance Authority, AIA is expected to have in place a corporate governance framework which provides for the sound and prudent management and oversight of the Group's businesses including in regards to the protection of the interests of policyholders of the insurers within the Group. As such, the Board strives to oversee the implementation of the corporate culture, business objectives and strategies for achieving those objectives, in line with the long-term interests and viability of the Group.

The Board is required, among other requirements, to ensure there is an appropriate number and mix of individuals with sufficient knowledge and experience commensurate with its governance structure. Under the GWS framework, the Board provides oversight in respect of the design and implementation of risk management and internal controls across the Group. This includes having a framework to take effective measures to deter, prevent, detect, report and remedy non-compliance with relevant legal and regulatory requirements and fraud in insurance. The Group has also adopted a remuneration policy which does not induce excessive or inappropriate risk taking.

In summary, the Board exercises independent judgement and objectivity in its decision making, taking due account of the interests of the Group and its policyholders.

# BOARD OF DIRECTORS



—  
MR. JOHN BARRIE  
HARRISON

—  
DR. NARONGCHAI  
AKRASANEE

—  
MS. JIE SUN  
(JANE)

—  
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 84, 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 these 60 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 AIA Philippines Life and General Insurance Company Inc. (formerly known as 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 HKSAR 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 56, 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. He has been a Director and appointed as Vice Chairman of The Geneva Association since November 2021. He has also 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 a member of the Audit Committee, the Nomination Committee and the Remuneration 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 HKSAR 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 71, is an Independent Non-executive Director of the Company, having been appointed on 28 September 2010. He is also a member of the Nomination Committee and the Risk Committee of the Company. Mr. Chow was appointed a non-official member of the Executive Council of the HKSAR 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 HKSAR 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 HKSAR Government from 18 August 2017, a non-official member of the Human Resources Planning Commission of the HKSAR 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 and the Grand Bauhinia Medal by the HKSAR Government in 2015 and 2021, respectively. 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 65, is an Independent Non-executive Director of the Company, having been appointed on 1 July 2011. He is also a member of the Audit Committee, the Nomination Committee and the Risk Committee of the Company. He also acts as a Board Representative at the ESG Committee, a management 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 67, is an Independent Non-executive Director of the Company, having been appointed on 2 November 2012. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Yeo is an independent director of Pinduoduo Inc. (listed on the Nasdaq Global Select Market) and an independent non-executive director of Creative Technology Ltd (listed on the Singapore Exchange). 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 previously the Chairman, an executive director and a senior advisor of Kerry Logistics Network Limited (listed on the Hong Kong Stock Exchange) from 2012 to 2019, from 2013 to 2019, and from 2019 to 2021 respectively. He was also a director of Kerry Holdings Limited from 2016 to 2019; a senior advisor of Kerry Group Limited from 2019 to 2021; as well as a director of New Yangon Development Company Limited from 2017 to 2021. 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 77, 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 previously listed on 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 HKSAR and a non-official member of Candidate Eligibility Review Committee of the HKSAR. In addition, he serves as the Vice Chairman of the Our Hong Kong Foundation; a Fellow of the Hong Kong Academy of Finance; a Director of the Chiang Ching-Kuo Foundation for International Scholarly Exchange, Taipei; and the C.V. Starr Distinguished Fellow of China Development Research Foundation, Beijing since 2019. He was formerly a member of the Exchange Fund Advisory Committee of the HKSAR, Chairman of its Governance Sub-committee and a member of its Investment Sub-committee until 2019; Vice Chairman of China Center for International Economic Exchanges, Beijing until 2021; a member and Chairman of the Prize Recommendation Committee of the LUI Che Woo Prize Limited, from 2015 to 2021; as well as a member of the Hong Kong Trade Development Council Belt and Road & Greater Bay Area Committee, from 2019 to 2021. He was appointed a Justice of the Peace by the HKSAR Government in 2007 and awarded the Gold Bauhinia Star by the HKSAR 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 HKSAR. 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 62, is an Independent Non-executive Director of the Company, having been appointed on 14 August 2015. She is also the Chairman of the Risk Committee and a member of the Nomination Committee of the Company. She also acts as a Board Representative at the ESG Committee, a management 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, non-executive independent director and the Chairman of the Nominating and Remuneration Committee of CapitalLand Integrated Commercial Trust Management Limited (listed on the Singapore Exchange) and a non-executive director 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 Monetary Authority of Singapore (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 76, 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 Brooker 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 61, is an Independent Non-executive Director of the Company, having been appointed on 1 September 2017. He is also the Chairman of the Audit Committee and a member of the Nomination Committee and the Risk Committee of the Company. Mr. Purisima currently serves as an independent director of Bank of the Philippine Islands (BPI), Ayala Land, Inc., Universal Robina Corporation and Jollibee Foods Corporation, all of which are listed on The Philippine Stock Exchange. He is also an independent director of BPI Capital Corporation, a wholly owned subsidiary of BPI, 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 also serves on 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.

**Ms. SUN Jie (Jane)**

Aged 53, is an Independent Non-executive Director of the Company, having been appointed on 1 June 2021. She is also a member of the Nomination Committee of the Company. Ms. Sun is the chief executive officer and a member of the board of directors of Trip.com (listed on the Hong Kong Stock Exchange and the Nasdaq Global Select Market), one of the leading global travel services company that operates the sub-brands Trip.com, Ctrip, Skyscanner and Qunar. Ms. Sun is a director of Tripadvisor, Inc. and MakeMyTrip, both listed on the Nasdaq Global Select Market. She is also an independent director of iQIYI, Inc. (listed on the Nasdaq Global Select Market) and TAL Education Group (listed on the New York Stock Exchange). Ms. Sun has extensive experience in operating and managing online businesses, mergers and acquisitions, and financial reporting and operations. Ms. Sun was named one of Fortune's Top 50 Most Powerful Women in Business for four consecutive years from 2017 to 2020. In 2019, she was named in the Forbes World's Most Powerful Women List and awarded the Asia Game Changer Award by Asia Society. She was also named one of Emergent 25 Asia's Latest Star Businesswomen in 2018, and one of the Most Influential and Outstanding Businesswomen in China in 2017 by Forbes. Ms. Sun received her Bachelor's degree from the business school of the University of Florida with high honors. She also obtained a LLM degree from Peking University Law School. She is a member of the American Institute of Certified Public Accountants.

# EXECUTIVE COMMITTEE



—  
MS. CARA ANG

—  
DR. MARK KONYN

—  
MR. MITCHELL NEW

—  
MR. LEO GREPIN

—  
MR. JACKY CHAN

—  
MR. WILLIAM LISLE



MR. LEE YUAN SIONG

MR. GARTH JONES

MR. TAN HAK LEH

MR. STUART A. SPENCER

MS. JAYNE PLUNKETT

MR. BISWA MISRA

**Mr. LEE Yuan Siong**

Mr. Lee's biography is set out above.

**Mr. Garth Brian JONES**

Aged 59, 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. 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 56, is the Regional Chief Executive and Group Chief Distribution Officer responsible for the Group's businesses operating in Thailand, Vietnam, India and Sri Lanka as well as the Group's agency distribution, partnership distribution, digital platform partnership channel 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.

**Mr. Wing-Shing CHAN (Jacky)**

Aged 58, 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 34 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. TAN Hak Leh**

Aged 56, is the Regional Chief Executive and Group Chief Life Operations Officer responsible for the Group's businesses operating in Singapore and Brunei, Malaysia, Cambodia 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. Leo Michel GREPIN**

Aged 46, is the Regional Chief Executive and Group Chief Strategy Officer responsible for the Group's business operating in Australia, New Zealand, and Indonesia as well as leading the Group's Strategy and Corporate Development functions. Mr. Grepin joined the Group in January 2022. Prior to joining the Group, Mr. Grepin was President of Sun Life, Asia. Before joining Sun Life, he was at Bridgewater Associates, a global hedge fund, where he led the team managing portfolio construction and trade generation. He also spent 15 years at McKinsey & Company and led the global client service teams serving several multinational insurers and asset managers as Senior Partner. Mr. Grepin has a Master of Science in Aeronautics and Astronautics from the Massachusetts Institute of Technology and a Bachelor of Engineering in Mechanical Engineering (Hons) from McGill University.

**Mr. Mitchell David NEW**

Aged 58, is the Group General Counsel responsible for providing leadership to legal and corporate governance functions within Group Office and the country operations. He also has executive responsibility for the Group's ESG Programme, including acting as Chairman of the Group's ESG Committee. He has previously also acted as Group Chief Risk Officer. He is a director of various companies within the Group including AIA International, AIA Reinsurance Limited, as well as the Group's operating subsidiaries in Singapore, Vietnam, Indonesia and the Philippines. He joined the Group in April 2011. Prior to joining the Group, Mr. New 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 also practiced law with Fasken Martineau in Canada where he is a qualified barrister and solicitor and member of the Law Society of Upper Canada. He 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.

**Dr. Mark KONYN**

Aged 60, 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. Konyn 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 53, 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 44, 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 56, 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 52, 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 Private Limited and AIA Philippines Life and General Insurance Company Inc. (formerly known as The Philippine American Life and General Insurance (PHILAM LIFE) Company). 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 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 2021.

## 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 consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2021 and the state of the Group's affairs at that date are set out in the consolidated financial statements on pages 140 to 256 of this Annual Report.

## BUSINESS REVIEW

The review of the business of the Group for the year ended 31 December 2021, 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 15 to 20), Group Chief Financial Officer's Review (pages 22 to 45), Business Review (pages 46 to 60), Risk Management (pages 61 to 66) and Our People (pages 68 to 71) 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 its support for the Paris Agreement by becoming a signatory to the Task Force on Climate-related Financial Disclosures (TCFD) in 2018. 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 2021. In 2021, the Group became a signatory to the Principles for Sustainable Insurance, a global sustainability framework under the United Nations Environment Programme Finance Initiative. The Principles are designed to address material ESG risks and opportunities and underpin one of the largest collaborative initiative between the United Nations and the global insurance industry.

We monitor our operational impact. In 2021, the Group announced its commitment to achieve net-zero greenhouse gas emissions by 2050. AIA has also committed to the Science Based Targets initiative (SBTi), a global body enabling businesses to develop ambitious emissions reduction targets in line with the latest climate science. The Group Environmental Procedures provide guidance and outline initiatives to reduce our environmental footprint.

AIA also continues to monitor environmental regulation and opportunities in the area of green finance, and engages with companies in the Group's investment portfolio on ESG issues. The Group also completed the entire divestment of directly-managed listed equity and fixed income exposure to coal mining and coal-fired power businesses in 2021, seven years ahead of schedule.

Customer privacy and data protection are of paramount importance to the Group. In 2021, 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 continued to respond 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 2021, 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 2021 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 consolidated 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 2021 are set out in note 45 to the consolidated financial statements.

## **DIVIDENDS**

An interim dividend of 38.00 Hong Kong cents per share for the six-month period ended 30 June 2021 (2020: 35.00 Hong Kong cents per share) was paid on 21 September 2021. The Board has recommended an increase of 8 per cent in the payment of a final dividend to 108.00 Hong Kong cents per share for the year ended 31 December 2021 (2020: 100.30 Hong Kong cents per share), consistent with AIA's established prudent, sustainable and progressive dividend policy.

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 3 September 2021 (being the record date of the 2021 interim dividend), the trustee held 20,091,027 shares under the 2010 RSU Scheme and 6,718,903 shares under the 2020 RSU Scheme. The amount of interim dividend payments waived was approximately US\$1.3 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 Friday, 10 June 2022 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 25 May 2022, being the record date for determining the entitlements to the final dividend.

## 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 Director

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

### 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

Ms. SUN Jie (Jane)<sup>(Note)</sup>

Note:

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

Ms. Sun Jie (Jane) was appointed as Independent Non-executive Director of the Company on 1 June 2021 and will retire from office at the forthcoming AGM pursuant to Article 104 of the Company's Articles of Association and, being eligible, offers herself for re-election.

In accordance with Article 100 of the Company's Articles of Association, Mr. George Yong-Boon Yeo, Ms. Swee-Lian Teo and Dr. Narongchai Akrasanee will retire from office by rotation and, being eligible, offer themselves for re-election at the AGM.

## CHANGES IN DIRECTORS' INFORMATION

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. LEE Yuan Siong	<ul style="list-style-type: none"><li>Appointed as vice chairman of The Geneva Association on 10 November 2021</li></ul>
Mr. Jack Chak-Kwong SO	<ul style="list-style-type: none"><li>Retired as chairman but remained as a member of the Remuneration Committee of the Company with effect from 1 January 2022</li></ul>
Mr. Chung-Kong CHOW	<ul style="list-style-type: none"><li>Retired as chairman but remained as a member of the Risk Committee of the Company with effect from 1 January 2022</li></ul>
Mr. John Barrie HARRISON	<ul style="list-style-type: none"><li>Retired as chairman but remained as a member of the Audit Committee of the Company with effect from 1 January 2022</li></ul>
Mr. George Yong-Boon YEO	<ul style="list-style-type: none"><li>Appointed as chairman of the Remuneration Committee of the Company with effect from 1 January 2022</li><li>Appointed as an independent non-executive director of Creative Technology Ltd (listed on the Singapore Exchange) with effect from 15 November 2021</li></ul>
Professor Lawrence Juen-Yee LAU	<ul style="list-style-type: none"><li>Ceased as a member of Hong Kong Trade Development Council Belt and Road &amp; Greater Bay Area Committee with effect from 30 September 2021</li><li>Ceased as vice chairman of China Center for International Economic Exchanges, Beijing in December 2021</li></ul>
Ms. Swee-Lian TEO	<ul style="list-style-type: none"><li>Appointed as chairman of the Risk Committee of the Company with effect from 1 January 2022</li><li>Appointed as chairman of the Nominating and Remuneration Committee of CapitalLand Integrated Commercial Trust Management Limited (listed on the Singapore Exchange) with effect from 25 October 2021</li></ul>
Mr. Cesar Velasquez PURISIMA	<ul style="list-style-type: none"><li>Appointed as chairman of the Audit Committee of the Company and a member of the Risk Committee of the Company with effect from 1 January 2022</li></ul>
Ms. SUN Jie (Jane)	<ul style="list-style-type: none"><li>Appointed as a member of the Nomination Committee of the Company with effect from 16 September 2021</li></ul>

The Board Chairman and the Board membership fees (inclusive of Board committee chairman or membership fees) have been increased with effect from 1 January 2022. For further information on the increase in fees, please refer to the Remuneration Report contained in this Annual Report.

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 2021, 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 <sup>(1)</sup>	Capacity
Mr. LEE Yuan Siong	633,948(L) <sup>(2)</sup>	Ordinary	<0.01	Beneficial owner
	2,318,686(L) <sup>(3)</sup>		0.02	Beneficial owner
	1,661,659(L) <sup>(4)</sup>		0.01	Beneficial owner
	1,395(L) <sup>(5)</sup>		<0.01	Beneficial owner
Mr. Edmund Sze-Wing TSE	3,330,400(L) <sup>(2)</sup>	Ordinary	0.02	Beneficial owner
	230,000(L) <sup>(2)</sup>		<0.01	Interest of controlled corporation <sup>(6)</sup>
Mr. Chung-Kong CHOW	126,000(L) <sup>(2)</sup>	Ordinary	< 0.01	Beneficial owner
Mr. Jack Chak-Kwong SO	130,000(L) <sup>(2)</sup>	Ordinary	< 0.01	Interest of controlled corporation <sup>(7)</sup>
Mr. John Barrie HARRISON	80,000(L) <sup>(2)</sup>	Ordinary	< 0.01	Interests held jointly with another person <sup>(8)</sup>
Mr. George Yong-Boon YEO	50,000(L) <sup>(2)</sup>	Ordinary	< 0.01	Beneficial owner
Professor Lawrence Juen-Yee LAU	250,000(L) <sup>(2)</sup>	Ordinary	< 0.01	Interest of spouse <sup>(9)</sup>

Notes:

(1) Based on 12,097,003,390 ordinary shares in issue as at 31 December 2021.

(2) The interests were in the shares of the Company.

(3) The interests were in restricted share units (RSUs) granted to Mr. Lee Yuan Siong under the restricted share unit schemes adopted by the Company from time to time, of which 1,468,714 RSUs were awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employment as also disclosed in the Company announcement dated 22 November 2019.

(4) The interests were in share options (SOs) granted to Mr. Lee Yuan Siong under the share option schemes adopted by the Company from time to time.

(5) The interests were in matching restricted stock purchase units (RSPUs) granted under the employee share purchase plans adopted by the Company from time to time.

(6) The 230,000 shares were held by Edmund & Peggy Tse Foundation Limited, one-third interest of which is beneficially held by Mr. Edmund Sze-Wing Tse.

(7) The 130,000 shares were held by Cyber Project Developments Limited, a company beneficially wholly owned by Mr. Jack Chak-Kwong So.

(8) The 80,000 shares were jointly held by Mr. John Barrie Harrison and his spouse, Ms. Rona Irene Harrison, as beneficial owners.

(9) The 250,000 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 2021, 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 2021, 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) Lending Pool(P)			
The Bank of New York Mellon Corporation	1,179,096,696(L)	363,336,256(S)	Ordinary	9.75	Note 3
		790,686,680(P)		3.00	
				6.54	
The Capital Group Companies, Inc.	967,301,479(L)		Ordinary	8.00	Interest of controlled corporations
JPMorgan Chase & Co.	781,024,739(L)	17,756,786(S)	Ordinary	6.45	Note 4
		408,114,862(P)		0.14	
				3.37	
BlackRock, Inc.	719,298,556(L)	100,800(S)	Ordinary	5.95	Interest of controlled corporations
				<0.01	
Brown Brothers Harriman & Co.	605,177,810(L)	597,387,808(P)	Ordinary	5.00	Note 5
				4.93	

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	
The Bank of New York Mellon Corporation	–	–	–	–	–	–	363,336,256	–	–	
The Capital Group Companies, Inc.	–	–	23,277,176	–	–	–	–	–	–	
JPMorgan Chase & Co.	2,078,000	63,800	916,865	3,438,400	2,858,000	2,320,920	8,296,511	2,567,177	1	
BlackRock, Inc.	–	–	–	1,391,000	–	–	–	100,800	–	
Brown Brothers Harriman & Co.	–	–	–	–	–	–	–	–	–	

(2) Based on 12,097,003,390 shares in issue as at 31 December 2021.

(3) 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	1,179,096,696	363,336,256

(4) 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	14,957,930	17,756,786
Investment manager	356,418,304	–
Trustee	1,533,643	–
Approved lending agent	408,114,862	–

(5) Brown Brothers Harriman & 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)
Investment manager	7,790,002	–
Approved lending agent	597,387,808	–

Save as disclosed above, as at 31 December 2021, 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 his service contract in the role of Executive Director and Group Chief Executive and President with the Company, Mr. Lee Yuan Siong was 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 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 2021 or at any time during the year under review.

## **RESERVES**

As at 31 December 2021, 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\$9,519 million (31 December 2020: US\$7,360 million).

## **CHARITABLE DONATIONS**

Charitable donations made by the Group during the year ended 31 December 2021 amounted to approximately US\$9.4 million (2020: US\$2 million).

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year ended 31 December 2021, 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 2021 are set out in note 35 to the consolidated financial statements.

## **DEBENTURES ISSUED**

Details of the debentures issued during the year ended 31 December 2021 are set out in notes 30 and 38 to the consolidated financial statements.

## **EQUITY-LINKED AGREEMENTS**

During the year ended 31 December 2021, 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 2021, save for the restricted share units, outstanding share options and restricted stock purchase units awarded to employees under the 2010 RSU Scheme, the 2020 RSU Scheme, the 2010 SO Scheme, the 2020 SO Scheme, the 2011 ESPP and 2020 ESPP, respectively, and the restricted stock subscription units awarded to agents under the Agency Share Purchase Plans adopted by the Company on 23 February 2012 (2012 ASPP) and 1 February 2021 (2021 ASPP), each described below and in the Remuneration Report and note 40 to the consolidated 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 was set out on pages 90 to 93 of the Company's Annual Report 2020.

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 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 any general meetings 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. 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 2021, the Company awarded 9,484,581 restricted share units under the 2020 RSU Scheme and no restricted share units under the 2010 RSU Scheme were awarded. More details of the schemes are set out in the Remuneration Report and note 40 to the consolidated 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), effective from 29 May 2020. The 2020 SO Scheme is also effective for a period of 10 years from the date of adoption.

The maximum number of shares of the Company in respect of which share options may be granted under the 2020 SO Scheme, together with all options to be granted under any other share option scheme(s) of the Company and/or its subsidiaries, will be such amount so that the aggregate number of shares underlying the 2020 SO Scheme and any such other share option scheme(s) (excluding options that have lapsed in accordance with the rules of the 2020 SO Scheme and any other schemes) will not exceed 2.5 per cent of the number of shares in issue as of the adoption date of 29 May 2020, being 302,264,978 shares.

During the year ended 31 December 2021, the Company awarded 1,849,222 share options under the 2020 SO Scheme, while 871,896 share options were exercised and the Company issued 871,896 new shares accordingly. The proceeds received amounted to approximately US\$3.5 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 2021, 1,849,222 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 consolidated financial statements.

## EMPLOYEE SHARE PURCHASE PLAN

The Company adopted the 2020 ESPP on 1 August 2020 in place of and with substantially the same terms as the 2011 ESPP, 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 2021, no restricted stock purchase units were awarded and 1,055,698 matching restricted stock purchase units were vested under the 2011 ESPP. During the same period, 1,557,557 restricted stock purchase units were awarded and 21,919 matching restricted stock purchase units were 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 consolidated 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 HK\$9,750 (or local equivalent) per calendar month under 2012 ASPP and capped at HK\$12,500 (or local equivalent) per calendar month under 2021 ASPP. Upon vesting of the matching RSSUs, those agents who remain with 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 2021, a cumulative total of 7,811,230 new shares were issued under the 2012 ASPP, representing approximately 0.065 per cent of the shares in issue as at the 2012 ASPP Adoption Date.

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, effective for a period of 10 years from the date of adoption. The 2012 ASPP expired on 22 February 2022.

During the year ended 31 December 2021, 229,320 matching RSSUs were granted, 1,192,355 matching RSSUs were vested, and 1,192,355 new shares (Awarded Shares) were issued for RSSUs vested pursuant to the 2012 ASPP. During the same period, 629,599 matching RSSUs were granted, no matching RSSUs were vested, and no new shares (Awarded Shares) were issued pursuant to the 2021 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 2021 was HK\$99.55. 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 2021, 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 2021 in the ordinary course of business are set out in note 42 to the consolidated 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 8,277,353 shares of the Company under the 2020 RSU Scheme and the 2020 ESPP at a total consideration of approximately US\$105.5 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021. These purchases were made by the trustees of the relevant 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 consolidated 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 2021.

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  
11 March 2022

# 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 2021, with the exception of Code Provision C.6.3, the Company had applied the principles and complied with all applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (Corporate Governance Code). Code Provision C.6.3 provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Group Company Secretary reports to the Group General Counsel, who is ultimately accountable for the company secretarial function of the Company and who in turn reports directly to the Group Chief Executive.

## 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](http://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, whistleblowing 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 2021.

## 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 with the support of independent external consultants. During the year, a tailored board evaluation questionnaire was prepared to collect views and comments from Board members, the findings of which were reviewed and discussed by the Board at its meeting held in March 2022. 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. 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 2021 and up to the date of this Corporate Governance Report, the Board consists of eleven members, comprising one Executive Director and ten 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 76 to 81 of this Annual Report.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company uses a formal and transparent procedure for the appointment of new Directors. The Nomination Committee engages in a robust search process to identify suitably qualified Director candidates with the use of independent executive search firms and assesses candidates' skills, experience and background and their alignment with the Company's business strategy. Final prospective candidates will then be shortlisted through a comprehensive evaluation process involving reference checks and consideration is given to their ability and willingness to devote sufficient time to the duties required of Board members. Following meetings with candidates by each of the members of the Nomination Committee, the Nomination Committee will deliberate and recommend the selected candidate to the Board for approval. During the year, this process was applied in the appointment by the Company of Ms. Sun Jie (Jane) as an Independent Non-executive Director of the Company.

The focus of the Nomination Committee has always been to identify the most qualified individuals that can best serve the interests of the Company's shareholders with due regard for the interests of its policyholders. Within this broader mandate, the Company seeks to be inclusive by taking into account various aspects of diversity. To promote greater transparency in this respect, the Directors' Nomination Policy was adopted by the Board in 2019 and revised in 2022. A summary of the Policy is set out in the sub-section headed "Nomination Committee" under the "Committees of the Board" section of this report.

In assessing the independence of a candidate, the Company takes into account the criteria affecting independence as set out in Rule 3.13 of the Listing Rules. Every Independent Non-executive Director is required to confirm in writing to the Company his/her independence upon his/her appointment as Director. He/She is also required to declare his/her past or present financial or other interests in the Group's business, or his/her connection with any of the Company's connected persons. In addition, he/she is also subject to ongoing obligations to notify the Board Chairman as soon as practicable of any direct conflict of interest which may arise due to his/her duties as an Independent Non-executive Director and any other duties or business interests which he/she may have and to seek the Board's written approval before any other duties or business can be undertaken. All Directors are also required to consult with and obtain the written approval of the Board Chairman prior to accepting any other directorships of listed companies.

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

## BOARD INDEPENDENCE

Ten out of eleven members 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 also 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 ended 31 December 2021.

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.

Included in the delegations to the Nomination Committee is the responsibility to assess annually the independence of all the Independent Non-executive Directors and to affirm that each satisfies the criteria of independence as set out in Rule 3.13 of the Listing Rules. Each Nomination Committee member abstains from assessing his/her own independence.

The Nomination Committee assesses independence with regard to all relevant factors concerned rather than limiting its assessment to the length of service of the individual in question. The Board considers individuals over time gain valuable insight into the Group's operations in various markets and therefore considers a full range of factors, including board tenure, in determining an individual's ongoing independence in the context of their re-appointment. Nevertheless, the Board maintains a watching brief to search for suitably qualified individuals to join the Board as Independent Non-Executive Directors in accordance with the Directors' Nomination Policy and Board Diversity Policy.

Where an Independent Non-executive Director has served on the Board for over nine years, the Nomination Committee considers and satisfies itself that the length of his/her tenure has not affected his/her independence having regard to his/her actual contributions, impartiality and ability to continue to demonstrate effective oversight of management of the Company. The Nomination Committee is confident that the wealth of skills, knowledge and experience of each of the Independent Non-executive Directors enables each to continue to contribute meaningfully and objectively to the deliberations of the Board.

Save as disclosed herein, none of the Independent Non-executive Directors has any material 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.

### **BOARD REFRESHMENT AND SUCCESSION**

Board succession planning is an ongoing process for the Company. There are regular reviews and discussions on succession planning, complemented by an active search when required for people presenting the right skill and diversity mix. The Nomination Committee manages board succession in light of the Board's overall needs, term limits and retirements. It considers prospective Director candidates based on merit and takes a long-term, strategic view of board succession, considering the competencies and experience necessary for effective oversight of the company given its current operations and strategy as well as its ambitions for the future. It also reviews board composition in light of the annual board assessment results and recommends any changes as appropriate.

