

## SUPPLEMENTAL OFFERING CIRCULAR



**HEALTHIER, LONGER,  
BETTER LIVES**

### **AIA GROUP LIMITED**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 1299)**

**US\$10,000,000,000**

### **Global Medium Term Note and Securities Programme**

This Supplemental Offering Circular is issued to update the Offering Circular dated 13 March 2020 (the “**Original Offering Circular**”) to reflect the increase, as from the date of this Supplemental Offering Circular, in the aggregate nominal amount of the Instruments which may be issued by AIA Group Limited (the “**Issuer**”) under the Programme from US\$8,000,000,000 to US\$10,000,000,000.

Consequently, with effect from the date of this Supplemental Offering Circular, all references in the Original Offering Circular to US\$8,000,000,000 which relate to the size of the Programme shall be replaced by references to US\$10,000,000,000. This Supplemental Offering Circular is supplemental to, and should be read in conjunction with, the Original Offering Circular (together with this Supplemental Offering Circular, the “**Offering Circular**”) and all other documents that are deemed to be incorporated by reference therein in relation to the Issuer’s Programme. Save to the extent defined in this Supplemental Offering Circular, terms defined or otherwise attributed meanings in the Original Offering Circular have the same meaning when used in this Supplemental Offering Circular. References in the Original Offering Circular and this Supplemental Offering Circular to “this Offering Circular” or “the Offering Circular” mean the Original Offering Circular as supplemented by this Supplemental Offering Circular. To the extent that the Original Offering Circular is inconsistent with this Supplemental Offering Circular, the terms of this Supplemental Offering Circular shall prevail.

Application will be made to The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**” or “**HKSE**”) for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the HKSE and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, “**Professional Investors**”) only during the 12-month period from the date of the Original Offering Circular on the Hong Kong Stock Exchange. This Supplemental Offering Circular is for distribution to Professional Investors only. **Investors should not purchase the Instruments in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Instruments are only suitable for Professional Investors.**

**The HKSE has not reviewed the contents of this Supplemental Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this Supplemental Offering Circular. Listing of the Programme and the Instruments on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Instruments or the Issuer or quality of disclosure in this Supplemental Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Supplemental Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Supplemental Offering Circular.**

Arranger

Citigroup

Dealers

ANZ	BNP PARIBAS	Citigroup	Crédit Agricole CIB	Deutsche Bank	Goldman Sachs
HSBC	Morgan Stanley	MUFG	Standard Chartered Bank	Wells Fargo Securities	

## **DISCLAIMERS**

This Supplemental Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## **SIGNIFICANT / MATERIAL CHANGE**

Since 30 June 2020, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position of the Issuer and the Group.

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## RISK FACTORS

*The following section replaces the “Risk Factors” section in the Original Offering Circular.*

*Prior to making any investment decision, prospective investors should consider carefully all of the information in the Offering Circular, including but not limited to the risks and uncertainties described below. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. Additional risks and uncertainties not presently known to us or which we currently deem immaterial may arise or become material in the future and may have a material adverse effect on us, including on our ability to fulfil our obligations under the Instruments.*

*These factors are contingencies that may or may not occur. The information given is as of the date of this Supplemental Offering Circular and will not be updated after the date hereof, and is subject to the reservations in the section headed “Forward Looking Statements” in the Offering Circular.*

### RISKS RELATING TO OUR BUSINESS

**The COVID-19 pandemic, and the actions taken by governmental authorities in response to the pandemic, have adversely impacted our business, and the ultimate effect on our business, financial condition and results of operations will depend on future developments that are highly uncertain.**

The COVID-19 pandemic has caused significant economic and financial turmoil both in Asia and around the world. These conditions, including the scope, duration and severity of the spread, and the mortality and morbidity rates, may continue and worsen in the near term. We are closely monitoring developments related to the COVID-19 pandemic and related governmental authorities’ actions taken to prevent its spread to assess its impact on our business. The COVID-19 pandemic has adversely impacted our business, financial condition and results of operations, and the extent to which it might continue to do so will depend on future developments which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and the actions taken to contain or address its impact.

At this time, it is not possible to estimate the longer-term effects that the COVID-19 pandemic could have on our business. The COVID-19 pandemic and the actions taken to contain or address its impact has resulted in, and could continue to result in, a decrease in economic activity in jurisdictions where we operate, adversely affecting our business within such jurisdictions or the general economic climate. Our business operations have been disrupted by the containment measures in the jurisdictions in which we do business. Mobility and travel restrictions imposed by authorities across our markets to control the spread of COVID-19 have constrained the ability of our agents and our partnership distribution channels to conduct face-to-face sales meetings with customers, as well as the ability of our customers to renew insurance products. Our business operations may also be significantly disrupted if third-party suppliers or counterparties we transact business with are unable to work effectively or meet their obligations to us.

Increased economic uncertainty and increased unemployment resulting from the economic impacts of the spread of COVID-19 and related governmental authorities’ actions taken to prevent its spread may also result in policyholders seeking sources of liquidity and withdrawing at rates greater than we previously expected. COVID-19 could also have an adverse effect on our business due to increased mortality and, in certain cases, morbidity rates. In addition, COVID-19 has given rise to regulatory initiatives encouraging or requiring insurers to implement actions intended to assist policyholders adversely impacted by COVID-19, and we have also voluntarily provided support to our policyholders by implementing a range of initiatives. The cost of reinsurance to us for policies issued by us could increase, and we may encounter decreased availability of such reinsurance.

Changes in interest rates, reduced liquidity or a continued slowdown in Asia or in global economic conditions may adversely affect the values and cash flows of our investment portfolio. Market dislocations, decreases in observable market activity or unavailability of information, in each case,

arising from the spread of COVID-19, may make our financial statement balances and estimates and assumptions used to run our business subject to greater variability and subjectivity.

Efforts by governmental and non-governmental organisations to combat the spread and severity of the COVID-19 pandemic and related public health issues may not be effective. We also cannot predict how legal and regulatory responses to concerns about the COVID-19 pandemic and related public health issues will impact our business. Such events or conditions could result in additional regulation or restrictions affecting the conduct of our business in the future. For example, regulators in some jurisdictions have imposed restrictions on the amount of dividends that insurance companies can pay to their shareholders. As a holding company with no direct operations, we rely on dividends from our subsidiaries and our ability to service payments on the Instruments depends, in addition to assets held at the holding company, on dividends from our subsidiaries. See *“Risks Relating to the Instruments Issued Under the Programme – Our ability to service payments on the Instruments and to meet our obligations depends, in addition to assets held at the holding company, on dividends and other distributions and payments from and among our operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations”*.

**Market fluctuations and general economic conditions in the geographical markets in which we operate inherently impact our business.**

Our business is inherently subject to market fluctuations and general economic conditions in the geographical markets in which we operate. Significant market volatility, and government actions taken in response, may exacerbate some of the risks we face. Concerns about global economic conditions may continue to cause elevated levels of market volatility. This market volatility may affect the performance of various asset classes at various times. Most of our financial assets and liabilities are recorded at fair value, including trading assets and liabilities, financial assets and liabilities designated at fair value through income and loss, and securities available-for-sale. Changes in the value of securities held for trading purposes and financial assets designated at fair value through income and loss are recorded through our consolidated income statement. In addition, difficult operating conditions could reduce the demand for our products and services, reduce the returns from, or give rise to defaults or losses in, our investment portfolio, increase lapse risk and otherwise have a material adverse effect on our business, financial condition or results of operations.

**Fluctuations in interest rates and market conditions may materially and adversely affect our profitability or financial condition.**

Fixed income securities represent a significant percentage of our investment portfolio. As of 30 June 2020 and 31 December 2019, fixed income securities represented 84% and 83%, respectively, of our total investments other than those held to back unit-linked contracts (**“Policyholder and Shareholder Investments”**). During periods of declining interest rates, our average investment yield will decline as maturing investments are replaced with new investments with lower yields and coupon payments. As a result, the decline in interest rates would reduce our return on investments, which could materially reduce our profitability, regardless of whether such investments are used to support particular insurance policy obligations. For products with guaranteed return features, declines in interest rates reduce the rate of return we are able to earn on investments supporting the obligations under these products. Conversely, during periods of increasing interest rates, the fair value of our investment portfolio may decrease as a result of the decrease of the estimated fair value of fixed income investments.

The pricing of our products requires assumptions about interest rates. If actual interest rates are lower than those assumed, this could have an adverse effect on our profitability or financial condition.

A significant proportion of our profit is generated from our investment portfolio. In addition to interest rate fluctuations, fluctuations in the financial markets, including the equity and fixed income markets, affect the income derived from our investment portfolio and the values of our investment portfolio, which cause corresponding capital gains or losses. Adverse movements in the markets to which we have investment exposure could therefore have a material adverse effect on our financial condition and results of operations.