The structure, size and composition of the Board is reviewed at least annually by the Nomination Committee. This review includes consideration of the existing diversity (including skills, experience, background and gender) of the Board as well as the Company's business strategies to ensure that the Board is able to oversee all material matters relating to the Group with a view to continuing to generate sustainable value for the Company and the Shareholders. The Company does not have mandatory retirement ages or term limits for its directorship.

The Nomination Committee also periodically considers the composition of its Board Committees to ensure an appropriate mix of skills alongside a range of perspectives to support the deliberations of such Committees. Changes were made to the composition of the Board Committees, effective from 1 January 2022. Details are set out in the sub-section headed "Nomination Committee" under the "Committees of the Board" section of this report.

### **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 eight 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 2021 AGM held during the year under review are as follows:

Name of Director	No. of Meetings Attended / No. of Meetings Held					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	2021 AGM
<b>Independent Non-executive Chairman and Independent Non-executive Director</b>						
Mr. Edmund Sze-Wing TSE	8/8	–	2/2	4/4	4/4	1/1
<b>Executive Director, Group Chief Executive and President</b>						
Mr. LEE Yuan Siong	8/8	–	–	–	4/4	1/1
<b>Independent Non-executive Directors</b>						
Mr. Jack Chak-Kwong SO	7/8	4/4	2/2	4/4	–	1/1
Mr. Chung-Kong CHOW	8/8	–	2/2	–	4/4	1/1
Mr. John Barrie HARRISON	8/8	4/4	2/2	–	4/4	1/1
Mr. George Yong-Boon YEO	8/8	4/4	2/2	4/4	–	1/1
Professor Lawrence Juen-Yee LAU	8/8	–	2/2	–	4/4	1/1
Ms. Swee-Lian TEO	8/8	–	2/2	–	4/4	1/1
Dr. Narongchai AKRASANEE	8/8	4/4	2/2	–	–	1/1
Mr. Cesar Velasquez PURISIMA	8/8	3/3	2/2	–	–	1/1
Ms. SUN Jie (Jane) <sup>(Note)</sup>	5/5	–	1/1	–	–	–

Note:

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

Minutes of the meetings of and resolutions in writing 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 the Directors.

## CHAIRMAN AND GROUP CHIEF EXECUTIVE

Mr. Edmund Sze-Wing Tse, Independent Non-executive Chairman of the Company, plays the 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, which is available on the Company's website.

## 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, covering its investment strategy and leadership development.

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
<b>Independent Non-executive Chairman and Independent Non-executive Director</b>		
Mr. Edmund Sze-Wing TSE	✓	✓
<b>Executive Director, Group Chief Executive and President</b>		
Mr. LEE Yuan Siong	✓	✓
<b>Independent Non-executive Directors</b>		
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	✓	✓
Ms. SUN Jie (Jane) <sup>(Note)</sup>	✓	✓

Note:

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

## 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, the Group Financial Risk Committee and the ESG Committee.

### AUDIT COMMITTEE

The Audit Committee consists of five members, all of whom are Independent Non-executive Directors. They are Mr. Purisima, who serves as chairman of the Audit Committee, Mr. Harrison, Mr. So, Mr. Yeo and Dr. Narongchai. Mr. Purisima was appointed as a member of the Audit Committee on 12 March 2021 and as chairman of the Audit Committee, in place of Mr. Harrison, effective from 1 January 2022. Mr. Harrison remains as a member of the Audit Committee.

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 2021. The attendance records of the Audit Committee members are set out on page 103 of this Annual Report.

## NOMINATION COMMITTEE

The Nomination Committee consists of ten members, including the Independent Non-executive Chairman, Mr. Tse, who serves as chairman of the Nomination Committee, and the remaining nine Independent Non-executive Directors, Mr. So, Mr. Chow, Mr. Harrison, Mr. Yeo, Professor Lau, Ms. Teo, Dr. Narongchai, Mr. Purisima and Ms. Sun. Ms. Sun was appointed as a member of the Nomination Committee, effective from 16 September 2021. 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 ensuring independent views and input are available to the Board.

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.

The Nomination Committee held two meetings during the year ended 31 December 2021. The attendance records of the Nomination Committee members are set out on page 103 of this Annual Report. At the December 2021 meeting, the Nomination Committee considered and recommended to the Board a rotation of the chairpersons and members of some of the Board Committees, with effect from 1 January 2022. In arriving at such recommendation, it had reviewed the composition of and expertise on each of the Board Committees, taking into due regard to the benefits of maintaining continuity and experience on the Board Committees necessary for effective deliberations and decisions and the need to bring in new perspectives and skills, as part of the Company's ongoing effort to enhance its Board effectiveness.

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 in 2019 and revised in 2022 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 regard 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. In particular, in recommending the re-election proposals of those retiring Independent Non-executive Directors who have been appointed to the Board for more than nine years, the Nomination Committee should take into consideration all relevant factors when assessing their continuing independence.

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 achieve appropriate 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.

## REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, all of whom are Independent Non-executive Directors. They are Mr. Yeo, who serves as chairman of the Remuneration Committee, Mr. So and Mr. Tse. During the year, Mr. Yeo was appointed as chairman of the Remuneration Committee, in place of Mr. So, effective from 1 January 2022. Mr. So remains as a member of the Remuneration Committee.

The Remuneration Committee is responsible for, amongst other things, establishing and overseeing the implementation of the Group's remuneration policies, overseeing and approving the Company's equity-based remuneration plans, and determining specific remuneration for the executive director, senior management and other personnels of the Company.

The Remuneration Committee held four meetings during the year ended 31 December 2021. The attendance records of the Remuneration Committee members are set out on page 103 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 seven members, six of whom are Independent Non-executive Directors, including Ms. Teo, who serves as chairman of the Risk Committee, Mr. Chow, Mr. Harrison, Professor Lau, Mr. Purisima, Mr. Tse and Mr. Lee, the sole Executive Director of the Company. During the year, Ms. Teo was appointed as chairman of the Risk Committee, in place of Mr. Chow, effective from 1 January 2022. Mr. Chow remains as a member of the Risk Committee. Mr. Purisima was also appointed to the Risk Committee, effective from 1 January 2022.

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 2021. The attendance records of the Risk Committee members are set out on page 103 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 2021, the total estimated remuneration payable by the Group to PricewaterhouseCoopers was US\$27.7 million (2020: US\$25.2 million), an analysis of which is set out below:

US\$ millions	2021	2020
Audit services	21.2	20.0
Non-audit services, including:		
Audit-related services <sup>(1)</sup>	4.7	3.9
Tax services	0.7	1.2
Other services	1.1	0.1
<b>Total</b>	<b>27.7</b>	<b>25.2</b>

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 of 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 133 to 139 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 in alignment with the Group's culture and strategy, 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 (including ESG 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 2021.



## 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 undertook 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](http://www.aia.com) in a timely manner. The financial calendar highlighting the key dates for shareholders is set out on page 287 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 an annual 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 288 of this Annual Report.

## 2021 ANNUAL GENERAL MEETING

The 2021 annual general meeting (2021 AGM) of the Company was held at the Grand Ballroom, Lower Level 1, Kowloon Shangri-La, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 20 May 2021. The Chairman and all other members of the Board at that time, together with the Group's senior management and external auditor, attended the 2021 AGM, either in person or through electronic means of communication. 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 2021 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 2020;
- Declaration of a final dividend of 100.30 Hong Kong cents per share for the year ended 31 December 2020;
- By way of separate ordinary resolutions, the re-election of Mr. Lee as Executive Director and Mr. Chow, Mr. Harrison, Professor Lau and Mr. Purisima 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 2021 AGM, and the discount for any shares to be issued not exceeding 10 per cent to the benchmarked price; and
- 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 2021 AGM.

The forthcoming annual general meeting of the Company will be held on Thursday, 19 May 2022. 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](mailto: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](mailto: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](http://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  
11 March 2022

# 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 2021.

In 2021, the Remuneration Committee focused on ensuring that the Group's remuneration framework equitably rewarded our employees for their contributions and value creation. Individual remuneration arrangements for our senior executives are aligned to the Group's strategy and provide rewards for the delivery of sustainable value whilst taking into account our regulatory environment, AIA's risk management framework, relevant market practices and the interests of our stakeholders.

Given the challenging macroeconomic environment, the Remuneration Committee had kept itself abreast of remuneration trends in Hong Kong, Asia Pacific and globally. As in previous years, the Remuneration Committee worked closely with its independent advisor to ensure that AIA's remuneration framework remains current with relevant market practices and remuneration governance trends.

Over the course of 2021, the Remuneration Committee conducted a number of comprehensive reviews to ensure principles of good corporate governance and market competitiveness are sustained.

- As part of the Remuneration Committee's regular review process documenting the Remuneration Committee's role and the authority delegated to it by the Board, the Terms of Reference for the Remuneration Committee were updated and approved by the full Board.
- AIA's Remuneration Policy which governs the Group's overall remuneration framework including for Senior Management and Non-executive Directors was thoroughly reviewed and updated following Board approval to ensure relevant regulatory requirements and recommended best practices were considered.
- An in-depth review of the Group's overall incentive framework was conducted to ensure that the framework remains compliant with relevant regulatory requirements, supports the Group's strategy, is aligned with relevant market practices, and that reward outcomes are closely aligned with company performance and shareholder outcomes.
- Reviewed and proposed adjustments, subsequently approved by the Board with effect from 1 January 2022, to the fees for the Board Chairman and Non-executive Directors.

The overall remuneration framework for senior executives remains unchanged in 2021 and will continue to apply in 2022. The framework focuses on encouraging behaviours, which create sustainable value for shareholders and positive impact for other stakeholders while discouraging inappropriate risk taking.

In this report you will see that we have strengthened disclosure on AIA's remuneration safeguards under a newly introduced section about remuneration and risk. The Remuneration Committee continues to emphasise a balanced approach between risk and rewards providing for competitive remuneration and incentives to attract and motivate the talent AIA requires to deliver on the Group's strategy.

The Remuneration Committee remains confident that the Group's remuneration framework, including executive remuneration arrangements are well aligned with our long-term ambitions and the Group's strategy.



**George Yong-Boon Yeo**  
Chairman, Remuneration Committee  
11 March 2022

## REMUNERATION GOVERNANCE

### ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee is responsible for establishing and overseeing the implementation of the Group's remuneration policies, overseeing and approving the Company's equity-based remuneration plans, and determining specific remuneration for all directors, the Group Chief Executive and President, Key Management Personnel (the members of the Group 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 strategy of the Group) and the Key Persons in Control Functions. As part of its duties, the Remuneration Committee is responsible for establishing a formal and transparent procedure in developing and approving such remuneration. 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, relevant risk policies and the application of performance-based incentives.

The Remuneration Committee is responsible for reviewing and assessing the remuneration framework and relevant policies to ensure that they do not encourage excessive risk taking and do not misalign the interests of the Company's stakeholders. Working closely with other relevant Committees, such as, the Risk Committee, the impact of the remuneration framework and relevant remuneration policies is assessed to ensure excessive risk taking is not encouraged.

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.

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 as it deems necessary.

The full Terms of Reference for the Remuneration Committee can be accessed at [www.aia.com](http://www.aia.com).

### MEMBERS AND MEETINGS

As of 31 December 2021, the Remuneration Committee consisted of three Independent Non-executive Directors, being Mr. Jack Chak-Kwong So, who was the Chairman of the Remuneration Committee until December 31, 2021, Mr. George Yong-Boon Yeo and Mr. Edmund Sze-Wing Tse. As part of the Board's ongoing review of its structure and performance, the chairs of the various Board committees have been rotated. With that, Mr. Yeo has been appointed as Chairman and Mr. So remains a member of the Remuneration Committee with effect from 1 January 2022.

The Remuneration Committee held four meetings during the year ended 31 December 2021. The attendance records of the Remuneration Committee members are set out on page 103 of this Annual Report.

## KEY ACTIVITIES OF THE REMUNERATION COMMITTEE

The Remuneration Committee performed the following key activities in 2021.

Area	Summary of activities
<b>Remuneration decisions for the Group Chief Executive and President and Key Management Personnel</b>	<ul style="list-style-type: none"> <li>Reviewed and approved the 2021 remuneration for the Group Chief Executive and President and the Key Management Personnel at the start of the year</li> <li>Recommended the 2021 long-term incentive grant for the Group Chief Executive and President for approval by the Independent Non-executive Directors of the Board</li> <li>Reviewed and approved the terms and conditions including remuneration arrangements of the incoming Regional Chief Executive and Group Chief Strategy Officer and for the departing Group Chief Strategy and Corporate Development Officer</li> <li>Reviewed the executive benchmarking results ahead of the 2021/22 annual review cycle</li> </ul>
<b>Design and operation of the Group's incentive schemes</b>	<ul style="list-style-type: none"> <li>Reviewed the achievement of relevant performance levels and approved the 2020 short-term incentive plan awards and the vesting of the 2018 long-term incentive grants for all plan participants including the Group Chief Executive and President and the Key Management Personnel</li> <li>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 2021 to 2023 performance period</li> <li>Approved a one-off 2021 ex-gratia award in the form of time-vesting RSUs under the 2021 long-term incentive RSU Scheme, granted to selected individuals to recognise and reward their exceptional contributions. No 2021 ex-gratia award was made to the Group Chief Executive and President</li> <li>Reviewed and approved the performance measures and targets for the 2022 short-term incentive plan, and the 2022 long-term incentive plan for the 2022 to 2024 performance period</li> <li>Reviewed and approved the executive incentive framework</li> <li>Approved changes to senior control function employees' short-term incentive awards to align them to Group Office results from 2022 onwards</li> </ul>
<b>Remuneration governance and disclosure</b>	<ul style="list-style-type: none"> <li>Reviewed and approved the 2020 Remuneration Report</li> <li>Reviewed and approved the updated Terms of Reference for the Remuneration Committee, subsequently approved by the Board</li> <li>Reviewed and approved the Remuneration Policy, subsequently approved by the Board</li> <li>Reviewed and assessed the Group's remuneration framework to ensure alignment with stakeholders' interests, including appropriate safeguards, and provided the Risk Committee with a report of this review</li> <li>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</li> <li>Reviewed the emerging remuneration trends for AIA's international insurance peer companies and for the Asia Pacific and other regions, especially with respect to the COVID-19 pandemic</li> </ul>
<b>Board Chairman Fee and Non-executive Director Fees</b>	<ul style="list-style-type: none"> <li>Reviewed and approved proposed adjustments to Board Chairman fee and Non-executive director fees, subsequently approved by the Board</li> </ul>

In conducting its business, the Remuneration Committee is advised by an independent consultant appointed by the Remuneration Committee, which provides independent advice for any remuneration topics requested by the Remuneration Committee, including reviewing the remuneration framework and executive remuneration terms and arrangements.

## REMUNERATION AND RISK

The Remuneration Committee regularly reviews and as necessary amends the remuneration framework and oversees its implementation in view of effective risk management, and regulatory requirements of relevant jurisdictions.

A report of remuneration and risk matters is to be provided annually by the Remuneration Committee and shared with the Risk Committee. This report contains an assessment of AIA's remuneration framework including the incentive framework, remuneration governance practices, and the key topics discussed and approved by the Remuneration Committee over the course of the year. This ensures a robust dialogue concerning risk issues between the two Committees. The Group Risk Management function evaluated the 2021 remuneration framework and concluded that it does not encourage inappropriate risk taking behaviours.

Control functions are actively involved in monitoring the operational implementation of AIA's policies and practices and ensuring compliance across the Group. If applicable, relevant control functions are consulted in establishing the remuneration framework and, as required, when defining remuneration policies and rules, in order to ensure that the remuneration framework complies with legal and regulatory requirements across the Group and does not encourage excessive risk taking behaviours.

Group Risk Management and Group Legal are consulted to define the criteria to identify the Key Persons in Control Functions and Material Risk Takers on a regular basis.

AIA's remuneration framework contains multiple design and policy safeguards in place to adhere to prudent risk taking and to not encourage excessive risk taking behaviours.

These safeguards include guidelines on employment and remuneration terms and conditions for the most senior positions including a consistent, centrally managed framework for contractual agreements and a robust remuneration benchmarking approach conducted by an independent advisor. Additional safeguards include clear incentive funding and vesting frameworks aligned with Board approved performance targets, short-term incentive awards and long-term incentive vesting levels approved by the Remuneration Committee with target and maximum pay opportunities aligned with market practices, malus and clawback provisions as part of the incentive framework and share ownership guidelines for the Group Chief Executive and President.

In addition, a robust Group-wide performance management framework is applied, assessing employees' and executives' contributions and behaviours based on individual goals established at the beginning of the year. This ensures that reward outcomes reflect both results achieved and behaviours demonstrated balancing the financial and non-financial aspects.

For 2022 onwards, senior control function employees' short-term incentive awards will be fully aligned to Group Office results to avoid potential conflict of interests and to ensure their independence.



## REMUNERATION FRAMEWORK

### REMUNERATION POLICY

The Company's remuneration policies and practices are committed to responsible remuneration practices to attract, motivate and retain employees at all levels across the Group. AIA aims to reward all individuals competitively and fairly, irrespective of gender, ethnicity, age, disability or other non-performance related factors, based on principles of impact and contribution balanced against sound risk management.

AIA's remuneration practices support the achievement of AIA's business strategy including achievement of long-term objectives taking into consideration the Group's capital position and long-term performance whilst not inducing excessive risk taking behaviours or violation of applicable laws, guidelines or regulations.

AIA's remuneration policy serves to support the above objectives including appropriate governance, design, implementation and monitoring of AIA's remuneration and risk management framework. AIA's remuneration framework applies across the Group and is implemented consistently across business units, subject to local rules and regulations as necessary and appropriate for the Group.

### REMUNERATION ELEMENTS

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 2021.

Element	Basis of determination	Notes on practices
<p><b>Base salary</b></p> <p>This is the fixed portion provided as a cash element of remuneration</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 fixed portion of remuneration should be set appropriately to not induce any excessive risk taking behaviour by leveraging the variable component.</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><b>Short-term incentives</b></p> <p>These are delivered in the form of a discretionary, performance-based cash award to incentivise, recognise and reward achievement of business objectives, individual contribution and behaviours</p>	<p>Across the Group, short-term incentives are discretionary and intended to incentivise the achievement of annual business plans.</p> <p>Short-term incentive awards recognise both business and individual performances, taking into consideration an individual's contribution and behaviours.</p> <p>Short-term incentive target opportunities are determined with reference to the individual's roles and responsibilities and the market competitiveness of variable and total compensation.</p>	<p>Short-term incentive awards are based on the achievement of the Group's pre-defined financial performance targets as well as individual contribution and behaviours. As such, both financial and non-financial performance measures are taken into consideration.</p>

Element	Basis of determination	Notes on practices
<p><b>Long-term incentives</b></p> <p>These are delivered in the form of RSUs and SOs 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>Across the Group, long-term incentives are discretionary and intended to align key talent and senior employees with the Group's long-term strategic goals and ambitions and shareholders' interests. Long-term incentives promote risk awareness, encourage engagement to operate in a sustainable manner and are designed to motivate, retain and support wealth creation.</p> <p>Long-term incentive grants are usually made in form of RSUs and / or SOs for senior employees and are subject to a three-year vesting period. RSUs are subject to pre-defined performance vesting requirements.</p> <p>Long-term incentive grant values are determined with reference to roles and responsibilities as well as the individual's performance and future potential whilst also considering the market competitiveness of variable and total compensation opportunities.</p>	<p>Long-term incentive grants are discretionary and participation is determined on an annual basis.</p> <p>For the Group Chief Executive and President and Key Management Personnel, grants are made in the form of RSUs and SOs to deliver a balanced mix of ownership and incentives, as well as reward executives for sustainable performance.</p> <p>Such grants generally vest after a three-year period and are settled in AIA shares, with RSUs subject to pre-defined performance vesting requirements resulting in a significant portion of senior executives' variable remuneration being deferred in the form of long-term incentives.</p>
<p><b>Benefits and allowances</b></p> <p>These include benefits that may be required by regulations and / or in line with local market practices, and contribute to the value of total rewards</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><b>Employee share purchase plan (ESPP)</b></p> <p>This benefit provides employees with a share investment opportunity with matching share grants to facilitate and encourage long-term 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-term 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 and are aligned with the interests of key stakeholders of AIA, including those of long-term shareholders. Depending on business and individual performance and behaviours, such incentives may result in award levels above or below target, reflecting superior performance and behaviours, and performance and behaviours below expectations, respectively.

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

### SHORT-TERM INCENTIVE PLAN

Short-term incentives are discretionary and intended to incentivise participants for the achievement of annual business plans and key objectives linked to financial, operational and individual performance over the relevant financial year. Individual performance is measured based on the achievements of individual goals focusing on results and behaviours, including a balance of financial and non-financial measures.

2021 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 2021.

### Performance Measures And Weightings

For 2021, the performance measures used in the short-term incentive plan were as follows:

<b>VONB</b>	<b>60% WEIGHTING</b>	Value of new business (VONB) is an estimate of the economic value of one year's sales as published by the Company
<b>UFSG</b>	<b>15% WEIGHTING</b>	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
<b>OPAT</b>	<b>25% WEIGHTING</b>	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

For business units, performance measures and weightings may vary from the illustration above and include a weighting for strategic initiatives.

The total value of short-term incentive awards that will be paid to Mr. Lee Yuan Siong (Group Chief Executive and President) and the Key Management Personnel for the year ended 31 December 2021 is US\$15,471,780.

The short-term incentive amounts for the year ended 31 December 2021 are included in note 41 to the consolidated financial statements as "Bonuses" for Mr. Lee Yuan Siong, and as part of the "Salaries and other short-term employee benefits" for the Key Management Personnel.

## **LONG-TERM INCENTIVE PLAN**

The purpose of long-term incentives is intended to align senior employees with the Group's long-term strategic goals and ambitions and stakeholders' interests. Long-term incentives promote risk awareness, encourage engagement to operate in a sustainable manner and are designed to motivate, retain and support long-term wealth creation when shareholder value is increased.

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.

Long-term incentive grants 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.

Long-term incentive grants are delivered in the form of performance-vesting RSUs and time-vesting SOs for a balanced mix of incentives and ownership. The grants generally settle in shares and vest after a three-year period and, in the case of the RSUs, performance conditions are met. As applicable to other remuneration payments, long-term incentive vesting is subject to the Remuneration Committee's approval and the 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 adopted by the Company on 28 September 2010 were terminated with effect from 31 July 2020 and 29 May 2020, respectively and no further grants may be made under these schemes although outstanding awards will continue to vest based on their original terms.

The 2020 RSU Scheme and the 2020 SO Scheme, with substantially the same terms as the 2010 RSU Scheme and the 2010 SO Scheme, respectively, were adopted by the Company on 1 August 2020 (2020 RSU Scheme Adoption Date) and 29 May 2020 (2020 SO Scheme Adoption Date), respectively. Both the 2020 RSU Scheme and the 2020 SO Scheme are effective for a period of 10 years from the respective 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 consolidated 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) or officers of the Company or any of its subsidiaries.

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

<b>VONB</b>	<b>1/3 WEIGHTING</b>	VONB is an estimate of the economic value of one year's sales as published by the Company
<b>EV EQUITY</b>	<b>1/3 WEIGHTING</b>	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
<b>TSR</b>	<b>1/3 WEIGHTING</b>	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 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 (with each measure having an equal weighting) will independently determine the vesting of one-third of the target number of RSU grants.

- 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), 100 per cent of the target number of RSUs will vest.
- At maximum performance levels (for TSR, the 75th percentile or above of peer companies' performance), 200 per cent of the target number of RSUs will vest.

During the year ended 31 December 2021, the Company granted 9,484,581 RSUs under the 2020 RSU Scheme. Notwithstanding the termination of the 2010 RSU Scheme, it shall remain in full force and effect for all RSUs granted prior to its termination, and the vesting of such RSUs shall be subject to and made in accordance with the terms on which they were granted under the 2010 RSU Scheme.

The aggregate number of shares that may underlie all RSUs granted by the Company (excluding RSUs that have lapsed or been cancelled) pursuant to the 2020 RSU Scheme and any other restricted share unit scheme of the Company (i.e., the 2010 RSU Scheme) shall not exceed 2.5 per cent of the number of shares in issue on 29 May 2020 (RSU Reference Date).

Since the 2020 RSU Scheme Adoption Date and up to 31 December 2021, a cumulative total of 6,042,202 RSUs vested under the 2010 RSU Scheme and the 2020 RSU Scheme, underlying shares of which represent 0.05 per cent of the shares in issue as at the RSU Reference Date. During the same period, no new shares have been issued under either the 2010 RSU Scheme or the 2020 RSU Scheme.

### RSUs Granted and Vested in 2021

The 2021 performance-vesting RSU grants will be assessed over a three-year period from 1 January 2021 to 31 December 2023 taking into consideration the performance measures described above.

The 2018 performance-vesting RSU grants made in 2018 were assessed over a three-year period from 1 January 2018 to 31 December 2020 taking into consideration the performance measures described above and vested on 15 March 2021. After assessing the pre-determined performance targets for the VONB, EV Equity and relative TSR measures over the three-year period, the Remuneration Committee approved the vesting of the 2018 performance-vesting RSU grants at 110.65 per cent of target.

### RSUs to be Granted and to Vest in 2022

The 2022 performance-vesting RSU grants will be made to selected participants after the Company's 2021 year-end financial results announcement in early 2022. The 2022 performance-vesting RSU grants will be assessed over a three-year period from 1 January 2022 to 31 December 2024 taking into consideration the performance measures described above.

The 2019 performance-vesting RSU grants made in 2019 will vest in March 2022 after the Company's year-end financial results announcement. The final vesting results will be disclosed in the Company's Annual Report 2022.

Further, it should be noted that 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 were granted in March 2021 an ex-gratia award in the form of time-vesting RSUs, which will be subject to vest in March 2022. No ex-gratia award was made to the Group Chief Executive and President. Details will be disclosed in the Company's Annual Report 2022.

### RSU Movements During the Year Ended 31 December 2021

The table below summarises the movements in RSUs under the 2010 RSU Scheme during the year ended 31 December 2021.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) <sup>(2)</sup>	Date of Vesting (day / month / year) <sup>(3)</sup>	RSUs outstanding as at 1 January 2021	RSUs granted during the year ended 31 December 2021	RSUs vested during the year ended 31 December 2021	RSUs cancelled / lapsed / reclassified during the year ended 31 December 2021	RSUs outstanding as at 31 December 2021 <sup>(7)</sup>
Group Chief Executive and President Mr. LEE Yuan Siong	13/3/2020	See note <sup>(4)</sup>	1,784,275	–	(315,561)	–	1,468,714
	25/3/2020	25/3/2023 <sup>(5)</sup>	420,426	–	–	–	420,426
Key Management Personnel (excluding the Group Chief Executive and President)	15/3/2018	15/3/2021 <sup>(5)</sup>	980,440	–	(542,483)	(437,957)	–
	27/3/2019	27/3/2022 <sup>(5)</sup>	832,594	–	–	–	832,594
	15/5/2019	1/5/2022 <sup>(5)</sup>	27,182	–	–	–	27,182
	30/12/2019	30/12/2022 <sup>(6)</sup>	445,308	–	–	–	445,308
Other eligible employees and participants <sup>(1)</sup>	25/3/2020	25/3/2023 <sup>(5)</sup>	963,062	–	–	–	963,062
	15/3/2018	15/3/2021 <sup>(5)</sup>	8,443,189	–	(4,581,525)	(3,861,664)	–
	29/6/2018	15/3/2021 <sup>(5)</sup>	108,956	–	(60,287)	(48,669)	–
	27/3/2019	27/3/2022 <sup>(5)</sup>	8,131,419	–	(118,102)	(995,433)	7,017,884
	15/5/2019	1/5/2022 <sup>(5)</sup>	16,480	–	–	–	16,480
	25/3/2020	25/3/2023 <sup>(5)</sup>	9,602,594	–	(73,088)	(1,325,039)	8,204,467
	10/6/2020	10/6/2023 <sup>(5)</sup>	31,142	–	–	–	31,142

Notes:

- (1) Includes the RSUs of the retired Group Chief Executive and President, Mr. Ng Keng Hooi, that were outstanding as at 1 January 2021.
- (2) The measurement dates (i.e., the dates used to determine the value of the grants for accounting purposes) for grants made during the thirteen months ended 31 December 2018 were determined to be 15 March 2018 and 29 June 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.
- (3) The date of vesting is subject to applicable dealing restrictions.
- (4) Reference is made to the Company's announcement dated 22 November 2019. These RSUs relate to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employment. The vesting of these RSUs is service-based only (i.e., there are no further performance conditions attached except for continued employment). The first two tranches of 315,561 RSUs each had vested on 13 September 2020 and 21 February 2021 respectively. Subject to continued employment, the remaining tranches of 315,561 RSUs each are scheduled to vest on 21 February 2022, 21 February 2023 and 21 February 2024 respectively and 522,031 RSUs are scheduled to vest on 21 February 2025.
- (5) The vesting of these RSUs is subject to service requirements and the achievement of performance measures shown on page 123 of this Annual Report.
- (6) 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.
- (7) Includes RSUs outstanding as at 31 December 2021 that, in accordance with the 2010 RSU Scheme rules, will lapse on or before the respective vesting date.

The table below summarises the movements in RSUs under the 2020 RSU Scheme during the year ended 31 December 2021.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) <sup>(1)</sup>	Date of Vesting (day / month / year) <sup>(2)</sup>	RSUs outstanding as at 1 January 2021	RSUs granted during the year ended 31 December 2021	RSUs vested during the year ended 31 December 2021	RSUs cancelled / lapsed / reclassified during the year ended 31 December 2021	RSUs outstanding as at 31 December 2021 <sup>(8)</sup>
Group Chief Executive and President Mr. LEE Yuan Siong	24/3/2021	24/3/2024 <sup>(3)</sup>	–	429,546	–	–	429,546
Key Management Personnel (excluding the Group Chief Executive and President)	24/3/2021	24/3/2022 <sup>(4)</sup>	–	88,071	–	–	88,071
	24/3/2021	24/3/2024 <sup>(3)</sup>	–	1,041,558	–	–	1,041,558
Other eligible employees and participants	24/3/2021	24/3/2022 <sup>(4)</sup>	–	379,400	–	(5,245)	374,155
	24/3/2021	24/3/2024 <sup>(3)</sup>	–	7,226,928	(4,053)	(480,084)	6,742,791
	24/3/2021	24/3/2024 <sup>(5)</sup>	–	77,480	–	–	77,480
	30/3/2021	24/3/2022 <sup>(4)</sup>	–	43,723	–	(3,500)	40,223
	02/6/2021	02/6/2024 <sup>(3)</sup>	–	82,624	–	–	82,624
	02/6/2021	02/6/2024 <sup>(6)</sup>	–	4,484	–	–	4,484
	30/9/2021	30/9/2024 <sup>(3)</sup>	–	51,994	–	–	51,994
17/12/2021	17/12/2024 <sup>(7)</sup>	–	58,773	–	–	58,773	

Notes:

- (1) 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 31 December 2021 were determined to be 24 March 2021, 30 March 2021, 2 June 2021, 30 September 2021 and 17 December 2021. These measurement dates were determined in accordance with IFRS 2.
- (2) The date of vesting is subject to applicable dealing restrictions.
- (3) The vesting of these RSUs is subject to service requirements and the achievement of performance measures shown on page 123 of this Annual Report.
- (4) 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 24 March 2022.
- (5) 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 24 March 2024.
- (6) 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 2 June 2024.
- (7) 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 17 December 2024.
- (8) Includes RSUs outstanding as at 31 December 2021 that, in accordance with the 2020 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 long-term shareholders by allowing participants to share in the long-term, sustainable value they help create for our shareholders.

Under the SO Schemes, the Company may grant SOs to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.

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 2021, the Company granted 1,849,222 SOs under the 2020 SO Scheme. Notwithstanding the termination of the 2010 SO Scheme, it 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 made in accordance with the terms on which they were granted under the 2010 SO Scheme and the Listing Rules.

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 the 2020 SO Scheme and any other share option scheme of the Company (i.e., the 2010 SO Scheme) must not exceed 2.5 per cent of the number of shares in issue on 29 May 2020, being the 2020 SO Scheme Adoption Date.

Since the 2020 SO Scheme Adoption Date and up to 31 December 2021, a cumulative total of 5,211,914 new shares were issued under the 2010 SO Scheme, representing approximately 0.043 per cent of the shares in issue as at the 2020 SO Scheme Adoption Date. During the same period, no new shares were issued under the 2020 SO Scheme.

As at the date of this report, the total number of shares which will be available for issue under the SO Schemes is 296,690,609 shares, representing approximately 2.45 per cent of the number of shares in issue of the Company.

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.



## SOs Granted and Vested in 2021

The SOs granted in 2021 pursuant to the 2020 SO Scheme will vest in 2024, assuming all service requirements are met. Details of the valuation of the SOs are set out in note 40 to the consolidated financial statements.

The SOs granted in 2018 in accordance with the 2010 SO Scheme rules (excluding any of such SOs that have lapsed in the intervening period) vested on 15 March 2021 and became exercisable on 15 March 2021, being the first trading date after the Hong Kong regulatory blackout period.

## SOs to be Granted and to Vest in 2022

The Remuneration Committee will grant SOs to selected participants in March 2022 after the Company's year-end financial results announcement. Details of these grants will be disclosed in the Company's Annual Report 2022.

The SOs granted in 2019 will vest in March 2022 after the Company's year-end financial results announcement.

## SO Movements During the Year Ended 31 December 2021

The table below summarises the movements in SOs under the 2010 SO Scheme during the year ended 31 December 2021.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) <sup>(2)</sup>	Period during which SOs are exercisable (day / month / year)	SOs outstanding as at 1 January 2021	SOs granted during the year ended 31 December 2021	SOs vested during the year ended 31 December 2021	SOs cancelled / lapsed / reclassified during the year ended 31 December 2021	SOs exercised during the year ended 31 December 2021	Exercise price (HK\$)	SOs outstanding as at 31 December 2021 <sup>(16)</sup>	Weighted average closing price of shares immediately before the dates on which SOs were exercised (HK\$)
<b>Group Chief Executive and President</b> Mr. LEE Yuan Siong	25/3/2020	25/3/2023 - 24/3/2030 <sup>(3)</sup>	1,197,133	–	–	–	–	68.10	1,197,133	n/a
<b>Key Management Personnel (excluding the Group Chief Executive and President)</b>	11/3/2013	11/3/2016 - 10/3/2023 <sup>(4)</sup>	76,937	–	–	–	–	34.35	76,937	n/a
	5/3/2014	5/3/2017 - 4/3/2024 <sup>(5)</sup>	527,584	–	–	–	–	37.56	527,584	n/a
	12/3/2015	12/3/2018 - 11/3/2025 <sup>(6)</sup>	473,259	–	–	–	–	47.73	473,259	n/a
	9/3/2016	9/3/2019 - 8/3/2026 <sup>(7)</sup>	1,413,600	–	–	–	–	41.90	1,413,600	n/a
	10/3/2017	10/3/2020 - 9/3/2027 <sup>(8)</sup>	1,499,764	–	–	–	–	50.30	1,499,764	n/a
	31/7/2017	1/6/2020 - 30/7/2027 <sup>(9)</sup>	353,650	–	–	–	–	61.55	353,650	n/a
	15/3/2018	15/3/2021 - 14/3/2028 <sup>(10)</sup>	2,351,059	–	2,351,059	–	–	67.15	2,351,059	n/a
	27/3/2019	27/3/2022 - 26/3/2029 <sup>(11)</sup>	2,195,342	–	–	–	–	76.38	2,195,342	n/a
	15/5/2019	1/5/2022 - 14/5/2029 <sup>(12)</sup>	72,856	–	–	–	–	78.70	72,856	n/a
	25/3/2020	25/3/2023 - 24/3/2030 <sup>(3)</sup>	2,742,235	–	–	–	–	68.10	2,742,235	n/a
<b>Other eligible employees and participants <sup>(1)</sup></b>	1/6/2011	1/4/2014 - 31/5/2021 <sup>(13)</sup>	235,861	–	–	–	(235,861)	27.35	–	101.02
	1/6/2011	1/4/2014 - 31/5/2021 <sup>(14)</sup>	217,457	–	–	–	(217,457)	27.35	–	99.10
	15/3/2012	15/3/2015 - 14/3/2022 <sup>(15)</sup>	574,170	–	–	–	(336,312)	28.40	237,858	80.11
	11/3/2013	11/3/2016 - 10/3/2023 <sup>(4)</sup>	438,536	–	–	–	–	34.35	438,536	n/a
	5/3/2014	5/3/2017 - 4/3/2024 <sup>(5)</sup>	280,952	–	–	–	–	37.56	280,952	n/a
	12/3/2015	12/3/2018 - 11/3/2025 <sup>(6)</sup>	1,026,353	–	–	–	–	47.73	1,026,353	n/a
	9/3/2016	9/3/2019 - 8/3/2026 <sup>(7)</sup>	411,586	–	–	–	(5,005)	41.90	406,581	103.70
	10/3/2017	10/3/2020 - 9/3/2027 <sup>(8)</sup>	2,109,430	–	–	–	(5,000)	50.30	2,104,430	95.00
	31/7/2017	1/6/2020 - 30/7/2027 <sup>(9)</sup>	476,786	–	–	–	–	61.55	476,786	n/a
	15/3/2018	15/3/2021 - 14/3/2028 <sup>(10)</sup>	1,551,311	–	1,492,908	(58,403)	(72,261)	67.15	1,420,647	97.50
	27/3/2019	27/3/2022 - 26/3/2029 <sup>(11)</sup>	1,551,283	–	47,179	(399,188)	–	76.38	1,152,095	n/a
	15/5/2019	1/5/2022 - 14/5/2029 <sup>(12)</sup>	9,365	–	–	–	–	78.70	9,365	n/a
	25/3/2020	25/3/2023 - 24/3/2030 <sup>(3)</sup>	1,917,300	–	32,205	(854,344)	–	68.10	1,062,956	n/a

**CORPORATE GOVERNANCE**  
**REMUNERATION REPORT**

Notes:

- (1) Includes the SOs of the retired Group Chief Executive and Presidents, Mr. Mark Edward Tucker and Mr. Ng Keng Hooi, that were outstanding as at 1 January 2021.
- (2) 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 date for grants made during the thirteen months ended 31 December 2018 was determined to be 15 March 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.
- (3) The vesting of SOs is service-based only. Subject to continued employment, all SOs will vest on 25 March 2023.
- (4) The vesting of SOs is service-based only. All SOs vested on 11 March 2016.
- (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. All SOs vested 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. Subject to continued employment, all SOs will vest on 1 May 2022.
- (13) The vesting of SOs is service-based only. All SOs vested on 1 April 2014.
- (14) 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.
- (15) The vesting of SOs is service-based only. All SOs vested on 15 March 2015.
- (16) Includes SOs outstanding as at 31 December 2021 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.

The table below summarises the movements in SOs under the 2020 SO Scheme during the year ended 31 December 2021.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) <sup>(1)</sup>	Period during which SOs are exercisable (day / month / year)	SOs outstanding as at 1 January 2021	SOs granted during the year ended 31 December 2021	SOs vested during the year ended 31 December 2021	SOs cancelled / lapsed / reclassified during the year ended 31 December 2021	SOs exercised during the year ended 31 December 2021	Exercise price (HK\$)	SOs outstanding as at 31 December 2021 <sup>(3)</sup>	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	24/3/2021	24/3/2024 - 23/3/2031 <sup>(2)</sup>	–	464,526	–	–	–	97.33	464,526	n/a
Key Management Personnel (excluding the Group Chief Executive and President)	24/3/2021	24/3/2024 - 23/3/2031 <sup>(2)</sup>	–	1,126,373	–	–	–	97.33	1,126,373	n/a
Other eligible employees and participants	24/3/2021	24/3/2024 - 23/3/2031 <sup>(2)</sup>	–	258,323	–	(9,429)	–	97.33	248,894	n/a

Notes:

- (1) The measurement date (i.e., the date used to determine the value of the grants for accounting purposes) for grant made during the year ended 31 December 2021 was determined to be 24 March 2021. This measurement date was determined in accordance with IFRS 2.
- (2) The closing price of the Company's shares immediately before the date on which SOs were granted was HK\$96.35. The vesting of SOs is service-based only. Subject to continued employment, all SOs will vest on 24 March 2024.
- (3) Includes SOs outstanding as at 31 December 2021 that, in accordance with the 2020 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 2011 ESPP adopted by the Company on 25 July 2011 with a term of 10 years was terminated with effect from 31 October 2020. The Company adopted a new employee share purchase plan (2020 ESPP) on 1 August 2020 (2020 ESPP Adoption Date) 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.

Upon the termination of the 2011 ESPP, no further RSPUs can be granted thereunder. However, the 2011 ESPP shall remain in full force and effect for all RSPUs granted prior to its termination, and the vesting of such RSPUs shall be subject to and made in accordance with the terms on which they were granted under the 2011 ESPP.

Under the 2020 ESPP, eligible employees of the Group may elect to purchase the Company's shares and, through the grant of matching RSPUs, receive one matching share for every two shares purchased and held until the end of the vesting period. Each eligible employee's participation level is 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 employed 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 of new shares by the Company or purchased on market by the trustee of the 2020 ESPP.

The aggregate number of shares which can be issued by the Company pursuant to the 2020 ESPP and any other employee share purchase plan (i.e., the 2011 ESPP) during the ten-year period from the 2020 ESPP Adoption Date shall not exceed 2.5 per cent of the number of shares in issue on 29 May 2020 (ESPP Reference Date). Since the 2020 ESPP Adoption Date and up to 31 December 2021, no new shares have been issued under the 2011 ESPP nor the 2020 ESPP.

During the year ended 31 December 2021, no matching RSPUs were granted, 1,055,698 matching RSPUs were vested and no new shares were issued under the 2011 ESPP. During the same period, 1,557,557 matching RSPUs were granted, 21,919 matching RSPUs were vested and no new shares were issued under the 2020 ESPP. Since 2020 ESPP Adoption Date and up to 31 December 2021, a cumulative total of 2,140,819 matching RSPUs were vested under ESPPs and no new shares were issued for the RSPUs.

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

## DIRECTORS AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

### EXECUTIVE DIRECTOR

Mr. Lee Yuan Siong received remuneration exclusively for his role as Group Chief Executive and President and received no separate fees for his role 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 the Group Chief Executive and President.

US\$ thousands	Annualised Target Pay Opportunity <sup>(1)</sup>	
	2021 Mr. Lee Yuan Siong	2020 Mr. Lee Yuan Siong
Base Salary <sup>(2)</sup>	1,111	1,092
Target short-term incentive	2,200	1,980
Target long-term incentive	3,960	3,960
<b>Total Annualised Target Pay Opportunity</b>	<b>7,271</b>	<b>7,032</b>

Notes:

- (1) 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 also received an annualised housing allowance of HK\$3,000,000 for each of the years 2020 and 2021.
- (2) Mr. Lee Yuan Siong's base salary represents the annualised amount as of his date of appointment for the year 2020, and his base salary represents the annualised amount as of 1 March (being the annual review salary effective date) for the year 2021. 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 2021 in relation to the Group Chief Executive and President are included in note 41 to the consolidated financial statements.

### NON-EXECUTIVE DIRECTORS

Remuneration for the Non-executive Directors was paid during the year ended 31 December 2021 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 2021 are included in note 41 to the consolidated financial statements.

### Board Chairman

During 2021, the Remuneration Committee reviewed the fees for the Board Chairman and Non-executive Directors and subsequently proposed adjustments to the Board for approval. The review of fees for the Board Chairman and Non-executive Directors is typically carried out every three to four years and takes into consideration the expected movements and requirements for the period.

To reflect the unique scope, contribution and time commitment of the Board Chairman role, and to ensure competitiveness against our global insurance peers, Board Chairman Basic Fees, inclusive of Board Membership fee, are increased from US\$600,000 to US\$750,000 per annum effective 1 January 2022. The Chairman abstained from discussion and voting on the fee increase.

## Non-executive Directors

Board Membership fees for the Non-executive Directors are increased from US\$168,000 to US\$220,000 per annum effective 1 January 2022 to more closely align with the fee levels provided by our global insurance peers.

Additional annual fees for Committee Membership and Chair positions are also provided to the Non-executive Directors and are increased effective 1 January 2022 as follows:

	Current Fee		Fee effective 1 January 2022	
	Chair	Member	Chair	Member
Audit Committee	US\$55,000	US\$40,000	US\$75,000	US\$50,000
Nomination Committee	US\$25,000	US\$15,000	US\$30,000	US\$20,000
Remuneration Committee	US\$45,000	US\$30,000	US\$65,000	US\$40,000
Risk Committee	US\$45,000	US\$30,000	US\$65,000	US\$40,000

Non-executive Directors who have also acted as representatives of the Board to attend the ESG Committee, being a management committee of the Company, are provided with an additional annual fee of US\$15,000. Such annual fee is increased to US\$20,000 effective from 1 January 2022.

## KEY MANAGEMENT PERSONNEL

The total remuneration cost charged to the consolidated income statement for the Key Management Personnel during year ended 31 December 2021 was US\$49,478,883.

Details of remuneration provided during the year ended 31 December 2021 are included in note 41 to the consolidated 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”), which are set out on pages 140 to 256, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of material accounting policy information and other explanatory information.

*Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing (“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.

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### Key Audit Matters

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

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

Key audit matter	How our audit addressed the key audit matter
<p><b>a) Valuation of insurance contract liabilities</b></p> <p>Refer to the following notes in the consolidated financial statements: Note 2.3 for related accounting policies, Note 3 for critical accounting estimates and judgements, Note 27 and Note 29.</p> <p>As at 31 December 2021, the Group has insurance contract liabilities of US\$239,423 million.</p> <p>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.</p> <p>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.</p>	<p>We tested how management made the estimate and performed audit procedures including the following:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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"> <li>Obtaining an understanding of, and testing, the controls in place to determine the assumptions;</li> <li>Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience;</li> </ul> </li> </ul>





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**Key Audit Matters** (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>a) Valuation of insurance contract liabilities</b> (continued)</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"> <li>Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.</li> <li>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.</li> </ul> <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>



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**Key Audit Matters** (continued)

Key audit matter	How our audit addressed the key audit matter
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**b) Amortisation of DAC**

Refer to the following notes in the consolidated financial statements: Note 2.3.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements, Note 11 and Note 20.

As at 31 December 2021, the Group has reported DAC of US\$28,385 million.

DAC for traditional life insurance policies and annuities are amortised over the expected life of the policies as a constant percentage of premiums and involve less judgement by the Directors compared to universal life and unit-linked policies. Expected premiums are estimated at the date of policy issue.

The amortisation of DAC for universal life and unit-linked policies involves greater judgement by the Directors. For these contracts, DAC is amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits are revised regularly and significant judgement is exercised in making appropriate estimates of gross profits. Therefore, the determination of amortisation of DAC for these contracts are subject to significant estimation uncertainty and the associated inherent risk is considered significant.

As part of our audit we have focused on DAC related to universal life and unit-linked policies where the assumptions are reassessed at each reporting date.

We tested how management made the estimate and performed audit procedures including the following:

- Reviewed and challenged the basis of amortisation of DAC in the context of the Group's accounting policy and the appropriateness of the assumptions used in determining the estimated gross profits used for amortisation for universal life and unit-linked policies. This included those for mortality, morbidity, persistency, expense and investment returns by comparing against past experience, market observable data (as applicable) and our experience of market practice.

Based upon the work performed, we found the assumptions used in relation to the amortisation of DAC for universal life and unit-linked policies to be appropriate.



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### Other Information

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

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

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

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

### Other Matter

The Group has prepared Supplementary Embedded Value Information as at and for the year ended 31 December 2021 in accordance with the embedded value basis of preparation set out in Sections 4 and 5 of the Supplementary Embedded Value Information, on which we issued a separate auditor's report to the Board of Directors of the Company dated 11 March 2022.

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

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

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

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

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

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

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

(continued)

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

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

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

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

#### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong

11 March 2022

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FINANCIAL STATEMENTS  
**CONSOLIDATED INCOME STATEMENT**

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

FINANCIAL STATEMENTS  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

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

Notes:

- (1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.
- (2) Gross of tax, policyholders' participation and other shadow accounting related movements, US\$7,755m relates to the fair value losses (2020: US\$8,212m relates to the fair value gains) on available for sale financial assets and US\$2,405m (2020: US\$1,443m) relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year.

**FINANCIAL STATEMENTS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

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



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

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



**Lee Yuan Siong**  
Director



**Edmund Sze-Wing Tse**  
Director

FINANCIAL STATEMENTS  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Notes:

- (1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.
- (2) Gross of tax, policyholders' participation and other shadow accounting related movements, US\$7,755m relates to the fair value losses on available for sale financial assets and US\$2,405m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year ended 31 December 2021.

US\$m	Note	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		
<b>Balance at 1 January 2020</b>		14,129	(220)	(11,887)	40,922	11,669	(698)	1,073	(41)	448	55,395
Net profit		–	–	–	5,779	–	–	–	–	–	5,779
Fair value gains on available for sale financial assets <sup>(2)</sup>		–	–	–	–	4,850	–	–	–	15	4,865
Fair value gains on available for sale financial assets transferred to income on disposal <sup>(2)</sup>		–	–	–	–	(1,345)	–	–	–	–	(1,345)
Foreign currency translation adjustments		–	–	–	–	–	941	–	–	10	951
Cash flow hedges		–	–	–	–	–	–	–	6	–	6
Share of other comprehensive expense from associates and joint ventures		–	–	–	–	(4)	(10)	–	–	–	(14)
Revaluation losses on property held for own use		–	–	–	–	–	–	(46)	–	–	(46)
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	(8)	–	(8)
<b>Total comprehensive income/ (expense) for the year</b>		–	–	–	5,779	3,501	931	(46)	(2)	25	10,188
Dividends	14	–	–	–	(1,997)	–	–	–	–	(5)	(2,002)
Shares issued under share option scheme and agency share purchase plan		26	–	–	–	–	–	–	–	–	26
Acquisition of non-controlling interests		–	–	(3)	–	–	–	–	–	–	(3)
Share-based compensation		–	–	80	–	–	–	–	–	–	80
Purchase of shares held by employee share-based trusts		–	(16)	–	–	–	–	–	–	–	(16)
Transfer of vested shares from employee share-based trusts		–	81	(81)	–	–	–	–	–	–	–
<b>Balance at 31 December 2020</b>		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.

FINANCIAL STATEMENTS  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

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

Note:

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

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

US\$m	Note	As at 31 December 2021	As at 31 December 2020
Cash and cash equivalents in the consolidated statement of financial position	26	<b>4,989</b>	5,619
Bank overdrafts		<b>(294)</b>	(226)
<b>Cash and cash equivalents in the consolidated statement of cash flows</b>		<b>4,695</b>	5,393

## 1. CORPORATE INFORMATION

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

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

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

## 2. MATERIAL ACCOUNTING POLICY INFORMATION

### 2.1 Basis of preparation and statement of compliance

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

The consolidated financial statements have been approved for issue by the Board of Directors on 11 March 2022.

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

The presentation currency of the Company and the Group is the US dollar. The consolidated financial statements are presented in millions of US dollars (US\$m) unless otherwise stated.

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.1 Basis of preparation and statement of compliance** (continued)

(a) The following standard and amendments are effective for the financial year ended 31 December 2021, but the Group has elected to apply the temporary exemption described further below:

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

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

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option (known as the "deferral approach") for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of IFRS 17 and financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before IFRS 17 is applied. On 25 June 2020, the IASB issued the amendments to IFRS 4 and IFRS 17, the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023, and that the exemption currently in place for some insurers, including the Group, regarding the application of IFRS 9 will be extended to enable the implementation of both IFRS 9 and IFRS 17 at the same time. On 9 December 2021, the IASB issued the amendment of IFRS 17 relating to the presentation of comparative information of financial assets on initial application of IFRS 17. The amendment adds a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of IFRS 17. The overlay allows all financial assets to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9.

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.1 Basis of preparation and statement of compliance** (continued)

(a) The following standard and amendments are effective for the financial year ended 31 December 2021, but the Group has elected to apply the temporary exemption described further below: (continued)

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

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

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

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

US\$m	Fair value as at 31 December 2021			Change in fair value for the year ended 31 December 2021		
	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total
Debt securities	189,353	10,727	200,080	(8,485)	(230)	(8,715)
Other financial assets	14,101 <sup>(1)</sup>	71,370 <sup>(2)</sup>	85,471	281	2,056	2,337
<b>Total<sup>(3)</sup></b>	<b>203,454</b>	<b>82,097</b>	<b>285,551</b>	<b>(8,204)</b>	<b>1,826</b>	<b>(6,378)</b>

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 <sup>(1)</sup>	60,397 <sup>(2)</sup>	73,398	–	6,394	6,394
<b>Total<sup>(3)</sup></b>	<b>205,363</b>	<b>69,916</b>	<b>275,279</b>	<b>9,181</b>	<b>6,617</b>	<b>15,798</b>

Notes:

- (1) Balance of other financial assets qualifying as SPPI includes loans and deposits, other receivables, accrued investment income and cash and cash equivalents.
- (2) Balance predominantly represents equity shares and interests in investment funds, derivative financial instruments and cash equivalents.
- (3) Certain financial assets included within the consolidated financial statements, including policy loans under loans and deposits, reinsurance receivables and insurance receivables under other receivables amounting to US\$6,384m (2020: US\$6,348m) are not included above since they will be accounted for under IFRS 17 where its adoption is in parallel with IFRS 9.