See also *“Risks Relating to Our Business – The COVID-19 pandemic, and the actions taken by governmental authorities in response to the pandemic, have adversely impacted our business, and the ultimate effect on our business, financial condition and results of operations will depend on future developments that are highly uncertain.”*

**Multi-jurisdiction operations inherently pose complex legal, political, regulatory, tax and economic risks.**

We have a presence in 18 geographical markets throughout the Asia Pacific region, which, while providing us a measure of diversity, expose us to risks associated with multi-jurisdiction operations. Certain of our operations, including those in some of the key markets in which we operate, are in countries with political uncertainties or social unrest, and developing regulatory, tax and legal frameworks that include a range of regulations on foreign investment and foreign ownership. We are subject to the regulatory oversight of a number of financial services, insurance, tax, securities and related regulators. These regulators have broad authority over our business, including ownership and shareholding structure, capital, solvency and reserving requirements, and our ability to enter new lines of business or markets or underwrite certain risks, and there may be legislative or regulatory changes in any of these requirements. In addition, multi-jurisdiction operations are subject to inherent operational risks, many of which are beyond our control. For example, minimal Mainland Chinese visitors since the beginning of the COVID-19 pandemic in early February 2020 have led to a significant reduction in VONB in Hong Kong and the impact of COVID-19 on payment methods may have made it difficult for these customers, or customers in other jurisdictions, to renew their insurance products. Our risk management policies and procedures are designed to address a broad range of risks, encompassing risks relating to insurance underwriting, investments, liquidity, operations and systems. However, failure to successfully manage all of the regulatory and other risks associated with operating in multiple jurisdictions, particularly in developing and rapidly growing countries and markets, may materially and adversely affect our business, financial condition and results of operations. Risks associated with multi-jurisdiction operations also include those arising from geopolitical uncertainties. For example, the United States recently suspended Hong Kong’s special status under the U.S.-Hong Kong Policy Act of 1992 and has imposed sanctions on certain Mainland Chinese and Hong Kong individuals. Further sanctions or other actions may be imposed or taken. As of the date of this Supplemental Offering Circular, we are unable to predict the impact of these events on Mainland China and Hong Kong or on our business.

**Our businesses are highly regulated and changes to regulation of our businesses or failure to comply with such regulations may adversely affect our business.**

We are subject to laws, rules and regulations that regulate all aspects of our business. Some of the laws, rules and regulations that we are subject to in the geographical markets in which we operate are relatively new (including laws and regulations relating to data privacy) and their interpretation and application remain uncertain. In addition, some of the products we offer contain numerous features and are subject to extensive regulation. Failure to comply with any of the applicable laws, rules and regulations, including as a result of changes to rules and regulations or the changing interpretation thereof by relevant regulators, could result in fines, an increase in expenses or capital in order to achieve compliance, suspension of our business licences or, in extreme cases, business licence revocation, each of which would have a material adverse effect on our business, financial condition and results of operations. In addition, failure to implement and maintain effective internal controls could impact the reliability of our financial statements and our ability to comply with applicable laws, rules and regulations.

**We face the risk of litigation, tax disputes, regulatory investigations and other proceedings in relation to our business.**

A substantial liability arising from a lawsuit judgement, tax dispute or a significant regulatory action against us or a disruption in our business arising from adverse adjudications in proceedings against our directors, officers or employees could have a material adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, tax dispute, regulatory action or investigation, such proceedings could significantly harm our reputation, which could materially affect our prospects and future growth.

**Actual experience may differ from assumptions used in establishing insurance contract liabilities and in product pricing, which may adversely impact our profitability.**

We establish liabilities to reflect future expected policyholder benefits and claims. We establish these liabilities and price our products based on many assumptions and estimates, including mortality and morbidity rates, policyholder behaviour, expected premiums, investment return, policy persistency, benefits to be paid and expense to be incurred, as well as macroeconomic factors such as interest rates and inflation.

Due to the nature of the underlying risks and uncertainty associated with the determination of the liabilities for unpaid benefits and claims, these amounts may vary from the estimated amounts. Significant deviations in actual experience from the assumptions made could materially and adversely affect our financial condition, results of operation and prospects.

We periodically evaluate our liabilities, net of deferred acquisition costs (“**DAC**”), based on updates to the assumptions and estimates used to establish these liabilities, as well as our actual policy benefits and claims experience. A liability adequacy test is performed at least annually. If the net liabilities initially established for future policy benefits prove insufficient, we must increase our net liabilities, which may have a material adverse effect on our business, financial condition and results of operations.

**The VONB, embedded value (“EV”) and EV Equity information we present in the Offering Circular are based on several assumptions and may vary significantly if those assumptions change.**

In order to provide investors with an additional tool to understand our economic value and business results, we have disclosed information regarding our VONB, EV and EV Equity. These measures are based on a discounted cash flow valuation using commonly applied actuarial methodologies. There is no single adopted standard for any of the form, determination or presentation of the VONB, EV or EV Equity of an insurance company. The calculation of VONB, EV and EV Equity involves assumptions regarding a number of factors, many of which are beyond our control, and actual experience may vary materially from that assumed. Moreover, because of the technical complexity involved in VONB, EV and EV Equity calculations and the fact that VONB, EV and EV Equity estimates vary materially as key assumptions are changed, investors should use special care when interpreting VONB information and EV and EV Equity results. We do not intend to update or otherwise revise these values outside of our regular reporting requirements in the future, whether as a result of new information, future events or otherwise.