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



**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.1 Basis of preparation and statement of compliance** (continued)

(a) The following standard and amendments are effective for the financial year ended 31 December 2021, but the Group has elected to apply the temporary exemption described further below: (continued)

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

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

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

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

(b) The following relevant new amendments to standards have been adopted for the first time for the financial year ended 31 December 2021 and have no material impact to the Group:

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

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

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.1 Basis of preparation and statement of compliance** (continued)

(d) The following relevant new amendments to standards have been issued but are not effective for the financial year ended 31 December 2021 and have not been early adopted (the financial years for which the adoption is required for the Group are stated in parentheses). The Group has assessed the impact of these new amendments on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Group:

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

(e) The following relevant new standard has been issued but is not effective for the financial year ended 31 December 2021 and has not been early adopted:

- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of HKFRS 17, Insurance Contracts. On 25 June 2020, the IASB issued the amendments to IFRS 17 and the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. In October 2020, the HKICPA has finalised the endorsement of, and issued, equivalent Amendments to HKFRS 17. On 9 December 2021, the IASB amended IFRS 17 to add a transition option to address the possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. The HKICPA has issued the equivalent Amendment to HKFRS 17 in February 2022. The implementation of IFRS 17 is progressing well. The Group is assessing the impacts on the Group's consolidated financial statements.

The material accounting policies adopted in the preparation of the Group's consolidated financial statements are set out below. These policies have been applied consistently in all periods presented. The Company's statement of financial position and the statement of changes in equity, as set out in notes 46 and 47 respectively, have been prepared in accordance with the Group's accounting policies, except for the accounting policies in respect of the Company's investments as set out in note 46 and financial instruments as set out in note 2.4.5.

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.2 Operating profit**

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

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

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

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

**2.3 Insurance and investment contracts**

Consistent accounting policies for the measurement and recognition of insurance and investment contracts have been adopted throughout the Group, except for in a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction (see note 2.3.3).

**Product classification**

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.3 Insurance and investment contracts** (continued)**Product classification** (continued)

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

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

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

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)

**2.3 Insurance and investment contracts** (continued)

**Product classification** (continued)

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

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities <sup>(1)</sup>	Investment contract liabilities
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>	<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</p>	<p>Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts</p>
	<p>Other participating business without 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 timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience</p>	<p>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</p>	<p>Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts</p>
Non-participating life, annuities and other protection products	<p>Benefits payable are not at the discretion of the insurer</p>	<p>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</p>	<p>Investment contract liabilities are measured at amortised cost</p>
Universal life	<p>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</p>	<p>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</p>	<p>Not applicable as such contracts generally contain significant insurance risk</p>
Unit-linked	<p>These may be primarily savings products or may combine savings with an element of protection</p>	<p>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</p>	<p>Investment contract liabilities are measured at fair value (determined with reference to the accumulation value)</p>

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. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.3 Insurance and investment contracts** (continued)**Product classification** (continued)

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

**2.3.1 Insurance contracts and investment contracts with DPF****Premiums**

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

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

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

**Unearned revenue liability**

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

**Deferred profit liability**

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

**Deferred acquisition costs**

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.3 Insurance and investment contracts** (continued)**2.3.1 Insurance contracts and investment contracts with DPF** (continued)**Deferred acquisition costs** (continued)

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

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

**Deferred sales inducements**

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

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

**Unbundling**

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

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

**Bifurcation**

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

**Benefits and claims**

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

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.3 Insurance and investment contracts** (continued)**2.3.1 Insurance contracts and investment contracts with DPF** (continued)***Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)***

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

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

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

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

The Group accounts for insurance contract liabilities for participating business written in participating funds and other participating business with distinct portfolios by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and the other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.3 above. The Group accounts for other participating business without distinct portfolios by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

***Liability adequacy testing***

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

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

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

***Financial guarantees***

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



**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.3 Insurance and investment contracts** (continued)**2.3.2 Investment contracts**

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

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

***Investment contract fee revenue***

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

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

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

***Deferred origination costs***

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

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

***Investment contract liabilities***

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

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

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.3 Insurance and investment contracts** (continued)**2.3.2 Investment contracts** (continued)***Deferred fee income liability***

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

**2.3.3 Insurance and investment contracts*****Reinsurance***

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

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

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

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

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the consolidated income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

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

***Value of business acquired (VOBA)***

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.3 Insurance and investment contracts** (continued)**2.3.3 Insurance and investment contracts** (continued)**Shadow accounting**

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

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

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

**Other assessments and levies**

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

**2.4 Financial instruments****2.4.1 Classification of and designation of financial instruments****Financial assets and liabilities at fair value through profit or loss**

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

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

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

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

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

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.4 Financial instruments** (continued)**2.4.1 Classification of and designation of financial instruments** (continued)***Available for sale financial assets***

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

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

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

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

***Realised gains and losses on financial assets***

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

***Recognition of financial instruments***

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

***Derecognition and offset of financial assets***

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

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

***Loans and receivables***

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.4 Financial instruments** (continued)**2.4.1 Classification of and designation of financial instruments** (continued)**Term deposits**

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

**Cash and cash equivalents**

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

**2.4.2 Fair values of non-derivative financial instruments**

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

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

**2.4.3 Impairment of financial assets****General**

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

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

**Available for sale financial instruments**

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.4 Financial instruments** (continued)**2.4.3 Impairment of financial assets** (continued)***Loans and receivables***

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

**2.4.4 Derivative financial instruments**

Derivative financial instruments primarily include foreign exchange and interest rate contracts that derive their value mainly from underlying foreign exchange rates and interest rates. All derivatives are initially recognised in the consolidated statement of financial position at their fair value, which represents their cost excluding transaction costs, which are expensed, giving rise to a day one loss. They are subsequently remeasured at their fair value, with movements in this value recognised in profit or loss. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

***Derivative instruments for economic hedging***

Whilst the Group enters into derivative transactions to provide economic hedges under the Group's risk management framework, it adopts hedge accounting to these transactions only in limited circumstances. This is either because the transactions would not meet the specific IFRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. Where hedge accounting does not apply, these transactions are treated as held for trading and fair value movements are recognised immediately in investment experience.

***Cash flow hedge***

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

***Embedded derivatives***

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.4 Financial instruments** (continued)**2.4.5 The Company's financial instruments**

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

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

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

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

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

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

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

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

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

**2. MATERIAL ACCOUNTING POLICY INFORMATION** (continued)**2.4 Financial instruments** (continued)**2.4.5 The Company's financial instruments** (continued)

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

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

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

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

**2.5 Presentation of the consolidated statement of financial position**

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

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

**3.1 Product classification**

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract.

The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.3.



**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)**3.2 Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)**

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

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

The Group accounts for insurance contract liabilities for participating business written in participating funds and other participating business with distinct portfolios by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.3. Establishing these liabilities requires the exercise of significant judgement. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The Group accounts for other participating business without distinct portfolios by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

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

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

Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.3, 27 and 29.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)**3.3 Deferred acquisition and origination costs**

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

As noted in note 2.3.1, deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As noted in note 2.3.1, deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. As noted in note 3.2, significant judgement is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

Additional details of deferred acquisition and origination costs are provided in notes 2.3 and 20.

**3.4 Liability adequacy testing**

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

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

**3.5 Fair value measurement****3.5.1 Fair value of financial assets**

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

The degree of judgement used in measuring the fair value of financial assets generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Changes in the fair value of financial assets held by the Group's participating funds and other participating business with distinct portfolios affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.3. Both of the foregoing changes are reflected in the consolidated income statement, except for those relating to other participating business with distinct portfolios which recognise a portion of an amount due to changes in fair value of available for sale financial assets and properties held for own use that are recognised in other comprehensive income.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)**3.5 Fair value measurement** (continued)**3.5.1 Fair value of financial assets** (continued)

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

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

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

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

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

**3.6 Impairment of goodwill and other intangible assets**

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

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

**4. EXCHANGE RATES**

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

	US dollar exchange rates	
	Year ended 31 December 2021	Year ended 31 December 2020
Mainland China	<b>6.45</b>	6.90
Hong Kong	<b>7.77</b>	7.76
Thailand	<b>31.97</b>	31.27
Singapore	<b>1.34</b>	1.38
Malaysia	<b>4.14</b>	4.20

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

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

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

## 5. CHANGE IN GROUP COMPOSITION

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

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

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

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

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

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

Note:

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

### Goodwill

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

### Impact of acquisition on the results of the Group

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

## 6. PREMIUMS AND FEE INCOME

Included in premium and fee income of US\$178m (2020: US\$191m) is fee income for investment contracts without DPF that refers to fees charged for the provision of investment management services for investment contracts without DPF, which usually vary with the amounts being managed, and the release of deferred fee income. For the investment management service fee charged, revenue is recognised as services are provided and the fees are deducted from the customers' account balances.

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

## 7. OPERATING PROFIT AFTER TAX

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

US\$m	Note	Year ended 31 December 2021	Year ended 31 December 2020
<b>Operating profit after tax</b>	9	<b>6,455</b>	5,986
Non-operating items, net of related changes in insurance and investment contract liabilities and taxes:			
Short-term fluctuations in investment return related to equities and real estate <sup>(1)</sup>		<b>(273)</b>	(425)
Reclassification of revaluation (gains)/losses for property held for own use <sup>(1)</sup>		<b>(66)</b>	52
Corporate transaction related costs		<b>(49)</b>	(56)
Implementation costs for new accounting standards		<b>(43)</b>	(30)
Other non-operating investment return and other items <sup>(2)</sup>		<b>1,453</b>	252
Subtotal <sup>(3)</sup>		<b>1,022</b>	(207)
<b>Net profit</b>		<b>7,477</b>	5,779
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>6,409</b>	5,942
Non-controlling interests		<b>46</b>	44
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>7,427</b>	5,779
Non-controlling interests		<b>50</b>	–

Notes:

- (1) Short-term fluctuations in investment return include the revaluation gains and losses for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
- (2) Includes the tax expense relating to provisions for uncertain tax positions in the year ended 31 December 2020.
- (3) The amount is net of tax of US\$40m (2020: US\$(360)m). The gross amount before tax is US\$982m (2020: US\$153m).

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

## 8. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

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

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

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

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

TWPI US\$m	Year ended 31 December 2021	Year ended 31 December 2020
<b>TWPI by geography</b>		
Mainland China	6,999	5,622
Hong Kong	11,904	13,042
Thailand	4,428	4,462
Singapore	3,433	3,088
Malaysia	2,479	2,216
Other Markets	7,616	6,978
<b>Total</b>	<b>36,859</b>	<b>35,408</b>
<b>First year premiums by geography</b>		
Mainland China	1,355	1,149
Hong Kong	771	910
Thailand	596	605
Singapore	374	342
Malaysia	421	321
Other Markets	988	1,013
<b>Total</b>	<b>4,505</b>	<b>4,340</b>
<b>Single premiums by geography</b>		
Mainland China	236	322
Hong Kong	3,069	1,891
Thailand	538	239
Singapore	1,419	1,319
Malaysia	319	243
Other Markets	960	924
<b>Total</b>	<b>6,541</b>	<b>4,938</b>

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

TWPI (continued) US\$m	Year ended 31 December 2021	Year ended 31 December 2020
<b>Renewal premiums by geography</b>		
Mainland China	<b>5,620</b>	4,441
Hong Kong	<b>10,826</b>	11,943
Thailand	<b>3,778</b>	3,833
Singapore	<b>2,917</b>	2,614
Malaysia	<b>2,026</b>	1,871
Other Markets	<b>6,533</b>	5,872
<b>Total</b>	<b>31,700</b>	30,574
<b>ANP by geography</b>		
ANP US\$m	Year ended 31 December 2021	Year ended 31 December 2020
Mainland China	<b>1,404</b>	1,197
Hong Kong	<b>1,106</b>	1,138
Thailand	<b>677</b>	661
Singapore	<b>549</b>	520
Malaysia	<b>491</b>	369
Other Markets	<b>1,420</b>	1,334
<b>Total</b>	<b>5,647</b>	5,219



## 9. SEGMENT INFORMATION

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

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

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

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

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

The Group provides deferred tax liabilities in respect of unremitted earnings in jurisdictions where withholding tax charge would be incurred upon dividend distribution. On 1 October 2020, AIA Company Limited (AIA Co.) converted its Mainland China business to a wholly-owned subsidiary, AIA Life Insurance Company Limited, which was incorporated in Shanghai on 9 July 2020. Upon the conversion of the Mainland China business to AIA Life Insurance Company Limited, any future dividends to the Group from this subsidiary are subject to withholding tax at the applicable tax rate in Mainland China (currently at 5 per cent). Consequently, deferred tax liability in respect of unremitted earnings of this subsidiary was provided for in the year ended 31 December 2021 and 2020.

## 9. SEGMENT INFORMATION (continued)

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

**9. SEGMENT INFORMATION** (continued)

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

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

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items <sup>(1)</sup>	Consolidated income statement	
Year ended 31 December 2021					
Net premiums, fee income and other operating revenue	<b>34,770</b>	-	<b>7</b>	<b>34,777</b>	Net premiums, fee income and other operating revenue
Investment return	<b>10,631</b>	<b>(631)</b>	<b>2,748</b>	<b>12,748</b>	Investment return
<b>Total revenue</b>	<b>45,401</b>	<b>(631)</b>	<b>2,755</b>	<b>47,525</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	<b>29,442</b>	<b>(340)</b>	<b>953</b>	<b>30,055</b>	Net insurance and investment contract benefits
Other expenses	<b>8,383</b>	-	<b>608</b>	<b>8,991</b>	Other expenses
<b>Total expenses</b>	<b>37,825</b>	<b>(340)</b>	<b>1,561</b>	<b>39,046</b>	<b>Total expenses</b>
Share of losses from associates and joint ventures	<b>(11)</b>	-	-	<b>(11)</b>	Share of losses from associates and joint ventures
<b>Operating profit before tax</b>	<b>7,565</b>	<b>(291)</b>	<b>1,194</b>	<b>8,468</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 9. SEGMENT INFORMATION (continued)

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

**9. SEGMENT INFORMATION** (continued)

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

Total assets include:

Investments in associates and joint ventures	–	3	–	–	2	601	–	606
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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 <sup>(1)</sup>	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
<b>Total revenue</b>	<b>43,064</b>	<b>820</b>	<b>6,475</b>	<b>50,359</b>	<b>Total revenue</b>
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
<b>Total expenses</b>	<b>36,101</b>	<b>1,302</b>	<b>5,669</b>	<b>43,072</b>	<b>Total expenses</b>
Share of losses from associates and joint ventures	(17)	–	–	(17)	Share of losses from associates and joint ventures
<b>Operating profit before tax</b>	<b>6,946</b>	<b>(482)</b>	<b>806</b>	<b>7,270</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

**10. REVENUE****Investment return**

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

Note:

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

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

US\$m	Year ended 31 December 2021	Year ended 31 December 2020
Foreign exchange gains/(losses)	<b>524</b>	(68)

**Other operating revenue**

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

**11. EXPENSES**

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

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

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

Notes:

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

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

**11. EXPENSES** (continued)

Depreciation consists of:

US\$m	Year ended 31 December 2021	Year ended 31 December 2020
Computer hardware, fixtures and fittings and others	<b>88</b>	86
Right-of-use assets		
Property held for own use	<b>180</b>	178
Fixtures and fittings and others	–	1
<b>Total</b>	<b>268</b>	265

Finance costs may be analysed as:

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

Employee benefit expenses consist of:

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



**12. INCOME TAX**

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

**Corporate income tax**

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

	Year ended 31 December 2021	Year ended 31 December 2020
Mainland China	<b>25%</b>	25%
Hong Kong	<b>16.5%</b>	16.5%
Thailand	<b>20%</b>	20%
Singapore	<b>17%</b>	17%
Malaysia	<b>24%</b>	24%
Other Markets	<b>12% – 30%</b>	12% – 30%

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

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

AIA Korea is currently subject to an effective corporate income tax of 27.5 per cent, which includes an Accumulated Earnings Tax. Based on current regulations, the corporate income tax rate will revert to 24.2 per cent from 1 January 2023.

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

**Withholding tax on dividends**

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

**12. INCOME TAX** (continued)

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

## Notes:

- (1) Life insurance tax refers to the differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.
- (2) Provisions for uncertain tax positions relate to situations where the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities. Provisions are recognised based on management's judgement and best estimate in relation to the probability or likelihood of different outcomes arising, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

**12. INCOME TAX** (continued)

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

US\$m	Net deferred tax asset/ (liability) at 1 January	Acquisition of a subsidiary <sup>(3)</sup>	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income			Net deferred tax asset/ (liability) at year end
				Fair value reserve <sup>(2)</sup>	Foreign exchange	Others	
31 December 2021							
Revaluation of financial instruments	(2,473)	(12)	(172)	779	(2)	–	(1,880)
Deferred acquisition costs	(3,608)	–	(171)	–	122	–	(3,657)
Insurance and investment contract liabilities	304	43	664	–	(25)	–	986
Withholding taxes	(202)	–	(84)	–	13	–	(273)
Provision for expenses	144	–	4	–	(5)	(4)	139
Losses available for offset against future taxable income	249	3	–	–	(7)	–	245
Life surplus <sup>(1)</sup>	(929)	–	(53)	–	33	(7)	(956)
Others	(364)	–	(198)	–	26	–	(536)
<b>Total</b>	<b>(6,879)</b>	<b>34</b>	<b>(10)</b>	<b>779</b>	<b>155</b>	<b>(11)</b>	<b>(5,932)</b>

US\$m	Net deferred tax asset/ (liability) at 1 January	Acquisition of a subsidiary <sup>(3)</sup>	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income			Net deferred tax asset/ (liability) at year end
				Fair value reserve <sup>(2)</sup>	Foreign exchange	Others	
31 December 2020							
Revaluation of financial instruments	(2,435)	–	55	(96)	3	–	(2,473)
Deferred acquisition costs	(3,339)	–	(141)	–	(128)	–	(3,608)
Insurance and investment contract liabilities	626	–	(307)	–	(15)	–	304
Withholding taxes	(203)	–	9	–	(8)	–	(202)
Provision for expenses	215	–	(76)	–	4	1	144
Losses available for offset against future taxable income	170	–	71	–	8	–	249
Life surplus <sup>(1)</sup>	(760)	–	(152)	–	(17)	–	(929)
Others	(465)	–	109	–	(6)	(2)	(364)
<b>Total</b>	<b>(6,191)</b>	<b>–</b>	<b>(432)</b>	<b>(96)</b>	<b>(159)</b>	<b>(1)</b>	<b>(6,879)</b>

Notes:

- (1) Life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long-term fund. This primarily relates to Singapore and Malaysia.
- (2) Of the fair value reserve deferred tax credit of US\$779m for 2021 (2020: tax charge of US\$96m), tax credit of US\$703m (2020: tax charge of US\$194m) relates to fair value gains or losses on available for sale financial assets and tax credit of US\$76m (2020: tax credit of US\$98m) relates to fair value gains on available for sale financial assets transferred to income on disposal.
- (3) The amount of US\$34m represents a one-time adjustment in respect of the acquisition of AIA Everest.

**12. INCOME TAX** (continued)

The principal temporary differences arise from the basis of recognition of insurance and investment contract liabilities, revaluation of certain financial assets and liabilities including derivative contracts, deferred acquisition costs and the future taxes arising on the surplus in life funds where the relevant local tax regime is distributions-based.

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The Group has not recognised deferred tax assets of US\$56m (2020: US\$65m) on tax losses and the temporary difference on insurance and investment contract liabilities arising from different accounting and statutory/tax reserving methodology for certain branches and subsidiaries on the basis that they have histories of tax losses and there is insufficient evidence that future profits will be available.

The Group has not provided deferred tax liabilities of US\$277m (2020: US\$295m) in respect of unremitted earnings of operations in jurisdictions from which a withholding tax charge would be incurred upon distribution as the Group does not consider it probable that this portion of accumulated earnings will be remitted in the foreseeable future.

The Group has unused income tax losses carried forward in Mainland China, Hong Kong, Macau, Thailand, Singapore, Malaysia, Australia, Cambodia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka and Taiwan (China). The tax losses of Hong Kong, Singapore, Australia and New Zealand can be carried forward indefinitely. The tax losses of remaining branches and subsidiaries are due to expire within the periods ending 2024 (Macau and Myanmar), 2026 (the Philippines, Sri Lanka, Thailand, Cambodia and Mainland China), 2028 (Malaysia), 2030 (Taiwan (China)) and 2031 (South Korea).

### 13. EARNINGS PER SHARE

#### Basic

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

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

#### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 December 2021 and 2020, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 40.

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

At 31 December 2021, 1,839,793 share options (2020: 9,156,477) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

#### Operating profit after tax per share

Operating profit after tax (see note 7) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year. As of 31 December 2021 and 2020, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 40.

	Year ended 31 December 2021	Year ended 31 December 2020
Basic (US cents per share)	53.12	49.27
Diluted (US cents per share)	53.02	49.19

**14. DIVIDENDS**

Dividends to shareholders of the Company attributable to the year:

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

Notes:

- (1) Based upon shares outstanding at 31 December 2021 and 2020 that are entitled to a dividend, other than those held by employee share-based trusts.
- (2) Interim dividends on ordinary shares are recognised when they have been paid. Final dividends on ordinary shares are recognised when they have been approved by shareholders.

The above final dividend was proposed by the Board on 11 March 2022 subject to shareholders' approval at the AGM to be held on 19 May 2022. The proposed final dividend has not been recognised as a liability at the reporting date.

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

US\$m	Year ended 31 December 2021	Year ended 31 December 2020
Final dividend in respect of the previous financial year, approved and paid during the year of 100.30 Hong Kong cents per share (2020: 93.30 Hong Kong cents per share)	<b>1,558</b>	1,452

**15. INTANGIBLE ASSETS**

US\$m	Goodwill	Computer software	Distribution and other rights	Total
<b>Cost</b>				
At 1 January 2020	1,555	687	895	3,137
Additions	–	130	3	133
Measurement period adjustment	18	–	–	18
Disposals	–	(22)	(2)	(24)
Foreign exchange movements	86	28	15	129
At 31 December 2020	<b>1,659</b>	<b>823</b>	<b>911</b>	<b>3,393</b>
Additions	–	<b>144</b>	<b>311</b>	<b>455</b>
Acquisition of a subsidiary	<b>274</b>	<b>1</b>	–	<b>275</b>
Disposals and derecognition	–	<b>(23)</b>	<b>(309)</b>	<b>(332)</b>
Foreign exchange movements	<b>(79)</b>	<b>(22)</b>	<b>(10)</b>	<b>(111)</b>
<b>At 31 December 2021</b>	<b>1,854</b>	<b>923</b>	<b>903</b>	<b>3,680</b>
<b>Accumulated amortisation</b>				
At 1 January 2020	(4)	(422)	(191)	(617)
Amortisation charge for the year	–	(92)	(50)	(142)
Disposals	–	16	2	18
Foreign exchange movements	–	(14)	(4)	(18)
At 31 December 2020	<b>(4)</b>	<b>(512)</b>	<b>(243)</b>	<b>(759)</b>
Amortisation charge for the year	–	<b>(93)</b>	<b>(46)</b>	<b>(139)</b>
Disposals and derecognition	–	<b>20</b>	<b>86</b>	<b>106</b>
Foreign exchange movements	–	<b>16</b>	<b>10</b>	<b>26</b>
<b>At 31 December 2021</b>	<b>(4)</b>	<b>(569)</b>	<b>(193)</b>	<b>(766)</b>
<b>Net book value</b>				
At 31 December 2020	1,655	311	668	2,634
<b>At 31 December 2021</b>	<b>1,850</b>	<b>354</b>	<b>710</b>	<b>2,914</b>

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

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

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

**15. INTANGIBLE ASSETS** (continued)**Impairment tests for goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill arises primarily in respect of the Group's insurance businesses in Malaysia of US\$704m (2020: US\$731m), Australia of US\$609m (2020: US\$646m), Hong Kong of US\$274m (2020: nil) and New Zealand of US\$164m (2020: US\$174m). Goodwill is tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). If the recoverable amount of the unit (group of units) exceeds the carrying amount of the unit (group of units), the goodwill allocated to that unit (group of units) shall be regarded as not impaired. The recoverable amount is the value in use of the cash-generating unit (group of units) unless otherwise stated.

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

The key assumptions used in the embedded value calculations include risk discount rate, investment returns, mortality, morbidity, persistency, expenses and inflation. In the majority of instances these assumptions are aligned to those assumptions detailed in Section 5 of Supplementary Embedded Value Information. The present value of expected future new business is calculated based on a combination of indicators which include, among others, taking into account recent production mix, business strategy, market trends and risk associated with the future new business projections. The risk discount rates that are used in the value in use of in-force business and present value of expected future new business ranges from 7 per cent to 16 per cent (2020: 8 per cent to 16 per cent) and the perpetual growth rates for future new business cash flows of 3 per cent was used, where applicable, to extrapolate the present value of expected future new business beyond the initial three year period; the rate was determined by reference to the long-term expected GDP growth of the geographical area in which the cash flows supporting the goodwill are generated. The Group may apply alternative methods to estimate the value of future new business if the described method is not appropriate under the circumstances.



**16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

US\$m	As at 31 December 2021	As at 31 December 2020
<b>Group</b>		
Investments in associates	<b>646</b>	592
Investments in joint ventures	<b>33</b>	14
<b>Total</b>	<b>679</b>	606

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

Investments in associates and joint ventures are accounted for using the equity method of accounting. Goodwill arising on associates and joint ventures is included within the carrying value of those investments. These are held for their long-term contribution to the Group's performance, therefore all amounts are expected to be realised more than 12 months after the end of the reporting period.

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

	Place of incorporation	Principal activity	Type of shares held	Group's interest %	
				As at 31 December 2021	As at 31 December 2020
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	<b>49%</b>	49%

All associates and joint ventures are unlisted.

**Aggregated financial information of associates and joint ventures**

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

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

**17. PROPERTY, PLANT AND EQUIPMENT**

US\$m	Property held for own use	Computer hardware	Fixtures and fittings and others	Total
<b>Cost or revaluation</b>				
At 1 January 2020	2,741	221	585	3,547
Additions	118	28	51	197
Disposals	(32)	(5)	(27)	(64)
Decrease from valuation	(107)	–	–	(107)
Foreign exchange movements	33	5	11	49
At 31 December 2020	<b>2,753</b>	<b>249</b>	<b>620</b>	<b>3,622</b>
Additions	<b>196</b>	<b>28</b>	<b>45</b>	<b>269</b>
Disposals	<b>(94)</b>	<b>(15)</b>	<b>(27)</b>	<b>(136)</b>
Net transfer from investment property	<b>15</b>	–	–	<b>15</b>
Increase from valuation	<b>76</b>	–	–	<b>76</b>
Foreign exchange movements	<b>(47)</b>	<b>(8)</b>	<b>(17)</b>	<b>(72)</b>
<b>At 31 December 2021</b>	<b>2,899</b>	<b>254</b>	<b>621</b>	<b>3,774</b>
<b>Accumulated depreciation</b>				
At 1 January 2020	(143)	(179)	(360)	(682)
Depreciation charge for the year	(210)	(24)	(63)	(297)
Disposals	32	4	24	60
Revaluation adjustment	30	–	–	30
Foreign exchange movements	–	(4)	(7)	(11)
At 31 December 2020	<b>(291)</b>	<b>(203)</b>	<b>(406)</b>	<b>(900)</b>
Depreciation charge for the year	<b>(213)</b>	<b>(27)</b>	<b>(61)</b>	<b>(301)</b>
Disposals	<b>80</b>	<b>14</b>	<b>24</b>	<b>118</b>
Revaluation adjustment	<b>31</b>	–	–	<b>31</b>
Foreign exchange movements	<b>3</b>	<b>7</b>	<b>12</b>	<b>22</b>
<b>At 31 December 2021</b>	<b>(390)</b>	<b>(209)</b>	<b>(431)</b>	<b>(1,030)</b>
<b>Net book value</b>				
At 31 December 2020	2,462	46	214	2,722
<b>At 31 December 2021</b>	<b>2,509</b>	<b>45</b>	<b>190</b>	<b>2,744</b>

The Group leases various properties, computer hardware, fixtures, fittings and other small items as a lessee. These leases, except for short-term leases and leases of low-value assets, are recognised as right-of-use assets and lease liabilities at the date at which the leased assets are available for use by the Group. Right-of-use assets are presented as a component of property, plant and equipment or investment property while lease liabilities are presented as a component of other liabilities (see notes 18 and 34). The depreciation charge for right-of-use assets, by class of underlying asset, and finance cost on lease liabilities are disclosed in note 11. Assets and liabilities arising from a lease are initially measured on a present value basis. A maturity analysis of the Group's lease liabilities is disclosed in note 38.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

**17. PROPERTY, PLANT AND EQUIPMENT** (continued)

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

US\$m	As at 31 December 2021	As at 31 December 2020
Property held for own use	<b>1,473</b>	1,438
Fixtures and fittings and others	<b>3</b>	4
<b>Total</b>	<b>1,476</b>	1,442

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

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

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

If property held for own use (excluding right-of-use assets) were stated on a historical cost basis, the carrying value would be US\$357m (2020: US\$345m). Similarly, stated on a historical basis the carrying value of the right-of-use assets related to the Group's interest in leasehold land and land use rights associated with property held for own use would be US\$876m (2020: US\$878m). The Group holds property, plant and equipment for its long-term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

**18. INVESTMENT PROPERTY**

US\$m

**Fair value**

At 1 January 2020	4,834
Additions and capitalised subsequent expenditures	29
Disposals	(1)
Fair value losses	(292)
Foreign exchange movements	69
At 31 December 2020	<b>4,639</b>
Additions and capitalised subsequent expenditures	<b>139</b>
Disposals	<b>(4)</b>
Net transfers to property, plant and equipment	<b>(15)</b>
Fair value gains	<b>65</b>
Foreign exchange movements	<b>(108)</b>
<b>At 31 December 2021</b>	<b>4,716</b>

Investment property, including land and buildings, is initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. The fair values at the reporting date are determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 23.

The Group leases out its investment property under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every one to five years to reflect market rentals. There were not any material contingent rentals earned as income for the period. Rental income generated from investment property amounted to US\$166m (2020: US\$172m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US\$32m (2020: US\$27m).

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

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

US\$m	As at 31 December 2021	As at 31 December 2020
<b>Leases of investment property classified as operating leases</b>		
Expiring no later than one year	<b>132</b>	132
Expiring later than one year and no later than two years	<b>97</b>	99
Expiring later than two years and no later than three years	<b>75</b>	56
Expiring later than three years and no later than four years	<b>28</b>	44
Expiring later than four years and no later than five years	<b>10</b>	13
Expiring after five years or more	<b>17</b>	25
<b>Total undiscounted lease receipts</b>	<b>359</b>	369

## 19. REINSURANCE ASSETS

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

Note:

(1) Including US\$1,641m (2020: US\$1,290m) which is expected to be recovered within 12 months after the end of the reporting period.

## 20. DEFERRED ACQUISITION AND ORIGINATION COSTS

US\$m		As at 31 December 2021	As at 31 December 2020
<b>Carrying amount</b>			
Deferred acquisition costs on insurance contracts		28,385	27,549
Deferred origination costs on investment contracts		229	261
Value of business acquired		387	432
Less: Upfront reinsurance premium rebate		(293)	(327)
<b>Total</b>		<b>28,708</b>	<b>27,915</b>
<b>Movements in the year</b>			
<b>At beginning of financial year</b>			
Deferred acquisition and origination costs		27,915	26,328
Deferral and amortisation of acquisition and origination costs		1,142	1,220
Foreign exchange movements		(822)	559
Impact of assumption changes		(52)	(55)
Other movements		525	(137)
<b>At end of financial year</b>		<b>28,708</b>	<b>27,915</b>

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

## 21. FINANCIAL INVESTMENTS

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

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

The reason for separately analysing financial investments held by participating funds and other participating business with distinct portfolios is that participating funds are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends, and for other participating business with distinct portfolios it is, as explained above, expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected the fair value option for debt securities, equity shares and interests in investment funds of participating funds. For other participating business with distinct portfolio, the Group has elected the fair value option for equity shares and interests in investment funds and the available for sale classification for the majority of debt securities. The Group's accounting policy is to record an insurance liability for the proportion of net assets of the participating funds and other participating business with distinct portfolio that would be allocated to policyholders assuming all performance would be declared as a dividend based upon policyholder participation as at the date of the consolidated statement of financial position as described in note 2.3. As a result, the Group's net profit before tax for the year is impacted by the proportion of investment return that would be allocated to shareholders as described above.

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

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

**21. FINANCIAL INVESTMENTS** (continued)

**Debt securities**

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

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

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

Debt securities by type comprise the following:

US\$m	Policyholder and shareholder							
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder		Subtotal	Unit-linked	Consolidated investment funds <sup>(1)</sup>	Total
	FVTPL	AFS	FVTPL	AFS				
31 December 2021								
<b>Government bonds<sup>(2)</sup></b>								
Thailand	-	-	-	13,857	13,857	-	-	13,857
Mainland China	5,819	-	-	15,914	21,733	55	-	21,788
South Korea	-	-	-	7,271	7,271	283	-	7,554
Singapore	3,716	-	-	1,549	5,265	718	-	5,983
Philippines	-	-	-	2,094	2,094	132	-	2,226
Malaysia	1,161	-	-	823	1,984	123	-	2,107
Indonesia	-	-	176	569	745	128	-	873
Other	396	-	1,016	1,632	3,044	88	-	3,132
<b>Subtotal</b>	<b>11,092</b>	<b>-</b>	<b>1,192</b>	<b>43,709</b>	<b>55,993</b>	<b>1,527</b>	<b>-</b>	<b>57,520</b>

Notes:

- (1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
- (2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2021, 98 per cent are rated as investment grade.

**21. FINANCIAL INVESTMENTS** (continued)

**Debt securities** (continued)

Debt securities by type comprise the following: (continued)

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

Notes:

- (1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
- (3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (4) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (5) Debt securities of US\$9,238m are restricted due to local regulatory requirements.
- (6) AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9 amounted to US\$160,465m with 98 per cent rated as investment grade.



**21. FINANCIAL INVESTMENTS** (continued)

**Debt securities** (continued)

Debt securities by type comprise the following: (continued)

US\$m	Policyholder and shareholder				Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder					
	FVTPL	AFS	FVTPL	AFS				
31 December 2020								
<b>Government bonds<sup>(2)</sup></b>								
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
<b>Subtotal</b>	<b>9,324</b>	<b>–</b>	<b>1,189</b>	<b>45,750</b>	<b>56,263</b>	<b>1,846</b>	<b>–</b>	<b>58,109</b>
<b>Other government and government agency bonds<sup>(3)</sup></b>								
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
<b>Subtotal</b>	<b>6,767</b>	<b>4,934</b>	<b>75</b>	<b>18,843</b>	<b>30,619</b>	<b>508</b>	<b>332</b>	<b>31,459</b>

Notes:

- (1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
- (2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2020, 99 per cent are rated as investment grade.
- (3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

**21. FINANCIAL INVESTMENTS** (continued)

**Debt securities** (continued)

Debt securities by type comprise the following: (continued)

US\$m	Policyholder and shareholder				Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder					
	FVTPL	AFS	FVTPL	AFS				
31 December 2020								
<b>Corporate bonds</b>								
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
<b>Subtotal</b>	<b>11,922</b>	<b>42,668</b>	<b>264</b>	<b>51,975</b>	<b>106,829</b>	<b>1,459</b>	<b>2,063</b>	<b>110,351</b>
<b>Structured securities<sup>(4)</sup></b>								
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
<b>Subtotal</b>	<b>357</b>	<b>–</b>	<b>474</b>	<b>936</b>	<b>1,767</b>	<b>195</b>	<b>–</b>	<b>1,962</b>
<b>Total<sup>(5)(6)</sup></b>	<b>28,370</b>	<b>47,602</b>	<b>2,002</b>	<b>117,504</b>	<b>195,478</b>	<b>4,008</b>	<b>2,395</b>	<b>201,881</b>

Notes:

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

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

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

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

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

**21. FINANCIAL INVESTMENTS** (continued)**Equity shares and interests in investment funds**

Equity shares and interests in investment funds by type comprise the following:

US\$m	Policyholder and shareholder			Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds and other participating business with distinct portfolios FVTPL	Other policyholder and shareholder FVTPL	Subtotal			
31 December 2021						
Equity shares	<b>15,718</b>	<b>5,096</b>	<b>20,814</b>	<b>7,258</b>	<b>2,750</b>	<b>30,822</b>
Interests in investment funds	<b>13,467</b>	<b>4,827</b>	<b>18,294</b>	<b>20,605</b>	<b>1,296</b>	<b>40,195</b>
<b>Total</b>	<b>29,185</b>	<b>9,923</b>	<b>39,108</b>	<b>27,863</b>	<b>4,046</b>	<b>71,017</b>

US\$m	Policyholder and shareholder			Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> 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
<b>Total</b>	<b>23,892</b>	<b>7,058</b>	<b>30,950</b>	<b>27,159</b>	<b>1,073</b>	<b>59,182</b>

Note:

(1) Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds are consolidated in the financial statements. Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

**21. FINANCIAL INVESTMENTS** (continued)**Interests in structured entities**

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

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

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

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

Notes:

(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.

(2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

The Group's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities.

In addition, the Group receives management fees and trustee fees in respect of providing trustee, management and administrative services to certain retirement scheme funds and investment funds. These funds are not held and the associated investment risks are not borne by the Group, the Group does not have exposure to loss in these funds.

**21. FINANCIAL INVESTMENTS** (continued)**Loans and deposits**

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

Note:

(1) The promissory notes are issued by a government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US\$1,905m (2020: US\$2,057m).

Other loans include receivables from reverse repurchase agreements (reverse repos) under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. Reverse repos are initially recorded at the cost of the loan or collateral advanced. At 31 December 2021, the carrying value of such receivables is US\$407m (2020: US\$271m).

**21. FINANCIAL INVESTMENTS** (continued)**Effect of Inter-bank offered rate (IBOR) reform**

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

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

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

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

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

**22. DERIVATIVE FINANCIAL INSTRUMENTS**

The Group's derivative exposure was as follows:

US\$m	Notional amount	Fair value	
		Assets	Liabilities
31 December 2021			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	7,191	79	(401)
Forwards	3,726	72	(10)
Foreign exchange futures	73	–	–
<b>Total foreign exchange contracts</b>	<b>10,990</b>	<b>151</b>	<b>(411)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	9,174	326	(223)
<b>Other</b>			
Warrants and options	200	2	(1)
Forward contracts	35,233	973	(754)
Swaps	1,492	16	(3)
<b>Netting</b>	<b>(73)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>57,016</b>	<b>1,468</b>	<b>(1,392)</b>
31 December 2020			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	8,172	313	(158)
Forwards	2,694	121	(17)
Foreign exchange futures	100	–	–
<b>Total foreign exchange contracts</b>	<b>10,966</b>	<b>434</b>	<b>(175)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	8,510	561	(308)
<b>Other</b>			
Warrants and options	1,342	51	(45)
Forward contracts	10,658	18	(469)
Swaps	1,267	5	(6)
<b>Netting</b>	<b>(100)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>32,643</b>	<b>1,069</b>	<b>(1,003)</b>

The column "notional amount" in the above table refers to the pay leg of derivative transactions other than equity-index options. For certain equity-index call and put options with the same notional amount that are purchased to hedge the downside risk of the underlying equities by means of a collar strategy, the notional amount represents the exposure of the hedged equities.

Of the total derivatives, US\$23m (2020: US\$25m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

**22. DERIVATIVE FINANCIAL INSTRUMENTS** (continued)

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to provide an economic hedge to financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

**Foreign exchange contracts**

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices and the timing of payments.

**Interest rate swaps**

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

**Other derivatives**

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Forward contracts are contractual obligations to buy or sell a financial instrument on a predetermined future date at a specified price. Swaps are OTC contractual agreements between the Group and a third party to exchange a series of cash flows based upon an index, rates or other variables applied to a notional amount.

**Netting adjustment**

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

**Collateral under derivative transactions**

At 31 December 2021, the Group had posted cash collateral of US\$322m (2020: US\$86m) and pledged debt securities with carrying value of US\$664m (2020: US\$696m) for liabilities, and held cash collateral of US\$642m (2020: US\$500m) and debt securities collateral with carrying value of US\$21m (2020: US\$17m) for assets in respect of derivative transactions. The Group did not sell or repledge the debt collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.





**23. FAIR VALUE MEASUREMENT** (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 2020						
Financial investments	21					
Loans and deposits		–	–	9,335	9,335	9,333
Debt securities		36,775	165,106	–	201,881	201,881
Equity shares and interests in investment funds		59,182	–	–	59,182	59,182
Derivative financial instruments	22	1,069	–	–	1,069	1,069
Reinsurance receivables	19	–	–	671	671	671
Other receivables	24	–	–	3,053	3,053	3,053
Accrued investment income	24	–	–	1,822	1,822	1,822
Cash and cash equivalents	26	–	–	5,619	5,619	5,619
<b>Financial assets</b>		<b>97,026</b>	<b>165,106</b>	<b>20,500</b>	<b>282,632</b>	<b>282,630</b>
		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
<b>Financial liabilities</b>			<b>14,054</b>	<b>17,538</b>	<b>31,592</b>	<b>32,588</b>

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net positions of foreign currency derivative, is shown in note 38 for the Group's key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

**23. FAIR VALUE MEASUREMENT** (continued)**Fair value measurements on a recurring basis**

The Group measures at fair value property held for own use, investment property, financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis.

The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fair value of properties is based on valuation by independent professional valuers.

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the year ended 31 December 2021 and 2020.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments and properties.

**Determination of fair value****Loans and receivables**

For loans and advances that are repriced frequently and have not had any significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair values.

**Debt securities, equity shares and interests in investment funds**

The fair values of equity shares and interests in investment funds are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers, private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor's credit spreads, foreign exchange rates and credit default rates. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

**23. FAIR VALUE MEASUREMENT** (continued)**Determination of fair value** (continued)**Derivative financial instruments**

The Group values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

When the Group holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Group takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that require the exchange of collateral on the basis of each party's net credit risk exposure). The Group measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

**Property held for own use and investment property**

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's properties at least on an annual basis. The valuation on an open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of certain other properties were derived using the Market Data Approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity. Certain other properties are valued using a combination of these two methods.

The properties held for own use and investment properties, in most cases, are valued on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. The current use of the properties is considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the properties in use would be taken into account when they would maximise the fair value of the properties; the Group is occupying these properties for operational purposes.

**Cash and cash equivalents**

The carrying amount of cash approximates its fair value.

**Reinsurance receivables**

The carrying amount of amounts receivable from reinsurers is not considered materially different to their fair value.

**Fair value of securities sold under repurchase agreements and the associated payables**

The contract values of payables under repurchase agreements approximate their fair value as these obligations are short-term in nature.

**Other assets**

The carrying amount of other financial assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

**23. FAIR VALUE MEASUREMENT** (continued)**Determination of fair value** (continued)**Investment contract liabilities**

For investment contract liabilities, the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder, the fair value generally approximates to the fair value of the underlying assets.

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 27. These are not measured at fair value.

**Borrowings**

The fair values of borrowings have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities or prices obtained from brokers.

**Other liabilities**

The fair values of other unquoted financial liabilities are estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those without stated maturity, where the carrying value approximates to fair value.

**Fair value hierarchy for fair value measurement on a recurring basis**

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three “levels” based on the observability of inputs available in the marketplace used to measure their fair values as discussed below:

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities. The Group considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Group’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Group considers factors specific to the asset or liability.

**23. FAIR VALUE MEASUREMENT** (continued)**Fair value hierarchy for fair value measurement on a recurring basis** (continued)

A summary of assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
31 December 2021				
<b>Non-financial assets</b>				
Property held for own use	–	–	1,037	1,037
Investment property	–	–	4,716	4,716
<b>Financial assets</b>				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	49,701	12	49,713
Other policyholder and shareholder	–	109,770	1,604	111,374
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	1	27,564	883	28,448
Unit-linked and consolidated investment funds	15	6,645	–	6,660
Other policyholder and shareholder	–	3,588	297	3,885
Equity shares and interests in investment funds				
Participating funds and other participating business with distinct portfolios	23,129	1,000	5,056	29,185
Unit-linked and consolidated investment funds	30,003	310	1,596	31,909
Other policyholder and shareholder	6,847	1,256	1,820	9,923
Derivative financial instruments				
Foreign exchange contracts	–	151	–	151
Interest rate contracts	–	326	–	326
Other contracts	12	979	–	991
<b>Total assets on a recurring fair value measurement basis</b>	<b>60,007</b>	<b>201,290</b>	<b>17,021</b>	<b>278,318</b>
<i>% of Total</i>	<i>21.6</i>	<i>72.3</i>	<i>6.1</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	10,723	300	11,023
Derivative financial instruments				
Foreign exchange contracts	–	411	–	411
Interest rate contracts	–	223	–	223
Other contracts	11	747	–	758
Other liabilities	–	925	–	925
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>11</b>	<b>13,029</b>	<b>300</b>	<b>13,340</b>
<i>% of Total</i>	<i>0.1</i>	<i>97.7</i>	<i>2.2</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 2020				
<b>Non-financial assets</b>				
Property held for own use	–	–	1,025	1,025
Investment property	–	–	4,639	4,639
<b>Financial assets</b>				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	47,594	8	47,602
Other policyholder and shareholder	69	116,178	1,257	117,504
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	14	27,426	930	28,370
Unit-linked and consolidated investment funds	14	6,386	3	6,403
Other policyholder and shareholder	1	1,697	304	2,002
Equity shares and interests in investment funds				
Participating funds and other participating business with distinct portfolios	20,272	877	2,743	23,892
Unit-linked and consolidated investment funds	27,640	285	307	28,232
Other policyholder and shareholder	5,481	1,077	500	7,058
Derivative financial instruments				
Foreign exchange contracts	–	434	–	434
Interest rate contracts	–	561	–	561
Other contracts	13	61	–	74
<b>Total assets on a recurring fair value measurement basis</b>	<b>53,504</b>	<b>202,576</b>	<b>11,716</b>	<b>267,796</b>
<i>% of Total</i>	<i>20.0</i>	<i>75.6</i>	<i>4.4</i>	<i>100.0</i>
<b>Financial liabilities</b>				
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
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>12</b>	<b>2,016</b>	<b>12,026</b>	<b>14,054</b>
<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)

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 31 December 2021, the Group transferred US\$184m (2020: US\$127m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$15m of assets (2020: US\$9m) from Level 2 to Level 1 during the year ended 31 December 2021.

The Group's Level 2 financial instruments include debt securities, equity shares and interests in investment funds, derivative instruments, investment contract liabilities and other liabilities. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from private pricing services and brokers are not available, internal valuation techniques and inputs will be used to derive the fair value for the financial instruments.

The tables below set out a summary of changes in the Group's Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended 31 December 2021 and 2020. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 31 December 2021 and 2020.

**Level 3 assets and liabilities**

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

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



**23. FAIR VALUE MEASUREMENT** (continued)**Fair value hierarchy for fair value measurement on a recurring basis** (continued)**Level 3 assets and liabilities** (continued)

US\$m	Property held for own use	Investment property	Debt securities	Equity shares and interests in investment funds	Derivative financial assets/(liabilities)	Investment contracts
<b>At 1 January 2020</b>	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	–	–
<b>At 31 December 2020</b>	<b>1,025</b>	<b>4,639</b>	<b>2,502</b>	<b>3,550</b>	<b>–</b>	<b>(12,026)</b>
<b>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</b>	<b>(15)</b>	<b>(292)</b>	<b>(26)</b>	<b>(5)</b>	<b>–</b>	<b>–</b>

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 28.

There are not any differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

**23. FAIR VALUE MEASUREMENT** (continued)**Significant unobservable inputs for level 3 fair value measurements**

As at 31 December 2021 and 2020, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 31 December 2021 (US\$m)	Valuation techniques	Unobservable inputs	Range
<b>Debt securities</b>	<b>978</b>	<b>Discounted cash flows</b>	<b>Risk adjusted discount rate</b>	<b>3.62% – 12.99%</b>

Description	Fair value at 31 December 2020 (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	997	Discounted cash flows	Risk adjusted discount rate	3.40% – 10.40%

Fair value of the Group's properties are determined based on appropriate valuation techniques which may consider among others income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable.

**Valuation processes**

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses private pricing providers and, only in rare cases when third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment team analyses reported price exceptions and reviews price challenge responses from private pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Valuations Advisory Committee which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the debt securities and investment contracts. The unobservable inputs for determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

**23. FAIR VALUE MEASUREMENT** (continued)**Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date**

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2021 and 2020 is given below.

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

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
31 December 2020				
<b>Assets for which the fair value is disclosed</b>				
<b>Financial assets</b>				
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
<b>Total assets for which the fair value is disclosed</b>	<b>7,836</b>	<b>8,131</b>	<b>4,531</b>	<b>20,498</b>
<b>Liabilities for which the fair value is disclosed</b>				
<b>Financial liabilities</b>				
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
<b>Total liabilities for which the fair value is disclosed</b>	<b>8,707</b>	<b>9,219</b>	<b>608</b>	<b>18,534</b>

**24. OTHER ASSETS**

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

Notes:

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

All amounts other than certain prepayments are generally expected to be recovered within 12 months after the end of the reporting period.

**25. IMPAIRMENT OF FINANCIAL ASSETS**

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

**Available for sale debt securities**

During the year ended 31 December 2021, no impairment loss (2020: nil) was recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2021 was nil (2020: nil).

**Loans and receivables**

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 21 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 31 December 2021 was US\$20m (2020: US\$15m). The Group has a portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short-term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within one year and cover is cancelled if consideration is not received.

**26. CASH AND CASH EQUIVALENTS**

US\$m	As at 31 December 2021	As at 31 December 2020
Cash	<b>2,868</b>	2,877
Cash equivalents	<b>2,121</b>	2,742
<b>Total<sup>(1)</sup></b>	<b>4,989</b>	5,619

Note:

(1) US\$892m (2020: US\$1,111m) are held to back unit-linked contracts and US\$184m (2020: US\$108m) are held by consolidated investment funds.

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments with maturities at acquisition of three months or less and money market funds that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Accordingly, all such amounts are expected to be realised within 12 months after the end of the reporting period.

**27. INSURANCE CONTRACT LIABILITIES**

The movements of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) and ceded insurance contract liabilities (see note 19) are shown as follows:

US\$m	Gross	Reinsurance	Net
At 1 January 2020	192,181	(3,150)	189,031
Valuation premiums and deposits	35,438	(2,128)	33,310
Liabilities released for policy termination or other policy benefits paid and related expenses	(23,038)	1,720	(21,318)
Fees from account balances	(2,427)	–	(2,427)
Accretion of interest	6,056	(33)	6,023
Change in net asset values attributable to policyholders	11,491	–	11,491
Foreign exchange movements	3,657	(298)	3,359
Other movements	(287)	–	(287)
At 31 December 2020	<b>223,071</b>	<b>(3,889)</b>	<b>219,182</b>
Valuation premiums and deposits	<b>37,599</b>	<b>(2,258)</b>	<b>35,341</b>
Liabilities released for policy termination or other policy benefits paid and related expenses	<b>(25,634)</b>	<b>2,088</b>	<b>(23,546)</b>
Fees from account balances	<b>(2,652)</b>	–	<b>(2,652)</b>
Accretion of interest	<b>6,742</b>	<b>(37)</b>	<b>6,705</b>
Change in net asset values attributable to policyholders	<b>1,306</b>	–	<b>1,306</b>
Acquisition of a subsidiary	<b>3,687</b>	<b>(1)</b>	<b>3,686</b>
Foreign exchange movements	<b>(5,126)</b>	<b>98</b>	<b>(5,028)</b>
Other movements	<b>430</b>	–	<b>430</b>
<b>At 31 December 2021</b>	<b>239,423</b>	<b>(3,999)</b>	<b>235,424</b>

**27. INSURANCE CONTRACT LIABILITIES** (continued)

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can also be analysed as follows:

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

**27. INSURANCE CONTRACT LIABILITIES** (continued)

**Business description**

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life	<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"> <li>• Investment performance</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Surrenders</li> <li>• Morbidity</li> </ul>	Mainland China, Hong Kong, Singapore, Malaysia
	<p>Other participating business without 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 timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience</p>	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Expenses</li> <li>• Mortality</li> <li>• Surrenders</li> <li>• Morbidity</li> </ul>	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"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>	All <sup>(1)</sup>
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"> <li>• Mortality</li> <li>• Morbidity</li> <li>• Lapses</li> <li>• Expenses</li> </ul>	All <sup>(1)</sup>
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"> <li>• Investment performance</li> <li>• Lapses</li> <li>• Expenses</li> <li>• Mortality</li> </ul>	All <sup>(1)</sup>
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"> <li>• Investment performance</li> <li>• Crediting rates</li> <li>• Lapses</li> <li>• Expenses</li> <li>• Mortality</li> </ul>	All <sup>(1)</sup>

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"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance subject to smoothing through dividend declarations</li> </ul>	<ul style="list-style-type: none"> <li>• Impact of persistency on future dividends</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>
	Other participating business without distinct portfolios	<ul style="list-style-type: none"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance subject to smoothing through dividend declarations</li> </ul>	<ul style="list-style-type: none"> <li>• Impact of persistency on future dividends</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>
Traditional non-participating life		<ul style="list-style-type: none"> <li>• Guarantees</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Asset-liability mismatch risk</li> <li>• Credit risk</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Persistency</li> <li>• Morbidity</li> </ul>
Accident and health		<ul style="list-style-type: none"> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Credit risk</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>• Morbidity</li> <li>• Persistency</li> </ul>
Pension		<ul style="list-style-type: none"> <li>• Net neutral</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Performance-related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>• Persistency</li> </ul>
Unit-linked		<ul style="list-style-type: none"> <li>• Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>• Performance-related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>• Persistency</li> <li>• Mortality</li> </ul>
Universal life		<ul style="list-style-type: none"> <li>• Guarantees</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Credit risk</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Spread between earned rate and crediting rate to policyholders</li> </ul>	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Persistency</li> <li>• Withdrawals</li> </ul>

The Group is also exposed to foreign exchange rate risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.



**27. INSURANCE CONTRACT LIABILITIES** (continued)**Methodology and assumptions** (continued)**Valuation interest rates**

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

As at 31 December 2021 and 2020, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by operating segment, year of issuance and products, within the first 20 years are as follows:

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

**28. INVESTMENT CONTRACT LIABILITIES**

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

Note:

(1) Of investment contract liabilities, US\$265m (2020: US\$312m) represents deferred fee income. Movement of deferred fee income of US\$47m (2020: US\$55m) represents revenue recognised as a result of performance obligations satisfied during the year.

**29. EFFECT OF CHANGES IN ASSUMPTIONS AND ESTIMATES**

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

US\$m	As at 31 December 2021	As at 31 December 2020
<b>(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax</b>		
0.5 pps increase in investment return	<b>126</b>	140
0.5 pps decrease in investment return	<b>(144)</b>	(162)
10% increase in expenses	<b>(51)</b>	(63)
10% increase in mortality rates	<b>(89)</b>	(92)
10% increase in lapse/discontinuance rates	<b>(80)</b>	(76)

Future policy benefits for the Group's majority traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of these traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group's traditional life products, except for a limited number of cases where statutory requirements are adopted in the applicable jurisdiction.

For interest sensitive insurance contracts, such as universal life products and unit-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US\$21m increase (2020: US\$166m decrease) in profit.

**30. BORROWINGS**

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

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Interest expense on borrowings is shown in note 11. Further information relating to interest rates and the maturity profile of borrowings is presented in note 38.

The following table summarises the Company's outstanding medium-term notes and securities placed to the market at 31 December 2021:

**Senior notes**

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
13 March 2013 <sup>(1)</sup>	US\$500m	3.125%	10 years	13 March 2023
11 March 2014 <sup>(1)</sup>	US\$500m	4.875%	30 years	11 March 2044
11 March 2015 <sup>(1)</sup>	US\$750m	3.200%	10 years	11 March 2025
16 March 2016 <sup>(1)</sup>	US\$750m	4.500%	30 years	16 March 2046
23 May 2017 <sup>(2)</sup>	US\$500m	4.470%	30 years	23 May 2047
6 April 2018 <sup>(1)</sup>	US\$500m	3.900%	10 years	6 April 2028
16 January 2019	HK\$1,300m	2.950%	3.5 years	16 July 2022
16 January 2019	HK\$1,100m	3.680%	12 years	16 January 2031
9 April 2019 <sup>(1)</sup>	US\$1,000m	3.600%	10 years	9 April 2029
7 April 2020 <sup>(1)</sup>	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 <sup>(1)(3)</sup>	US\$1,750m	3.200%	20 years	16 September 2040
7 April 2021 <sup>(1)(3)(4)</sup>	US\$750m	2.700%	Perpetual	n/a
11 June 2021 <sup>(1)(3)(4)</sup>	SG\$500m	2.900%	Perpetual	n/a
9 September 2021 <sup>(1)(3)(4)</sup>	EUR750m	0.880%	12 years	9 September 2033
19 October 2021 <sup>(1)(3)(4)</sup>	SG\$105m	3.000%	30 years	19 October 2051

Notes:

- (1) These medium-term notes and securities are listed on The Stock Exchange of Hong Kong Limited.
- (2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.
- (3) The Company has the right to redeem these securities, in whole, at par on predetermined dates as set out within the terms and conditions of the securities. No change in terms since issue date.
- (4) The coupon rate of these securities is fixed for a predetermined period as set out within the terms and conditions of the securities, and then resets to the initial spread plus a then prevailing benchmark rate if the securities have not been redeemed.

The net proceeds from issuance during the year ended 31 December 2021 are used for refinancing and general corporate purposes.

The Group has access to an aggregate of US\$2,290m unsecured committed credit facilities, which includes a US\$100m revolving three-year credit facility expiring in 2024 and a US\$2,190m five-year credit facility expiring in 2026. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 31 December 2021 and 2020.

**31. OBLIGATIONS UNDER REPURCHASE AGREEMENTS**

The Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date. At 31 December 2021, the obligations under repurchase agreements were US\$1,588m (2020: US\$1,664m).

The securities sold under repurchase agreements continue to be recognised within the appropriate financial asset classification. A liability is established for the consideration received. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each year end:

US\$m	As at 31 December 2021	As at 31 December 2020
Debt securities – AFS		
Repurchase agreements	1,511	1,444
Debt securities – FVTPL		
Repurchase agreements	92	232
<b>Total</b>	<b>1,603</b>	<b>1,676</b>

**Collateral under repurchase agreements**

At 31 December 2021, the Group had posted cash collaterals of US\$1m (2020: nil) and pledged debt securities with carrying value of US\$8m (2020: US\$1m). Cash collateral of US\$1m (2020: nil) was held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received.

**32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES****Offsetting, enforceable master netting agreements and similar agreements**

The following table shows the assets that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year end:

US\$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2021						
Financial assets:						
Derivative assets	1,468	–	1,468	(21)	(642)	805
Reverse repurchase agreements	407	–	407	(407)	–	–
<b>Total</b>	<b>1,875</b>	<b>–</b>	<b>1,875</b>	<b>(428)</b>	<b>(642)</b>	<b>805</b>

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)	–	–
<b>Total</b>	<b>1,340</b>	<b>–</b>	<b>1,340</b>	<b>(288)</b>	<b>(500)</b>	<b>552</b>

**32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES** (continued)**Offsetting, enforceable master netting agreements and similar agreements** (continued)

The following table shows the liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year end:

US\$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2021						
Financial liabilities:						
Derivative liabilities	1,392	–	1,392	(664)	(322)	406
Repurchase agreements	1,588	–	1,588	(1,588)	–	–
<b>Total</b>	<b>2,980</b>	<b>–</b>	<b>2,980</b>	<b>(2,252)</b>	<b>(322)</b>	<b>406</b>

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)	–	–
<b>Total</b>	<b>2,667</b>	<b>–</b>	<b>2,667</b>	<b>(2,360)</b>	<b>(86)</b>	<b>221</b>

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
<b>At 1 January 2020</b>	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)
<b>At 31 December 2020</b>	<b>195</b>	<b>35</b>	<b>230</b>
Charged to the consolidated income statement	11	24	35
Credited to other comprehensive income	(20)	–	(20)
Exchange differences	(14)	(1)	(15)
Released during the year	–	(5)	(5)
Utilised during the year	(13)	(17)	(30)
Other movements	(1)	–	(1)
<b>At 31 December 2021</b>	<b>158</b>	<b>36</b>	<b>194</b>

**Other provisions**

Other provisions comprise provisions in respect of regulatory matters, litigation, reorganisation and restructuring. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate, the Group is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

**34. OTHER LIABILITIES**

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

Third-party interests in consolidated investment funds consist of third-party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period. The realisation of third-party interests in investment funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third-party investors.

Reinsurance-related payables of US\$427m (2020: US\$563m) are expected to be settled more than 12 months after the end of the reporting period.

**35. SHARE CAPITAL AND RESERVES****Share capital**

	As at 31 December 2021		As at 31 December 2020	
	Million shares	US\$m	Million shares	US\$m
<b>Ordinary shares<sup>(1)</sup>, issued and fully paid</b>				
<b>At beginning of the financial year</b>	<b>12,095</b>	<b>14,155</b>	12,089	14,129
Shares issued under share option scheme and agency share purchase plan	<b>2</b>	<b>5</b>	6	26
<b>At end of the financial year</b>	<b>12,097</b>	<b>14,160</b>	12,095	14,155

Note:

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

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

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

During the year ended 31 December 2021, 6,714,317 shares (2020: 12,667,066 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 31 December 2021, 30,311,301 shares (2020: 28,748,261 shares) of the Company were held by the employee share-based trusts.

**Reserves****Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

**Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

**Employee share-based trusts**

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Where the Group is deemed to control the trusts, they are consolidated. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts" and carried at cost.

**Property revaluation reserve**

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

**Other reserves**

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.



**36. NON-CONTROLLING INTERESTS**

US\$m	As at 31 December 2021	As at 31 December 2020
Equity shares in subsidiaries	<b>80</b>	69
Share of earnings	<b>391</b>	369
Share of other reserves	<b>(4)</b>	30
<b>Total</b>	<b>467</b>	468

**37. GROUP CAPITAL STRUCTURE****Capital Management Approach**

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely among Group members and satisfying regulatory capital requirements at all times.

The Group's capital management function oversees all capital-related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining AIA's capacity to pay dividends to shareholders.

**Group-wide Supervision Framework and the Local Capital Summation Method**

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

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

At 31 December 2021, the Group available capital includes:

- (i) US\$3,768m<sup>(1)</sup> of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20 per cent per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and
- (ii) US\$5,820m<sup>(1)</sup> of senior notes issued before designation that have been approved by the HKIA. Prior to maturity, the approved senior notes receive full capital credit until 14 May 2031, after which the capital credit reduces at the rate of 20 per cent per annum until 14 May 2036.

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

Note:

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

**37. GROUP CAPITAL STRUCTURE** (continued)**Group-wide Supervision Framework and the Local Capital Summation Method** (continued)

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

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

**Local Regulatory Solvency**

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions.

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

**Dividends, remittances and other payments from individual branches and subsidiaries**

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends, remittances and other payments being received from its operating branches and subsidiaries, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated branches and subsidiaries to make payment of dividends, remittances and other payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group.

**37. GROUP CAPITAL STRUCTURE** (continued)**Capital and Regulatory Orders Specific to the Group**

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

**Hong Kong Insurance Authority**

AIA Group Limited had given to the HKIA an undertaking that AIA Group Limited will:

- (i) ensure that (a) each of AIA Co. and AIA International will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150 per cent of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100 per cent of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong (“minimum amount”); (b) it will not withdraw capital or transfer any funds or assets out of AIA Co. or AIA International that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; and (c) should the solvency ratio of either AIA Co. or AIA International fall below the respective minimum amounts, AIA Group Limited will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the HKIA;
- (ii) notify the HKIA in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the Hong Kong Insurance Ordinance (HKIO)) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;
- (iii) be subject to the supervision of the HKIA and AIA Group Limited will be required to continually comply with the HKIA’s guidance on the “fit and proper” standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company’s financial resources; the viability of a holding company’s business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Group’s legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Group’s corporate governance; the soundness of the Group’s risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and
- (iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidelines issued by the HKIA from time to time.

### 38. RISK MANAGEMENT

#### Risk management framework

AIA recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the Group. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

#### Insurance risk

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

#### Lapse

Lapse risk is the risk policies lapse, on average, earlier than assumed in the pricing or reserving assumptions.

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

#### Expense

Expense risk is the risk of greater than expected trends in, or sudden shocks to, the amount or timing of expenses incurred by the business.

Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Group's very substantial experience within the markets in which we operate.

#### Morbidity and Mortality

Morbidity and mortality risk is the risk that the incidence and/or amounts of medical/death claims are higher than the assumptions made in pricing and/or reserving.

The Group adheres to well-defined market-oriented underwriting and claims guidelines and practices that have been developed based on extensive historical experience and with the assistance of professional reinsurers.

The Group's actuarial teams conduct regular experience studies of all the insurance risk factors in its in-force book. These internal studies together with external data are used to identify emerging trends which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Group seeks to anticipate and respond promptly to potential adverse experience impacts on its products.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters.

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

**38. RISK MANAGEMENT** (continued)**Investment and financial risks****Investment objectives, policies and processes**

The Group manages its financial investments in two distinct categories: unit-linked investments and policyholder and shareholder investments. The investment risk in respect of unit-linked investments is generally wholly borne by our customers, and does not directly affect the profit for the year before tax. Policyholder and shareholder investments include all financial investments other than unit-linked investments. The investment risk in respect of policyholder and shareholder investments is partially or wholly borne by the Group and directly affects the profit for the year before tax.

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

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

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

**Asset-liability management**

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

**38. RISK MANAGEMENT** (continued)**Investment and financial risks** (continued)**Credit risk**

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

The Group's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of defence. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Group's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating is determined by the investment teams. The Group's Risk Management function manages the Group's internal ratings framework and conducts periodic rating validations. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

**Interest rate risk and credit spread risk**

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Group's insurance liabilities.

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

AIA manages interest rate risk and credit spread risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

**Exposure to interest rate risk**

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

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

**38. RISK MANAGEMENT** (continued)**Investment and financial risks** (continued)**Exposure to interest rate risk** (continued)

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2020				
Financial assets				
Loans and deposits	1,020	7,421	894	9,335
Other receivables	69	1	2,636	2,706
Debt securities	10,735	191,146	–	201,881
Equity shares and interests in investment funds	–	–	59,182	59,182
Reinsurance receivables	–	–	671	671
Accrued investment income	–	–	1,822	1,822
Cash and cash equivalents	4,071	–	1,548	5,619
Derivative financial instruments	–	–	1,069	1,069
<b>Total financial assets</b>	<b>15,895</b>	<b>198,568</b>	<b>67,822</b>	<b>282,285</b>
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
<b>Total financial liabilities</b>	<b>2,573</b>	<b>8,562</b>	<b>20,457</b>	<b>31,592</b>

**Equity price risk**

Equity price risk arises from changes in the market value of equity shares and interests in investment funds. Investments in equity shares and interests in investment funds on a long-term basis are expected to align policyholders' expectations, provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group's strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

**38. RISK MANAGEMENT** (continued)**Investment and financial risks** (continued)**Concentration risk**

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

**Sensitivity analysis**

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 29. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholder participation ratios described in note 2.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

	31 December 2021			31 December 2020		
	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						
<b>Equity price risk</b>						
10 per cent increase in equity prices	<b>1,608</b>	<b>1,608</b>	<b>1,608</b>	1,091	1,091	1,091
10 per cent decrease in equity prices	<b>(1,608)</b>	<b>(1,608)</b>	<b>(1,608)</b>	(1,091)	(1,091)	(1,091)
<b>Interest rate risk</b>						
+ 50 basis points shift in yield curves	<b>(1,152)</b>	<b>(8,585)</b>	<b>(1,152)</b>	(550)	(8,403)	(550)
- 50 basis points shift in yield curves	<b>1,193</b>	<b>9,539</b>	<b>1,193</b>	584	9,356	584



**38. RISK MANAGEMENT** (continued)

**Investment and financial risks** (continued)

**Foreign exchange rate risk**

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in Asia and the translation of multiple currencies to US dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

Assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

**Foreign exchange rate net exposure**

US\$m	United States Dollar	China Renminbi	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit
31 December 2021						
Equity analysed by original currency	<b>30,845</b>	<b>11,470</b>	<b>2,539</b>	<b>5,144</b>	<b>(5,700)</b>	<b>2,410</b>
Net positions of currency derivatives	<b>(8,610)</b>	-	<b>323</b>	<b>2,739</b>	<b>3,704</b>	<b>329</b>
<b>Currency exposure</b>	<b>22,235</b>	<b>11,470</b>	<b>2,862</b>	<b>7,883</b>	<b>(1,996)</b>	<b>2,739</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	<b>469</b>	<b>253</b>	<b>33</b>	<b>9</b>	<b>7</b>	<b>5</b>
Impact on other comprehensive income	<b>(487)</b>	<b>320</b>	<b>44</b>	<b>385</b>	<b>(106)</b>	<b>132</b>
<b>Impact on total equity</b>	<b>(18)</b>	<b>573</b>	<b>77</b>	<b>394</b>	<b>(99)</b>	<b>137</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	<b>469</b>	<b>(249)</b>	<b>2</b>	<b>(8)</b>	<b>13</b>	<b>(5)</b>
Impact on other comprehensive income	<b>(487)</b>	<b>(324)</b>	<b>(79)</b>	<b>(386)</b>	<b>86</b>	<b>(132)</b>
<b>Impact on total equity</b>	<b>(18)</b>	<b>(573)</b>	<b>(77)</b>	<b>(394)</b>	<b>99</b>	<b>(137)</b>
31 December 2020						
Equity analysed by original currency	35,400	5,862	4,617	6,445	(4,644)	2,516
Net positions of currency derivatives	(9,942)	-	650	3,457	4,239	135
<b>Currency exposure</b>	<b>25,458</b>	<b>5,862</b>	<b>5,267</b>	<b>9,902</b>	<b>(405)</b>	<b>2,651</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	260	41	71	9	25	5
Impact on other comprehensive income	(286)	252	141	485	(45)	128
<b>Impact on total equity</b>	<b>(26)</b>	<b>293</b>	<b>212</b>	<b>494</b>	<b>(20)</b>	<b>133</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	260	(34)	(5)	(6)	(9)	(4)
Impact on other comprehensive income	(286)	(259)	(207)	(488)	29	(129)
<b>Impact on total equity</b>	<b>(26)</b>	<b>(293)</b>	<b>(212)</b>	<b>(494)</b>	<b>20</b>	<b>(133)</b>

**38. RISK MANAGEMENT** (continued)**Investment and financial risks** (continued)**Liquidity risk**

The liquidity principle adopted by the Group Board is “*AIA will maintain sufficient liquidity to meet our expected financial commitments as they fall due*” and as such AIA has defined liquidity risk as the risk of failure to meet current and future financial commitments as they fall due. This incorporates the risks arising from the timing mismatch of cash inflows and outflows in day-to-day operations, including policyholder and third-party payments, collateral requirements, as well as insufficient market liquidity of assets required for policyholder liabilities.

AIA manages liquidity risk in accordance with the Group’s liquidity framework. This framework contains the standards, procedures and tools used by the Group to monitor and manage liquidity risk on a forward-looking basis in base and stressed conditions across multiple time horizons from daily to twelve months. The forward-looking management of liquidity allows early detection of trends enabling management to proactively manage liquidity with reference to the pre-defined contingency plan. The framework is comprised of four key pillars:

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

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

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

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

**38. RISK MANAGEMENT** (continued)**Investment and financial risks** (continued)**Liquidity risk** (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity <sup>(2)</sup>
31 December 2021						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	8,946	2,477	754	458	1,623	3,634
Other receivables	2,694	2,598	47	6	7	36
Debt securities	193,420	4,234	21,155	28,484	139,547	–
Equity shares and interests in investment funds	39,108	–	–	–	–	39,108
Reinsurance receivables	992	992	–	–	–	–
Accrued investment income	1,764	1,754	2	–	–	8
Cash and cash equivalents	3,913	3,913	–	–	–	–
Derivative financial instruments	1,419	51	1,037	97	234	–
<b>Subtotal</b>	<b>252,256</b>	<b>16,019</b>	<b>22,995</b>	<b>29,045</b>	<b>141,411</b>	<b>42,786</b>
Financial assets (Unit-linked contracts and consolidated investment funds)	40,453	–	–	–	–	40,453 <sup>(3)</sup>
<b>Total</b>	<b>292,709</b>	<b>16,019</b>	<b>22,995</b>	<b>29,045</b>	<b>141,411</b>	<b>83,239</b>
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	182,484	4,857	17,564	18,621	141,442	–
Borrowings	9,588	167	1,247 <sup>(1)</sup>	2,686	4,374	1,114
Obligations under repurchase agreements	1,588	1,588	–	–	–	–
Other liabilities excluding lease liabilities	6,811	5,330	213	141	154	973
Lease liabilities	502	174	303	24	1	–
Derivative financial instruments	1,369	356	659	131	223	–
<b>Subtotal</b>	<b>202,342</b>	<b>12,472</b>	<b>19,986</b>	<b>21,603</b>	<b>146,194</b>	<b>2,087</b>
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	37,109	–	–	–	–	37,109
<b>Total</b>	<b>239,451</b>	<b>12,472</b>	<b>19,986</b>	<b>21,603</b>	<b>146,194</b>	<b>39,196</b>

Note:

(1) Including US\$748m which fall due after 2 years through 5 years.

**38. RISK MANAGEMENT** (continued)**Investment and financial risks** (continued)**Liquidity risk** (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity <sup>(2)</sup>
31 December 2020						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	8,940	1,997	1,013	580	1,793	3,557
Other receivables	2,574	2,477	50	13	–	34
Debt securities	195,478	3,973	21,353	31,072	139,080	–
Equity shares and interests in investment funds	30,950	–	–	–	–	30,950
Reinsurance receivables	671	671	–	–	–	–
Accrued investment income	1,757	1,756	1	–	–	–
Cash and cash equivalents	4,400	4,400	–	–	–	–
Derivative financial instruments	1,016	189	189	249	389	–
<b>Subtotal</b>	<b>245,786</b>	<b>15,463</b>	<b>22,606</b>	<b>31,914</b>	<b>141,262</b>	<b>34,541</b>
Financial assets (Unit-linked contracts and consolidated investment funds)	36,499	–	–	–	–	36,499 <sup>(3)</sup>
<b>Total</b>	<b>282,285</b>	<b>15,463</b>	<b>22,606</b>	<b>31,914</b>	<b>141,262</b>	<b>71,040</b>
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 <sup>(4)</sup>	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	–
<b>Subtotal</b>	<b>185,255</b>	<b>9,599</b>	<b>18,072</b>	<b>20,151</b>	<b>136,274</b>	<b>1,159</b>
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	35,125	–	–	–	–	35,125
<b>Total</b>	<b>220,380</b>	<b>9,599</b>	<b>18,072</b>	<b>20,151</b>	<b>136,274</b>	<b>36,284</b>

## Notes:

- (2) Financial assets with no fixed maturity are equities or receivables on demand which the Group has the choice to call. Borrowings with no fixed maturity are resettable subordinated perpetual securities issued by the Company. Other financial liabilities with no fixed maturity are payables on demand as the counterparty has a choice of when the amount is paid.
- (3) The total value of amounts within financial assets (Unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds). Included within financial assets (Unit-linked contracts and consolidated investment funds) are debt securities of US\$626m (2020: US\$433m) due in one year or less, US\$2,753m (2020: US\$2,622m) due after 1 year through 5 years, US\$2,019m (2020: US\$1,934m) due after 5 years through 10 years and US\$1,262m (2020: US\$1,414m) due after 10 years, in accordance with the contractual terms of the financial investments.
- (4) Including US\$1,246m which fall due after 2 years through 5 years.

**38. RISK MANAGEMENT** (continued)**Transactions within the Group**

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

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

**39. EMPLOYEE BENEFITS****Post-retirement benefit obligations**

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

**Defined benefit plans**

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Indonesia, South Korea, the Philippines, Sri Lanka, Taiwan (China) and Vietnam. The latest independent actuarial valuation of the plans was at 31 December 2021 and was prepared by credentialed actuaries of Towers Watson Hong Kong Limited. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions.

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

The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 46 per cent (2020: 39 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US\$96m (2020: US\$96m). The total expenses relating to these plans recognised in the consolidated income statement was US\$11m (2020: US\$14m).

**Defined contribution plans**

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, does not have any further payment obligations. The Group's contributions are charged to the consolidated income statement in the reporting period to which they relate and are included in employee benefit expenses. The total expense relating to these plans in the current year was US\$121m (2020: US\$93m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 20 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

#### 40. SHARE-BASED COMPENSATION

##### Share-based compensation plans

The Group's share-based compensation plans are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

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

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

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

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

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

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

##### RSU Schemes

Under the RSU Schemes, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period during which, the eligible participants are required to remain in employment with the Group. For RSU grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting period. For most RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the granted RSUs are expected to be settled in equity. The total number of shares that can be granted under this scheme is 302,264,978 (2020: 302,264,978), representing 2.5 per cent of the number of shares in issue on the reference date, being the 2020 AGM date.

**40. SHARE-BASED COMPENSATION** (continued)**Share-based compensation plans** (continued)**RSU Schemes** (continued)

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

**SO Schemes**

The objectives of the SO Schemes are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which the eligible participants are required to remain in employment with the Group. For SO grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting periods. The granted SOs expire 10 years from the date of grant and each SO entitles the eligible participant to subscribe for one ordinary share. Subject to restrictions in the applicable laws, regulations and rules of the relevant jurisdictions, the granted SOs are expected to be settled in equity. The total number of shares under options that can be granted under this scheme is 302,264,978 (2020: 302,264,978), representing 2.5 per cent of the number of shares in issue on the date of adoption.

Information about SOs outstanding and SOs exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

	Year ended 31 December 2021		Year ended 31 December 2020	
	Number of share options	Weighted average exercise price (HK\$)	Number of share options	Weighted average exercise price (HK\$)
<b>Share options</b>				
Outstanding at beginning of financial year	<b>23,703,809</b>	<b>59.53</b>	23,798,042	53.86
Granted	<b>1,849,222</b>	<b>97.33</b>	5,856,668	68.10
Exercised	<b>(871,896)</b>	<b>31.27</b>	(4,876,916)	40.01
Forfeited or expired	<b>(1,321,364)</b>	<b>70.77</b>	(1,073,985)	69.34
Outstanding at end of financial year	<b>23,359,771</b>	<b>62.94</b>	23,703,809	59.53
Share options exercisable at end of financial year	<b>13,167,380</b>	<b>52.72</b>	10,115,925	45.22

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

**40. SHARE-BASED COMPENSATION** (continued)**Share-based compensation plans** (continued)**SO Schemes** (continued)

The range of exercise prices for the SOs outstanding as of 31 December 2021 and 2020 is summarised in the table below.

	Year ended 31 December 2021		Year ended 31 December 2020	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
<b>Range of exercise price</b>				
HK\$26 – HK\$35	<b>753,331</b>	<b>0.87</b>	1,542,961	1.30
HK\$36 – HK\$45	<b>2,628,717</b>	<b>3.56</b>	2,633,722	4.57
HK\$46 – HK\$55	<b>5,103,806</b>	<b>4.60</b>	5,108,806	5.60
HK\$56 – HK\$65	<b>830,436</b>	<b>5.58</b>	830,436	6.58
HK\$66 – HK\$75	<b>8,774,030</b>	<b>7.36</b>	9,759,038	8.42
HK\$76 – HK\$85	<b>3,429,658</b>	<b>7.24</b>	3,828,846	8.24
HK\$86 – HK\$95	<b>1,839,793</b>	<b>9.23</b>	–	–
Outstanding at end of financial year	<b>23,359,771</b>	<b>6.19</b>	23,703,809	6.83

**ESPP**

Under the ESPPs, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will grant one matching RSPU to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the relevant vesting period, the eligible employees must hold the contribution shares purchased and remain employed by the Group in order to qualify to receive the matching shares upon the vesting of the matching RSPUs. The granted matching RSPUs are expected to be settled in equity. Under the 2011 ESPP, the level of qualified employee contribution was subject to a maximum amount equal to 8 per cent of the monthly base salary or HK\$9,750 (or local currency equivalent) per month, whichever is lower. Under the 2020 ESPP, the level of qualified employee contribution is subject to a maximum amount equal to 10 per cent of the monthly base salary or HK\$12,500 (or local currency equivalent) per month, whichever is lower. For the year ended 31 December 2021, eligible employees paid US\$38m (2020: US\$32m) to purchase 3,172,021 ordinary shares (2020: 3,126,641 ordinary shares) of the Company under the ESPPs.

**ASPP**

The structure of the ASPPs generally follows those of the ESPPs, the key difference is that the eligible agents are required to pay a subscription price of US\$1 to subscribe for each new share in the Company at the end of the vesting period. Under the plans, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will grant one matching RSSU to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each RSSU entitles eligible agents to subscribe for one new share of the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased and maintain their agent contracts with the Group in order to qualify to receive the matching shares upon the vesting of the matching RSSUs. The granted matching RSSUs are expected to be settled in equity. Under the ASPPs, the level of qualified agent contribution is subject to a maximum amount of HK\$9,750 (or local currency equivalent) per month and HK\$12,500 (or local currency equivalent) per month respectively. For the year ended 31 December 2021, eligible agents paid US\$20m (2020: US\$24m) to purchase 1,717,835 ordinary shares (2020: 2,411,360 ordinary shares) of the Company under the ASPPs.



**40. SHARE-BASED COMPENSATION** (continued)**Valuation methodology**

The Group utilises a binomial lattice model to calculate the fair value of the SO grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, RSPU and RSSU grants, taking into account the terms and conditions upon which the grants were made. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the HKSE. The expected life of the SOs is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. An allowance for forfeiture prior to vesting is not included in the valuation of the grants.

The fair value calculated for SOs is inherently subjective due to the assumptions made and the limitations of the model utilised.

	Year ended 31 December 2021			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
<b>Assumptions</b>				
Risk-free interest rate	1.24%	0.19% – 0.27%*	0.14% – 0.83%	0.37%
Volatility	26%	26%	n/a	n/a
Dividend yield	1.60%	1.60% – 1.70%	1.60% – 1.70%	1.60%
Exercise price (HK\$)	97.33	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.82	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	22.26	66.28	72.39	71.39
	Year ended 31 December 2020			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
<b>Assumptions</b>				
Risk-free interest rate	0.85%	0.31% – 0.78%*	0.09% – 1.68%	0.87%
Volatility	24%	24%	n/a	n/a
Dividend yield	1.60%	1.60%	1.60%	1.60%
Exercise price (HK\$)	68.10	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.84	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	15.51	63.20	79.07	59.48

\* Applicable to RSU with market conditions.

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

**Recognised compensation cost**

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation grants made by the Group for the year ended 31 December 2021 is US\$86m (2020: US\$80m).

#### 41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

##### Directors' remuneration

The Executive Director receives compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long-term incentives represent the variable components in the Executive Director's compensation and are linked to the performance of the Group and the Executive Director. Details of share-based payment schemes are described in note 40.

US\$	Director's fees	Salaries, allowances and benefits in kind <sup>(1)</sup>	Bonuses	Share-based payments <sup>(2)</sup>	Pension scheme contributions	Other benefits	Other payments <sup>(4)</sup>	Total	
Year ended 31 December 2021									
<i>Executive Director</i>									
	Mr. Lee Yuan Siong <sup>(6)</sup>	-	1,669,062	4,400,000	3,192,974	66,446	-	6,377,470	15,705,952
	<b>Total</b>	-	1,669,062	4,400,000	3,192,974	66,446	-	6,377,470	15,705,952

US\$	Director's fees	Salaries, allowances and benefits in kind <sup>(1)</sup>	Bonuses	Share-based payments <sup>(2)</sup>	Pension scheme contributions	Other benefits <sup>(3)</sup>	Other payments <sup>(4)</sup>	Total	
Year ended 31 December 2020									
<i>Executive Directors</i>									
	Mr. Ng Keng Hooi <sup>(5)</sup>	-	688,987	2,839,400	7,631,345	40,933	112,203	-	11,312,868
	Mr. Lee Yuan Siong <sup>(6)</sup>	-	1,428,337	3,960,000	1,493,396	56,271	-	10,892,303	17,830,307
	<b>Total</b>	-	2,117,324	6,799,400	9,124,741	97,204	112,203	10,892,303	29,143,175

##### Notes:

- (1) Includes non-cash benefits for housing, medical and life insurance, club and professional membership, company car and perquisites.
- (2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP based on the fair value at the respective grant dates.
- (3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay.
- (4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.
- (5) For the year ended 31 December 2020, Mr. Ng Keng Hooi's remuneration includes compensation and benefits up to his retirement as Group Chief Executive and President and Director effective 31 May 2020, with the bonus for the year ended 31 December 2020 paid on full-year basis and subject to actual performance assessments.
- (6) Mr. Lee Yuan Siong is currently the Group Chief Executive and President of the Company. He receives his remuneration exclusively for his role as Group Chief Executive and President of the Company and receives no separate fees for his role as a director of the Company or for acting as a director of any subsidiary of the Company.

**41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL** (continued)**Directors' remuneration** (continued)

The remuneration of Independent Non-executive Directors of the Company at 31 December 2021 and 2020 are included in the tables below:

US\$	Director's fees <sup>(1)</sup>	Salaries, allowances and benefits in kind <sup>(2)</sup>	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Other payments	Total
Year ended 31 December 2021								
<i>Independent Non-executive Directors</i>								
Mr. Edmund Sze-Wing Tse	<b>685,000</b>	<b>146,513</b>	-	-	-	-	-	<b>831,513</b>
Mr. Jack Chak-Kwong So	<b>268,000</b>	-	-	-	-	-	-	<b>268,000</b>
Mr. Chung-Kong Chow	<b>228,000</b>	-	-	-	-	-	-	<b>228,000</b>
Mr. John Barrie Harrison	<b>287,180</b>	-	-	-	-	-	-	<b>287,180</b>
Mr. George Yong-Boon Yeo	<b>253,000</b>	-	-	-	-	-	-	<b>253,000</b>
Professor Lawrence Juen-Yee Lau	<b>213,000</b>	-	-	-	-	-	-	<b>213,000</b>
Ms. Swee-Lian Teo	<b>222,370</b>	-	-	-	-	-	-	<b>222,370</b>
Dr. Narongchai Akrasanee <sup>(4)</sup>	<b>323,000</b>	-	-	-	-	-	-	<b>323,000</b>
Mr. Cesar Velasquez Purisima	<b>215,329</b>	-	-	-	-	-	-	<b>215,329</b>
Ms. Sun Jie (Jane) <sup>(5)</sup>	<b>102,896</b>	-	-	-	-	-	-	<b>102,896</b>
<b>Total</b>	<b>2,797,775</b>	<b>146,513</b>	-	-	-	-	-	<b>2,944,288</b>

**41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL** (continued)**Directors' remuneration** (continued)

US\$	Director's fees <sup>(1)</sup>	Salaries, allowances and benefits in kind <sup>(2)</sup>	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 <sup>(3)</sup>	87,295	–	–	–	–	–	–	87,295
Professor Lawrence Juen-Yee Lau	213,000	–	–	–	–	–	–	213,000
Ms. Swee-Lian Teo	213,000	–	–	–	–	–	–	213,000
Dr. Narongchai Akrasanee <sup>(4)</sup>	281,333	–	–	–	–	–	–	281,333
Mr. Cesar Velasquez Purisima	183,000	–	–	–	–	–	–	183,000
<b>Total</b>	<b>2,679,628</b>	<b>143,315</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,822,943</b>

## Notes:

- (1) Save as disclosed below, all Directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.
- (2) Includes non-cash benefits for housing, club and professional membership, medical insurance and company car.
- (3) Mr. Mohamed Azman Yahya retired as Independent Non-executive Director of the Company with effect from 29 May 2020.
- (4) US\$100,000 and US\$58,333 which represented remuneration to Dr. Narongchai Akrasanee in respect of his services as Chairman of Advisory Board of AIA Thailand for the year ended 31 December 2021 and 2020 respectively are included in his fees stated above.
- (5) Ms. Sun Jie (Jane) was appointed as Independent Non-executive Director of the Company on 1 June 2021.

**Remuneration of five highest-paid individuals**

The aggregate remuneration of the five highest-paid individuals employed by the Group in the year ended 31 December 2021 and 2020 is presented in the table below.

US\$	Director's fees	Salaries, allowances and benefits in kind <sup>(1)</sup>	Bonuses	Share-based payments <sup>(2)</sup>	Pension scheme contributions	Other benefits <sup>(3)</sup>	Other payments <sup>(4)</sup>	Total
<b>Year ended 31 December 2021</b>	<b>–</b>	<b>5,959,080</b>	<b>9,318,940</b>	<b>9,187,513</b>	<b>383,982</b>	<b>–</b>	<b>6,377,470</b>	<b>31,226,985</b>
Year ended 31 December 2020	–	5,367,242	9,502,800	15,162,153	303,157	112,203	10,892,303	41,339,858

## Notes:

- (1) 2021 and 2020 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.
- (2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the five highest-paid individuals based on the fair value at the respective grant dates.
- (3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay.
- (4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.

**41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL** (continued)**Remuneration of five highest-paid individuals** (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK\$	Year ended 31 December 2021	Year ended 31 December 2020
26,000,001 to 26,500,000	1	–
28,000,001 to 28,500,000	1	–
28,500,001 to 29,000,000	–	1
30,500,001 to 31,000,000	–	1
31,000,001 to 31,500,000	1	–
35,000,001 to 35,500,000	1	1
87,500,001 to 88,000,000	–	1
122,000,001 to 122,500,000	1	–
138,000,001 to 138,500,000	–	1

**Key management personnel remuneration**

Key management personnel have been identified as the members of the Group's Executive Committee.

US\$	Year ended 31 December 2021	Year ended 31 December 2020
<b>Key management compensation and other expenses</b>		
Salaries and other short-term employee benefits	<b>30,355,005</b>	30,844,469
Post-employment benefits	<b>701,749</b>	1,118,468
Share-based payments <sup>(1)</sup>	<b>18,422,129</b>	28,808,491
Termination benefits	–	1,707,434
<b>Total</b>	<b>49,478,883</b>	62,478,862

Note:

(1) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the key management personnel based on the fair value at the respective grant dates.

The emoluments of the key management personnel are within the following bands:

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

**42. RELATED PARTY TRANSACTIONS**

Remuneration of Directors and key management personnel is disclosed in note 41.

**43. COMMITMENTS AND CONTINGENCIES****Investment and capital commitments**

US\$m	As at 31 December 2021	As at 31 December 2020
Not later than one year	<b>7,830</b>	2,504
Later than one and not later than five years	<b>130</b>	174
Later than five years	<b>–</b>	16
<b>Total</b>	<b>7,960</b>	2,694

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

**Contingencies**

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies, claims and taxes. The Group believes that these matters are adequately provided for in these financial statements.

The Group operates in many jurisdictions across Asia and in certain of those jurisdictions, the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities, which can result in disputes arising. The Group has made provisions to cover the potential tax implications, based on management's judgement and best estimate in relation to the probability or likelihood of the potential outcomes, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$428m at 31 December 2021 (2020: US\$479m). The liabilities and related reinsurance assets, which totalled US\$3m (2020: US\$3m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

#### 44. SUBSIDIARIES

The following is a list of AIA's directly and indirectly held principal operating subsidiaries which materially contribute to the net income of the Group or hold a material element of its assets and liabilities:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 31 December 2021		As at 31 December 2020	
				Group's interest %	NCI's interest %	Group's interest %	NCI's interest %
AIA Company Limited <sup>(1)</sup>	Hong Kong	Insurance	2,596,049,861 ordinary shares of US\$9,267,084,182 issued share capital	100%	–	100%	–
AIA Australia Limited	Australia	Insurance	2,125,462,500 ordinary shares of A\$2,207,267,000 issued share capital	100%	–	100%	–
AIA Bhd.	Malaysia	Insurance	191,859,543 ordinary shares of RM810,000,000 issued share capital	100%	–	100%	–
AIA Life Insurance Company Limited	Mainland China	Insurance	Registered share capital of RMB3,777,399,440	100%	–	100%	–
AIA Philippines Life and General Insurance Company Inc. (formerly known as The Philippine American Life and General Insurance (PHILAM LIFE) Company)	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	100%	–	100%	–
BPI AIA Life Assurance Corporation (formerly known as BPI-Philam Life Assurance (BPLAC) Corporation)	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	51%	49%	51%	49%
AIA Singapore Private Limited	Singapore	Insurance	1,558,021,163 ordinary shares of S\$1 each	100%	–	100%	–
AIA Everest Life Company Limited (formerly known as BEA Life Limited)	Hong Kong	Insurance	500,000,000 ordinary shares of HK\$500,000,000 issued share capital	100%	–	100%	–
AIA International Limited	Bermuda	Insurance	6,500,000 ordinary shares of US\$1.20 each	100%	–	100%	–
PT. AIA Financial	Indonesia	Insurance	1,910,844,141 ordinary shares of Rp1,000 each	100%	–	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND3,224,420,000,000	100%	–	100%	–
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US\$1 each	90%	10%	90%	10%
AIA Life Insurance Co. Ltd.	South Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	100%	–	100%	–
AIA New Zealand Limited	New Zealand	Insurance	248,217,572 ordinary shares of NZD863,709,199 issued share capital	100%	–	100%	–
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US\$1 each	100%	–	100%	–

Notes:

(1) The Company's subsidiary.

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

All subsidiaries are unlisted.

#### 45. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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



**46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

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

Notes:

- (1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.
- (2) The Company's interests in investment funds such as mutual funds and unit trusts, including funds controlled by the Group, are measured at fair value through profit or loss. Interests in other entities controlled by the Group are measured at cost, unless impaired, and presented as investment in subsidiaries at cost. Interests in investment funds include US\$2,359m (2020: nil) comprising the combined value of debt securities held by an investment fund controlled by the Group and interests in an external fixed income fund. Fixed income fund refers to the investment fund solely investing in fixed income instruments and cash equivalents, where investors of the fund own a pro-rata share of economic interests of the fund according to the number of shares or units they own of the fund. Investment fund may use derivatives for hedging purpose.
- (3) Includes United States Treasury securities of US\$1,589m (2020: US\$3,372m) and China Government bonds of US\$4,262m (2020: nil) as at 31 December 2021.
- (4) The promissory notes from subsidiaries are repayable on demand.

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



**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
<b>Balance at 1 January 2021</b>	<b>14,155</b>	<b>(155)</b>	<b>259</b>	<b>7,360</b>	<b>836</b>	<b>22,455</b>
Net profit	–	–	–	<b>4,306</b>	–	<b>4,306</b>
Fair value losses on debt securities at fair value through other comprehensive income	–	–	–	–	<b>(296)</b>	<b>(296)</b>
Fair value gains on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	–	–	–	–	<b>(415)</b>	<b>(415)</b>
Dividends	–	–	–	<b>(2,147)</b>	–	<b>(2,147)</b>
Shares issued under share option scheme and agency share purchase plan	<b>5</b>	–	–	–	–	<b>5</b>
Share-based compensation	–	–	<b>86</b>	–	–	<b>86</b>
Purchase of shares held by employee share-based trusts	–	<b>(106)</b>	–	–	–	<b>(106)</b>
Transfer of vested shares from employee share-based trusts	–	<b>36</b>	<b>(36)</b>	–	–	–
<b>Balance at 31 December 2021</b>	<b>14,160</b>	<b>(225)</b>	<b>309</b>	<b>9,519</b>	<b>125</b>	<b>23,888</b>

US\$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
<b>Balance at 1 January 2020</b>	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)	–	–	–
<b>Balance at 31 December 2020</b>	<b>14,155</b>	<b>(155)</b>	<b>259</b>	<b>7,360</b>	<b>836</b>	<b>22,455</b>



羅兵咸永道

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2021 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED**

*(incorporated in Hong Kong with limited liability)*

**Opinion**

**What we have audited**

The Supplementary Embedded Value Information (the "EV Information") of AIA Group Limited (the "Company") and its subsidiaries (the "Group"), which is set out on pages 261 to 286, comprises:

- the consolidated EV results as at and for the year ended 31 December 2021;
- the sensitivity analysis as at and for the year then ended; and
- a summary of significant methodology and assumptions and other explanatory notes.

**Our opinion**

In our opinion, the EV Information of the Group as at and for the year ended 31 December 2021 is prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the EV Information section of our report.

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

**Independence**

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

**Emphasis of Matter – Basis of Preparation**

We draw attention to Sections 4 and 5 of the EV Information, which describe the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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羅兵咸永道

**Other Matter**

The Group has prepared a separate set of consolidated financial statements for the year ended 31 December 2021 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and International Financial Reporting Standards issued by the International Accounting Standards Board, on which we issued a separate auditor's report to the shareholders of the Company dated 11 March 2022.

**Other Information**

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

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

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

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



羅兵咸永道

### **Responsibilities of Directors and Those Charged with Governance for the EV Information**

The Directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information and for such internal control as the Directors determine is necessary to enable the preparation of the EV Information that is free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's Responsibilities for the Audit of the EV Information**

Our objectives are to obtain reasonable assurance about whether the EV Information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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羅兵咸永道

**Auditor's Responsibilities for the Audit of the EV Information** (continued)

- Evaluate the appropriateness of the EV basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the EV Information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the EV Information of the entities or business activities within the Group to express an opinion on the EV Information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong

11 March 2022

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**CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION**

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of the changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

## 1. HIGHLIGHTS

The Embedded Value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. AIA Group Limited (the "Company"), together with its subsidiaries (collectively the "Group") use a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB) for all entities other than Tata AIA Life Insurance Company Limited (Tata AIA Life). This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. For Tata AIA Life, the Group uses the Indian Embedded Value (IEV) methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India.

The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company, after allowing for taxes. More details on the EV results, methodology and assumptions are covered in later sections of this report.

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

The Group announced in June 2021 that it had reached an agreement to invest RMB12,033 million (approximately US\$1,860 million) for a 24.99 per cent equity stake, post investment, in China Post Life Insurance Co., Ltd. (China Post Life), which has been reflected in this report.

Unless otherwise stated, the growth rates provided in the commentaries are shown on a constant exchange rate (CER) basis.

### Summary of Key Metrics<sup>(1)</sup> (US\$ millions)

	As at 31 December 2021	As at 31 December 2020	Change CER	Change AER
<b>EV Equity</b>	<b>75,001</b>	67,185	13%	12%
<b>EV</b>	<b>72,987</b>	65,247	13%	12%
<b>Adjusted net worth (ANW)</b>	<b>33,302</b>	28,503	15%	17%
<b>Value of in-force business (VIF)</b>	<b>39,685</b>	36,744	11%	8%
	Year ended 31 December 2021	Year ended 31 December 2020	YoY CER	YoY AER
<b>VONB</b>	<b>3,366</b>	2,765	18%	22%
<b>Annualised new premiums (ANP)</b>	<b>5,647</b>	5,219	6%	8%
<b>VONB margin</b>	<b>59.3%</b>	52.6%	6.3 pps	6.7 pps
<b>EV operating profit</b>	<b>7,896</b>	7,243	7%	9%
<b>Operating return on EV (Operating ROEV)</b>	<b>12.1%</b>	11.7%	0.4 pps	0.4 pps
<b>Underlying free surplus generation (UFSG)</b>	<b>6,451</b>	5,843	8%	10%

Note:

(1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.



## 2. EMBEDDED VALUE RESULTS

### 2.1 Embedded Value by Business Unit

The EV as at 31 December 2021 is presented consistently with the segment information in the IFRS consolidated financial statements.

#### Summary of EV by Business Unit (US\$ millions)

Business Unit	As at 31 December 2021				
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	EV
AIA China	4,509	8,734	6	8,728	<b>13,237</b>
AIA Hong Kong	8,669	20,372	1,993	18,379	<b>27,048</b>
AIA Thailand	4,345	4,331	891	3,440	<b>7,785</b>
AIA Singapore	3,020	4,743	749	3,994	<b>7,014</b>
AIA Malaysia	1,239	2,283	248	2,035	<b>3,274</b>
Other Markets	4,998	5,311	1,363	3,948	<b>8,946</b>
Group Corporate Centre	10,602	–	–	–	<b>10,602</b>
<b>Subtotal</b>	<b>37,382</b>	<b>45,774</b>	<b>5,250</b>	<b>40,524</b>	<b>77,906</b>
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(3,723)	1,547	1,096	451	<b>(3,272)</b>
After-tax value of unallocated Group Office expenses	–	(1,103)	–	(1,103)	<b>(1,103)</b>
<b>Total (before non-controlling interests)</b>	<b>33,659</b>	<b>46,218</b>	<b>6,346</b>	<b>39,872</b>	<b>73,531</b>
<b>Non-controlling interests</b>	<b>(357)</b>	<b>(198)</b>	<b>(11)</b>	<b>(187)</b>	<b>(544)</b>
<b>Total</b>	<b>33,302</b>	<b>46,020</b>	<b>6,335</b>	<b>39,685</b>	<b>72,987</b>

Business Unit	As at 31 December 2020				
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	EV
AIA China	3,439	8,409	4	8,405	11,844
AIA Hong Kong	7,735	17,319	2,159	15,160	22,895
AIA Thailand	3,008	5,145	1,096	4,049	7,057
AIA Singapore	2,984	4,416	814	3,602	6,586
AIA Malaysia	1,293	2,084	233	1,851	3,144
Other Markets	5,983	5,018	1,561	3,457	9,440
Group Corporate Centre	11,472	–	–	–	11,472
<b>Subtotal</b>	<b>35,914</b>	<b>42,391</b>	<b>5,867</b>	<b>36,524</b>	<b>72,438</b>
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(7,064)	3,115	1,596	1,519	(5,545)
After-tax value of unallocated Group Office expenses	–	(1,138)	–	(1,138)	(1,138)
<b>Total (before non-controlling interests)</b>	<b>28,850</b>	<b>44,368</b>	<b>7,463</b>	<b>36,905</b>	<b>65,755</b>
<b>Non-controlling interests</b>	<b>(347)</b>	<b>(173)</b>	<b>(12)</b>	<b>(161)</b>	<b>(508)</b>
<b>Total</b>	<b>28,503</b>	<b>44,195</b>	<b>7,451</b>	<b>36,744</b>	<b>65,247</b>

Notes:

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

(2) Adjustment to reflect the consolidated reserving and capital requirements as described in Section 4.4 of this report.

**2. EMBEDDED VALUE RESULTS** (continued)**2.2 Reconciliation of ANW from IFRS Equity**

## Derivation of the Consolidated ANW from IFRS Equity (US\$ millions)

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

**2.3 Breakdown of ANW**

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

## Breakdown of ANW for the Group (US\$ millions)

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

**2. EMBEDDED VALUE RESULTS** (continued)**2.4 Earnings Profile**

The tables below show how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the consolidated reserving and capital requirements.

**Profile of Projected After-Tax Distributable Earnings for the Group's In-force Business (US\$ millions)**

Expected period of emergence	As at 31 December 2021	
	Undiscounted	Discounted
1 – 5 years	<b>22,225</b>	<b>18,516</b>
6 – 10 years	<b>20,405</b>	<b>11,579</b>
11 – 15 years	<b>21,695</b>	<b>8,502</b>
16 – 20 years	<b>21,795</b>	<b>5,903</b>
21 years and thereafter	<b>151,924</b>	<b>9,602</b>
<b>Total</b>	<b>238,044</b>	<b>54,102</b>

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
<b>Total</b>	<b>227,280</b>	<b>51,774</b>

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$54,102 million (2020: US\$51,774 million) plus the free surplus of US\$17,025 million (2020: US\$13,473 million) and the investment in China Post Life of US\$1,860 million (2020: nil) shown in Section 2.3 of this report is equal to the EV of US\$72,987 million (2020: US\$65,247 million) shown in Section 2.1 of this report.

**2. EMBEDDED VALUE RESULTS** (continued)**2.5 Value of New Business**

The VONB for the Group for the year ended 31 December 2021 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS consolidated financial statements. Section 4.1 of this report contains a list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 31 December 2021 was US\$3,366 million, an increase of US\$601 million, or 18 per cent, from US\$2,765 million for the year ended 31 December 2020.

**Summary of VONB by Business Unit (US\$ millions)**

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

Note:

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

**2. EMBEDDED VALUE RESULTS** (continued)**2.5 Value of New Business** (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the year ended 31 December 2021.

The VONB margin and PVNBP margin are defined as VONB, gross of non-controlling interests and excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB used in the margin calculation is gross of non-controlling interests and excludes pension business to be consistent with the definition of ANP and PVNBP.

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

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

	VONB after CoC	ANP	VONB margin	PVNBP margin
<b>Year</b>				
<b>Values for 2021</b>				
Twelve months ended 31 December 2021	<b>3,366</b>	<b>5,647</b>	<b>59.3%</b>	<b>10%</b>
<b>Values for 2020</b>				
Twelve months ended 31 December 2020	2,765	5,219	52.6%	9%
<b>Quarter</b>				
<b>Values for 2021</b>				
Three months ended 31 March 2021	<b>1,052</b>	<b>1,703</b>	<b>61.6%</b>	<b>10%</b>
Three months ended 30 June 2021	<b>762</b>	<b>1,357</b>	<b>55.7%</b>	<b>9%</b>
Three months ended 30 September 2021	<b>735</b>	<b>1,249</b>	<b>58.5%</b>	<b>9%</b>
Three months ended 31 December 2021	<b>817</b>	<b>1,338</b>	<b>60.6%</b>	<b>10%</b>
<b>Values for 2020</b>				
Three months ended 31 March 2020	841	1,483	56.6%	10%
Three months ended 30 June 2020	569	1,096	51.4%	9%
Three months ended 30 September 2020	706	1,359	51.6%	9%
Three months ended 31 December 2020	649	1,281	50.2%	9%

**2. EMBEDDED VALUE RESULTS** (continued)**2.5 Value of New Business** (continued)

The table below shows the VONB (excluding pension business), ANP, and VONB margin by Business Unit.

**Summary of VONB Excluding Pension, ANP and VONB Margin by Business Unit (US\$ millions)**

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

Note:

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

**2. EMBEDDED VALUE RESULTS** (continued)**2.6 Analysis of EV Movement**

## Analysis of Movement in EV (US\$ millions)

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

Notes:

(1) Not meaningful (n/m).

(2) The purchase price in 2021 refers to the cost of acquiring AIA Everest as per note 5 to the IFRS consolidated financial statements, and the purchase price in 2020 refers to the purchase price adjustments for the alternative arrangements with Commonwealth Bank of Australia (CBA) in relation to The Colonial Mutual Life Assurance Society Limited (CMLA) as per note 5 to the IFRS consolidated financial statements in the Company's Annual Report 2020.

(3) As at 31 August 2021.

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

**2. EMBEDDED VALUE RESULTS** (continued)**2.6 Analysis of EV Movement** (continued)

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

The VONB for the year ended 31 December 2021 is calculated at the point of sale for business written during the year. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB up to 31 December 2021. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the year and that expected based on the operating assumptions.

The operating experience variances, net of tax, increased EV by US\$451 million (2020: increased by US\$533 million), driven by:

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

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

The EV profit of US\$10,823 million (2020: US\$4,032 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances, reflecting short-term fluctuations in investment returns, arise from the impact of differences between the actual investment returns in the year and the expected investment returns. This amounted to an increase in EV of US\$1,293 million (2020: a decrease in EV of US\$1,868 million) driven by the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns.

The effect of changes in economic assumptions was an increase in EV of US\$434 million (2020: a decrease in EV of US\$1,013 million).

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

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

Foreign exchange movements reduced EV by US\$810 million (2020: increased EV by US\$1,164 million).



**2. EMBEDDED VALUE RESULTS** (continued)**2.6 Analysis of EV Movement** (continued)**Operating ROEV (US\$ millions)**

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 12.1 per cent (2020: 11.7 per cent) for the year ended 31 December 2021.

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

**2.7 EV Equity**

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

**Derivation of EV Equity from EV (US\$ millions)**

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

Note:

(1) Consistent with the IFRS consolidated financial statements. Net of tax, amounts attributable to participating funds and non-controlling interests.

**2. EMBEDDED VALUE RESULTS** (continued)**2.8 Free Surplus Generation**

## Free Surplus Generation (US\$ millions)

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

## Notes:

(1) The effect of acquisition in 2021 refers to the cost of acquiring AIA Everest of US\$397 million as per note 5 to the IFRS consolidated financial statements, less the acquired free surplus of US\$85 million. The effect of acquisition in 2020 refers to the purchase price adjustments for the alternative arrangements with CBA in relation to CMLA as per note 5 to the IFRS consolidated financial statements in the Company's Annual Report 2020.

(2) Not meaningful (n/m).

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

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

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

Investment return variances and other items amounted to US\$3,963 million (2020: US\$(3,505) million), reflecting the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns and other items, including the free surplus impacts arising from other non-operating variances as described in Section 2.6.

Unallocated Group Office expenses amounted to US\$273 million (2020: US\$173 million) in 2021.

### 3. SENSITIVITY ANALYSIS

The EV as at 31 December 2021 and the VONB for the year ended 31 December 2021 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- Equity return, property return and risk discount rates 100 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 31 December 2021 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 December 2021); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 December 2021).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 December 2021 and the values of debt instruments and derivatives held at 31 December 2021 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For the equity return, property return and risk discount rates sensitivity, the projected bonus rates on participating business were changed to be consistent with the equity return assumptions and property return assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 31 December 2021 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 31 December 2021 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

**3. SENSITIVITY ANALYSIS** (continued)

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

**Sensitivity of EV (US\$ millions)**

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

**Sensitivity of VONB (US\$ millions)**

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

## 4. METHODOLOGY

### 4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Company Limited (AIA Co.), a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International Limited (AIA International), a company incorporated in Bermuda and an indirect subsidiary of the Company. Furthermore, AIA Co. has branches located in Thailand and AIA International has branches located in Hong Kong, Macau and Taiwan.

The following is a list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co., and the business acquired by the Group from Commonwealth Bank of Australia (CBA) upon the completion of the portfolio transfer of CBA's life insurance business conducted through The Colonial Mutual Life Assurance Society Limited (CMLA) under Part 9 of the Life Insurance Act 1995 (Cth) of Australia;
- AIA Cambodia refers to AIA (Cambodia) Life Insurance Plc., a subsidiary of AIA International;
- AIA China refers to AIA Life Insurance Company Limited, a subsidiary of AIA Co.;
- AIA Hong Kong refers to the total of the following four entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong business written by AIA Co.;
  - AIA Pensions (BVI) Limited, a subsidiary of AIA Co.; and
  - AIA Everest Life Company Limited, a subsidiary of AIA Co. acquired from The Bank of East Asia, Limited (BEA);
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to AIA Life Insurance Co. Ltd., a subsidiary of AIA International;
- AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co., and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Bhd., and AIA General Berhad, a subsidiary of AIA Bhd.;
- AIA Myanmar refers to AIA Myanmar Life Insurance Company Limited, a subsidiary of AIA Co.;
- AIA New Zealand refers to AIA Sovereign Limited, a subsidiary of AIA International and the holding company of AIA New Zealand Limited;
- AIA Philippines refers to AIA Philippines Life and General Insurance Company Inc., a subsidiary of AIA Co., and its 51 per cent owned subsidiary BPI AIA Life Assurance Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and its Brunei branch;
- AIA Sri Lanka refers to AIA Insurance Lanka Limited, a subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.;
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International; and
- Tata AIA Life refers to Tata AIA Life Insurance Company Limited, an associate 49 per cent owned by AIA International.

Results are presented consistently with the segment information in the IFRS consolidated financial statements. The summary of the EV of the Group by Business Unit in this report also includes the ANW for the "Group Corporate Centre" segment, which is derived from the IFRS equity for this segment plus mark-to-market adjustments less the value of intangible assets. In the presentation of EV and VONB, the present value of withholding tax payable on future remittances from local business units is presented under the appropriate operating segment.

**4. METHODOLOGY** (continued)**4.2 Embedded Value and Value of New Business**

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB for all entities other than Tata AIA Life. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the Group is calculated based on assumptions applicable at the point of sale, after allowing for any acquisition expense overruns in excess of the relevant expense assumptions.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed as per note 23 to the Group's IFRS consolidated financial statements as at the valuation date.

The VIF is the present value of projected after-tax statutory profits by Business Units emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company, after allowing for taxes.

A deduction has been made from the EV and VONB for the present value of future after-tax unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated to the Business Units. These unallocated Group Office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India. The EV and VONB reported for Tata AIA Life are reported on a one-quarter-lag basis.

**4. METHODOLOGY** (continued)**4.3 Definition of New Business**

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group renewable business including group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds the prior year's premiums. For individually significant group cases, the VONB is calculated over each premium rate guarantee period entered upon contract inception or renewal.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For pension business, sales of new contracts during the period and any new contributions, including assets transferred in, are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using annualised new premiums (ANP), which is an internal measure of new business sales.

**4.4 Consolidation of Branches and Subsidiaries of AIA Co. and AIA International**

The Company's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities and subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements. Since 2021, the Company is also subject to the group-wide supervision (GWS) requirements implemented by the Hong Kong Insurance Authority (HKIA). AIA operates in a number of territories as branches and subsidiaries of these entities. These regulatory and other consolidated reserving and capital requirements as determined by the Group apply in addition to the relevant local requirements applicable to our Business Units, and are discussed in Section 4.6.

The EV and VONB results for the Group shown in Section 2 of this report have been adjusted to reflect the consolidated reserving and capital requirements. This approach was taken to reflect the distribution of profits from AIA Co. and AIA International after allowing for the Hong Kong, BMA, local and group-wide regulatory requirements, and other reserving and capital requirements as determined by the Group. The EV and VONB for each Business Unit reflect the local reserving and capital requirements, as discussed in Section 4.6 of this report, before a Group-level adjustment to reflect the consolidated reserving and capital requirements.

**4.5 Valuation of Future Statutory Losses**

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. There are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the consolidated reserving and capital requirements have the effect of reducing the level of any future projected statutory losses. Based on the assumptions described in Section 5 of this report, and allowing for the consolidated statutory reserving and capital requirements, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

**4. METHODOLOGY** (continued)**4.6 Capital Requirements**

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The table below sets out the Group's assumed level of capital requirement for each Business Unit:

Business Unit	Capital requirements
AIA Australia	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA New Zealand	100% of regulatory capital adequacy requirement
AIA Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	Higher of 135% of capital adequacy requirement and 80% of Tier 1 capital requirement under the regulatory Risk-Based Capital framework
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement <sup>(1)</sup>
AIA Vietnam	100% of required minimum solvency margin
Tata AIA Life	175% of required minimum solvency margin

Note:

(1) The Capital Requirement ratio assumed in the EV calculation is 120 per cent up to year-end of 2021, and 140 per cent thereafter, in line with the regulatory requirement under Thailand RBC 2.

**Capital Requirements on Consolidation**

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

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

The above regulatory reserving and capital requirements, and other consolidated reserving and capital requirements as determined by the Group, apply in addition to the relevant local requirements applicable to our Business Units.

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



**4. METHODOLOGY** (continued)**4.7 Foreign Exchange**

The EV as at 31 December 2021 and 31 December 2020 have been translated into US dollars using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US dollars using the corresponding average exchange rates for each quarter. The other components of the EV profit shown in the analysis of EV movement have been translated using average exchange rates for the period.

Change on actual exchange rates (AER) is calculated based on the translated figures as described above. Change on constant exchange rates (CER) is calculated for all figures for the current year and for the prior year, using the current year constant average exchange rates, other than for EV and its components as at the end of the current year and as at the end of the prior year, which are translated using the CER as at the end of the current year.

**4.8 Underlying Free Surplus Generation**

The free surplus is defined as the ANW in excess of the required capital after reflecting the consolidated reserving and capital requirements and the investment in China Post Life at cost. The underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items, and before free surplus used to fund new business, unallocated Group Office expenses, finance costs, investment return variances and other non-operating items. The underlying free surplus generation is also calculated after reflecting the consolidated reserving and capital requirements.

**5. ASSUMPTIONS****5.1 Introduction**

This section summarises the assumptions used by the Group to determine the EV as at 31 December 2021 and the VONB for the year ended 31 December 2021 and highlights certain differences in assumptions between the EV as at 31 December 2020 and the EV as at 31 December 2021.

**5.2 Economic Assumptions****Investment Returns**

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

The Group has set the equity return and property return assumptions by reference to the long-term return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve. Therefore, the risk discount rate and long-term investment returns are not provided for Tata AIA Life.

**5. ASSUMPTIONS** (continued)**5.2 Economic Assumptions** (continued)**Risk Discount Rates**

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit allowance for risk.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

Business Unit	Current market 10-year government bond yields referenced in EV calculations (%)	
	As at 31 December 2021	As at 31 December 2020
AIA Australia	<b>1.67</b>	0.97
AIA China	<b>2.78</b>	3.15
AIA Hong Kong <sup>(1)</sup>	<b>1.51</b>	0.91
AIA Indonesia	<b>6.38</b>	5.89
AIA Korea	<b>2.26</b>	1.72
AIA Malaysia	<b>3.58</b>	2.65
AIA New Zealand	<b>2.39</b>	0.99
AIA Philippines	<b>4.82</b>	3.00
AIA Singapore	<b>1.67</b>	0.84
AIA Sri Lanka	<b>11.71</b>	7.55
AIA Taiwan	<b>0.73</b>	0.32
AIA Thailand	<b>1.90</b>	1.28
AIA Vietnam	<b>2.08</b>	2.60

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

**5. ASSUMPTIONS** (continued)**5.2 Economic Assumptions** (continued)**Risk Discount Rates** (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The risk discount rates in 2021 reflect the weighted average of the risk margins of the in-force business at the start of 2021, and those of the new business written during 2021 which, as disclosed in the Company's Annual Report 2020, are determined at a product level starting from 2021 to better reflect the market and non-market risks associated with the mix of products sold during the reporting period. In addition, the VONB results are calculated based on start-of-quarter long-term investment return assumptions consistent with the measurement at the point of sale. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. The investment returns shown are gross of tax and investment expenses.

Business Unit	Risk discount rates assumed in EV calculations (%)			Long-term investment returns assumed in EV calculations (%)					
				10-year government bonds			Local equities		
	As at 31 Dec 2021	As at 30 Jun 2021 (Unaudited)	As at 31 Dec 2020	As at 31 Dec 2021	As at 30 Jun 2021 (Unaudited)	As at 31 Dec 2020	As at 31 Dec 2021	As at 30 Jun 2021 (Unaudited)	As at 31 Dec 2020
AIA Australia	<b>6.41</b>	6.43	6.45	<b>2.30</b>	2.30	2.30	<b>6.60</b>	6.60	6.60
AIA China	<b>9.72</b>	9.73	9.75	<b>3.70</b>	3.70	3.70	<b>9.30</b>	9.30	9.30
AIA Hong Kong <sup>(1)</sup>	<b>6.98</b>	7.00	7.00	<b>2.20</b>	2.20	2.20	<b>7.00</b>	7.00	7.00
AIA Indonesia	<b>12.98</b>	12.99	13.00	<b>7.50</b>	7.50	7.50	<b>12.00</b>	12.00	12.00
AIA Korea	<b>8.10</b>	8.10	8.10	<b>2.20</b>	2.20	2.20	<b>6.50</b>	6.50	6.50
AIA Malaysia	<b>8.56</b>	8.55	8.55	<b>4.00</b>	4.00	4.00	<b>8.60</b>	8.60	8.60
AIA New Zealand	<b>6.53</b>	6.53	6.55	<b>2.30</b>	2.30	2.30	<b>6.80</b>	6.80	6.80
AIA Philippines	<b>11.80</b>	11.80	11.80	<b>5.30</b>	5.30	5.30	<b>10.50</b>	10.50	10.50
AIA Singapore	<b>6.59</b>	6.60	6.60	<b>2.20</b>	2.20	2.20	<b>6.70</b>	6.70	6.70
AIA Sri Lanka	<b>14.70</b>	15.70	15.70	<b>9.00</b>	10.00	10.00	<b>11.00</b>	12.00	12.00
AIA Taiwan	<b>7.25</b>	7.25	7.25	<b>1.00</b>	1.00	1.00	<b>5.60</b>	5.60	5.60
AIA Thailand	<b>7.69</b>	7.75	7.80	<b>2.70</b>	2.70	2.70	<b>7.70</b>	7.70	7.70
AIA Vietnam	<b>9.16</b>	9.71	9.80	<b>3.50</b>	4.00	4.00	<b>8.80</b>	9.30	9.30

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

**5. ASSUMPTIONS** (continued)**5.3 Persistency**

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and retirement rates for pension products.

Assumptions have been developed by each of the Business Units based on their recent historical experience and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

**5.4 Expenses**

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

**Group Office Expenses**

Group Office expense assumptions have been set, after excluding non-operating expenses, based on actual acquisition and maintenance expenses in the year ended 31 December 2021. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

**5. ASSUMPTIONS** (continued)**5.5 Expense Inflation**

The expected long-term expense inflation rates used by each Business Unit are set out below:

**Expense Inflation Assumptions by Business Unit (%)**

Business Unit	As at 31 December 2021	As at 31 December 2020
AIA Australia	<b>2.05</b>	2.05
AIA China	<b>2.00</b>	2.00
AIA Hong Kong	<b>2.00</b>	2.00
AIA Indonesia	<b>3.50</b>	3.50
AIA Korea	<b>3.50</b>	3.50
AIA Malaysia	<b>3.00</b>	3.00
AIA New Zealand	<b>2.00</b>	2.00
AIA Philippines	<b>3.50</b>	3.50
AIA Singapore	<b>2.00</b>	2.00
AIA Sri Lanka	<b>6.50</b>	6.50
AIA Taiwan	<b>1.20</b>	1.20
AIA Thailand	<b>2.00</b>	2.00
AIA Vietnam	<b>4.00</b>	4.00
Tata AIA Life <sup>(1)</sup>	<b>5.75</b>	5.60

Note:

(1) For Tata AIA Life, in accordance with the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, the inflation assumption is derived by applying a spread to the reference interest rate.

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

**5. ASSUMPTIONS** (continued)**5.6 Mortality**

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Group.

For annuity products that are exposed to longevity risk, an allowance has been made for expected future improvements in mortality; otherwise no allowance has been made for mortality improvements.

**5.7 Morbidity**

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

**5.8 Reinsurance**

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in force as at the valuation date and the recent historical and expected future experience.

**5.9 Policyholder Dividends, Profit Sharing and Interest Crediting**

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's expectation of future policies, strategies and operations consistent with the investment return assumptions used in the EV results.

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

**5. ASSUMPTIONS** (continued)**5.10 Taxation**

The EV and VONB presented in this report are net of tax based on current taxation legislation. The projected corporate income tax payable in any year allows for the benefits arising from any tax loss carried forward where relevant. Where applicable, tax payable on investment income has been reflected in the projected investment returns. Any withholding tax payable on future remittances from local business units are also reflected under the appropriate operating segment.

The local corporate income tax rates used by each Business Unit are set out below:

**Local Corporate Income Tax Rates by Business Unit (%)**

Business Unit	As at 31 December 2021	As at 31 December 2020
AIA Australia	<b>30.0</b>	30.0
AIA China	<b>25.0</b>	25.0
AIA Hong Kong	<b>16.5</b>	16.5
AIA Indonesia <sup>(1)</sup>	<b>22.0</b>	22.0
AIA Korea <sup>(2)</sup>	<b>27.5</b>	27.5
AIA Malaysia	<b>24.0</b>	24.0
AIA New Zealand	<b>28.0</b>	28.0
AIA Philippines <sup>(3)</sup>	<b>25.0</b>	30.0
AIA Singapore	<b>17.0</b>	17.0
AIA Sri Lanka <sup>(4)</sup>	<b>24.0</b>	28.0
AIA Taiwan	<b>20.0</b>	20.0
AIA Thailand	<b>20.0</b>	20.0
AIA Vietnam	<b>20.0</b>	20.0
Tata AIA Life	<b>14.6</b>	14.6

## Notes:

- (1) Starting from 2020 onwards, the Indonesian government enacted a change in the corporate income tax rate from 25 per cent to 22 per cent.
- (2) AIA Korea is subject to an assumed corporate income tax of 27.5 per cent up to fiscal year 2022, which includes an Accumulated Earnings Tax following the subsidiarisation of the branch in AIA Korea. Based on current regulations, the corporate income tax rate will revert to 24.2 per cent from 1 January 2023 onwards.
- (3) During the reporting period, a change in corporate income tax rate has been enacted in the Philippines from 30 per cent to 25 per cent, and this was effective from 1 July 2020 onwards.
- (4) During the reporting period, a change in corporate income tax rate has been enacted in Sri Lanka from 28 per cent to 24 per cent, and this was effective from 1 January 2020 onwards.

**5. ASSUMPTIONS** (continued)**5.11 Statutory Valuation Bases**

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

**5.12 Product Charges**

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

**6. EVENTS AFTER THE REPORTING PERIOD**

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

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

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

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

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



### FINANCIAL CALENDAR

Announcement of 2021 Annual Results for the year ended 31 December 2021	11 March 2022
Book Close Period for the AGM	16 May 2022 to 19 May 2022 (both days inclusive)
Date of the AGM	19 May 2022
Announcement of 2022 Interim Results	25 August 2022

### ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. (Hong Kong time) on Thursday, 19 May 2022. Details of the venue and business to be transacted at the AGM are set out in the Company's circular to be issued to the shareholders of the Company for the AGM.

Details of voting results at the AGM can be found on the websites of both the Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.hk) and the Company at [www.aia.com](http://www.aia.com) on Thursday, 19 May 2022 after the AGM.

### FINAL DIVIDEND

The Board has recommended an increase of 8 per cent in the payment of a final dividend to 108.00 Hong Kong cents per share for the year ended 31 December 2021 (2020: 100.30 Hong Kong cents per share), consistent with AIA's established prudent, sustainable and progressive dividend policy.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Friday, 10 June 2022 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 25 May 2022, being the record date for determining the entitlements to the final dividend.

### RELEVANT DATES FOR THE FINAL DIVIDEND

Ex-dividend date	Tuesday, 24 May 2022
Record date	Wednesday, 25 May 2022
Payment date	Friday, 10 June 2022

### 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](mailto:aia.ecom@computershare.com.hk) (for printed copies of the Company's corporate communications)

Website: [www.computershare.com](http://www.computershare.com)

[www.computershare.com/hk/contact](http://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](mailto: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	Cecilia Ma Zecha	+852 2832 5666
Evelyn Lam	+852 2832 1633	Duke Malan	+852 2832 4726
Feon Lee	+852 2832 4704	Kitty Liu	+852 2832 1742
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.

## 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

Ms. SUN Jie (Jane)

## AUDIT COMMITTEE

Mr. Cesar Velasquez PURISIMA (*Chairman*)

Mr. John Barrie HARRISON

Mr. Jack Chak-Kwong SO

Mr. George Yong-Boon YEO

Dr. Narongchai AKRASANEE

## 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

Ms. SUN Jie (Jane)

## REMUNERATION COMMITTEE

Mr. George Yong-Boon YEO (*Chairman*)

Mr. Jack Chak-Kwong SO

Mr. Edmund Sze-Wing TSE

## RISK COMMITTEE

Ms. Swee-Lian TEO (*Chairman*)

Mr. Chung-Kong CHOW

Mr. John Barrie HARRISON

Professor Lawrence Juen-Yee LAU

Mr. Cesar Velasquez PURISIMA

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*

2010 RSU Scheme	Restricted Share Unit Scheme of the Company adopted on 28 September 2010 (as amended) under which the Company granted restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It was terminated with effect from 31 July 2020 prior to the adoption of the 2020 RSU Scheme.
2010 SO Scheme	Share Option Scheme of the Company adopted on 28 September 2010 (as amended), under which the Company granted share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It was terminated with effect from 29 May 2020 upon the adoption of the 2020 SO Scheme.
2011 ESPP	Employee Share Purchase Plan of the Company adopted on 25 July 2011 (as amended), a voluntary share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees. It was terminated with effect from 31 October 2020 (being the last day of the 2019/2020 plan year).
2012 ASPP	Agency Share Purchase Plan of the Company adopted on 23 February 2012, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents. It was terminated with effect from 31 March 2021 (being the last day of the 2020/2021 plan year).
2020 ESPP	Employee Share Purchase Plan of the Company adopted on 1 August 2020, a voluntary share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees, and is effective for a period of 10 years from the date of adoption.
2020 RSU Scheme	Restricted Share Unit Scheme of the Company adopted on 1 August 2020, under which the Company may grant restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries, and is effective for a period of 10 years from the date of adoption.
2020 SO Scheme	Share Option Scheme of the Company adopted on 29 May 2020, under which the Company may grant share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries, and is effective for a period of 10 years from the date of adoption.
2021 ASPP	Agency Share Purchase Plan of the Company adopted on 1 February 2021, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents, and is effective for a period of 10 years from the date of adoption.
active agent	An agent who sells at least one policy per month. The number of active agents is calculated as the average number of active agents across the specific period.
active market	<p>A market in which all the following conditions exist:</p> <ul style="list-style-type: none"> <li>• the items traded within the market are homogeneous;</li> <li>• willing buyers and sellers can normally be found at any time; and</li> <li>• prices are available to the public.</li> </ul> <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	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis.
AER	Actual exchange rates.
AGM	2022 Annual General Meeting of the Company to be held at 11:00 a.m. (Hong Kong time) on Thursday, 19 May 2022.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company.
AIA Everest	AIA Everest Life Company Limited, a subsidiary of AIA Co. acquired from The Bank of East Asia, Limited.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect wholly-owned subsidiary of the Company.
AIA Philippines	AIA Philippines Life and General Insurance Company Inc. (formerly known as The Philippine American Life and General Insurance (PHILAM LIFE) Company), a subsidiary of AIA Co., and its 51 per cent owned subsidiary BPI AIA Life Assurance Corporation.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
AIG	American International Group, Inc.
ALC	The AIA Leadership Centre located in Bangkok, Thailand.
amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.
annualised new premiums or ANP	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums.

Asia	Mainland China, Hong Kong SAR, Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei, Macau SAR, and India.
available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
bancassurance	The distribution of insurance products through banks or other financial institutions.
BEA	The Bank of East Asia, Limited.
BEA Life	BEA Life Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited.
BEPS 2.0	The common name for the tax policy work led by the Organisation for Economic Co-operation and Development on the "Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy".
Board	The board of Directors.
CBA	The Commonwealth Bank of Australia.
CBIRC	The China Banking and Insurance Regulatory Commission.
CER	Constant exchange rates. Change on constant exchange rates is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for balance sheet items as at the end of the current year and as at the end of the prior year, which is translated using the constant balance sheet exchange rates.
China Post Life	China Post Life Insurance Co., Ltd.
CMLA	The Colonial Mutual Life Assurance Society Limited (including its affiliated companies), one of the largest life insurance providers in Australia.
Company	AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299).
consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules, as amended from time to time.

cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.
COVID-19	COVID-19 is the disease caused by the coronavirus called SARS-CoV-2.
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, after allowing for taxes.
ExCo	The Executive Committee of the Group.



fair value through profit or loss or FVTPL	Under IAS 39, Financial Instruments: Recognition and Measurement, financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.
first year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
free surplus	ANW in excess of the required capital and the investment in China Post life at cost. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements.
group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
GWS Capital Rules	Insurance (Group Capital) Rules (Chapter 410 of the Laws of Hong Kong).
HKFRS	Hong Kong Financial Reporting Standards.
Holding company financial resources	Debt, equity shares and interests in investment funds, deposits, cash and cash equivalents and dividends paid but not settled by subsidiaries, net of obligations under repurchase agreements, at the Group's listed holding company, AIA Group Limited. These are presented in note 46 to the consolidated financial statements.
Hong Kong	The Hong Kong Special Administrative Region (SAR) of the PRC; in the context of our reportable market segments, Hong Kong includes Macau SAR.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Authority or HKIA	Insurance Authority established under the Hong Kong Insurance Ordinance.
Hong Kong Insurance Ordinance or HKIO	Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAIG	Internationally Active Insurance Group.
IAIS	International Association of Insurance Supervisors.

## ADDITIONAL INFORMATION

IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the IASB comprising: <ul style="list-style-type: none"> <li>• International Financial Reporting Standards;</li> <li>• IAS; and</li> <li>• Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).</li> </ul>
Insurance Capital Standard or ICS	A risk-based global insurance capital standard applicable to IAIGs being developed by the IAIS.
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.
liability adequacy testing	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.
LIBOR	London Interbank Offered Rate.
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time.
Local Capital Summation Model or LCSM	Local Capital Summation Method is the method to be used by the HKIA as a measure of group capital under the new Group-wide supervision (GWS) framework. Group available capital is the sum of available capital of each relevant entity within the Group. Group minimum capital requirement (MCR) is the sum of the minimum required capital of those same entities. Adjustments are made to eliminate double counting. Group LCSM surplus is the excess of Group available capital over the Group MCR. The Group LCSM cover ratio is the ratio of Group available capital to the Group MCR.
Million Dollar Round Table or MDRT	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, as amended from time to time.
n/a	Not available.
n/m	Not meaningful.
operating profit after tax or OPAT	Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The assumptions used to determine expected long-term investment return are the same, in all material respects, as those used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or operating ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or operating ROE	Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
OTC	Over-the-counter.
Other Markets	AIA's Other Markets are Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam.
other participating business with distinct portfolios	Business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.
participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation.
persistence	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
pps	Percentage points.
PRC	People's Republic of China.

## ADDITIONAL INFORMATION

PVNBP margin	VONB gross of non-controlling interests excluding pension business, expressed as a percentage of present value of new business premiums (PVNBP). PVNBP margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RSPUs	Restricted stock purchase units.
RSSUs	Restricted stock subscription units.
RSUs	Restricted share units.
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.
Shareholder(s)	Holder(s) of shares of the Company.
shareholders' allocated equity	Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve.
Singapore	The Republic of Singapore; in the context of our reportable market segments, Singapore includes Brunei.
single premium	A single payment that covers the entire cost of an insurance policy.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
SOR	Singapore Swap Offer Rate.
SOs	Share options.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA Life	Tata AIA Life Insurance Company Limited.
THBFIX	Thai Baht Interest Rate Fixing.

total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
underlying free surplus generation or UFSG	Underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items and before free surplus used to fund new business, unallocated Group Office expenses, finance costs, investment return variances and other non-operating items. The underlying free surplus generation is also calculated after reflecting consolidated reserving and capital requirements.
unit-linked investments	Financial investments held to back unit-linked contracts.
Unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
universal life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.
value of business acquired or VOBA	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits by Business Units emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.

## ADDITIONAL INFORMATION

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.