**Inability to match duration of our assets and liabilities could increase our exposure to interest rate risk.**

In order to reduce our exposure to changes in interest rates, we seek to match the duration of our assets to their related liabilities. However, in some jurisdictions the availability of assets of suitable duration or alternatives in the form of derivative instruments may be restricted by applicable insurance laws, rules and regulations or market factors. If we are unable to match closely the duration of our assets and liabilities, we will be exposed to interest rate changes, which may materially and adversely affect our financial condition and results of operations.

**A reduction or perceived reduction in our financial strength could result in a loss of business and adversely affect our results.**

As of the date of this Supplemental Offering Circular, AIA Co., our principal operating subsidiary, has financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody’s; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from Standard & Poor’s. The Issuer has issuer credit ratings of A2 (Low Credit Risk) with a stable outlook from Moody’s, AA- (Very High Credit Quality) with a stable outlook from Fitch, and A (Strong) with a positive outlook from Standard & Poor’s.

Any actual or perceived reduction in our financial strength, whether due to a credit rating downgrade for any of our rated entities, a reduction in our solvency margin or some other factor, could have

material adverse effects on our business. These effects could include increased policy surrenders, an adverse impact on new sales, increased borrowing costs and loss of support from distributors and counterparties such as reinsurers, which would in turn materially and adversely affect our business, financial condition and results of operations.

**We are dependent on the performance of our distribution partners and our continuing ability to recruit, motivate and retain suitable agents and distribution partners to distribute our products.**

Our proprietary agency channel is our core distribution platform, providing us with continuity of access to customers. In addition, we have strengthened our efforts to maintain sales of life insurance products through our bancassurance channel. We cannot assure you that the efforts of our proprietary agency force, or of our bancassurance, direct marketing or other intermediated channels, will be successful. In addition, we face competition to attract and retain agency leaders and individual agents. We compete with other companies for the services of agents on the basis of our reputation, product range, compensation and retirement benefits, training, support services and financial position. Access to alternative distribution channels is subject to similar competition. Any adverse movement in any of these factors could inhibit our ability to attract and retain adequate numbers of qualified agents and adversely impact our ability to maintain and develop relationships with alternative distribution partners.

To the extent we are not able to maintain our existing distribution relationships or secure new distribution relationships, we may not be able to maintain or grow our VONB or premiums, which may materially and adversely affect our business, financial condition and results of operations.

**Agent, employee and distribution partner misconduct could harm our reputation or lead to regulatory sanctions or litigation against us.**

Agent, employee or distribution partner misconduct could result in violations of law, regulatory sanctions, litigation or serious reputational or financial harm. Such misconduct could include, among other things, misrepresenting the features or limits of our products, recommending products not suitable for particular consumers or misappropriation of client funds.

The measures that we have taken to detect and deter misconduct by our agents, employees and distribution partners may not be effective in all circumstances. We cannot assure you that any such misconduct would not have a material adverse effect on our reputation, business, financial condition and results of operations.

**Any inability to attract and retain talented professionals may adversely impact our business.**

The success of our business is dependent on our ability to attract and retain key personnel who have in-depth knowledge and understanding of the life insurance markets in which we operate.

We cannot assure you that we will be able to attract and retain qualified personnel or that our senior management or other key personnel will not retire or otherwise leave us at any time, which may materially and adversely affect our business. Our ability to attract and retain talented professionals is also subject to various factors, such as the general economic, political and social conditions of a jurisdiction, that are beyond our control.

**We are subject to the credit risk of our investment counterparties, including the issuers or borrowers whose securities or loans we hold.**

Our investment portfolio is comprised primarily of fixed income securities, and we hold significant amounts of government and governmental agency bonds and corporate bonds. As a result, we have significant credit exposure to sovereign and corporate issuers. Investment in sovereign debt obligations involves risks that may not be present in investments in debt obligations of corporate issuers. Investing in such instruments creates exposure to the direct or indirect consequences of political, governmental, social or economic changes in the countries in which the issuers are located and the creditworthiness of the sovereign. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay

interest when due in accordance with the terms of such debt, and we may have limited recourse to compel payment in the event of a default.

We also have significant risk exposure to banking and other financial institutions. Events or developments that have a negative effect on any particular industry, asset class, group of related industries, country or geographic region may have a greater negative effect on our investment portfolio to the extent that our portfolio is concentrated and our related investment counterparties are similarly affected.

In addition, we cannot assure you that we will not suffer losses due to defaults from certain counterparties related to our investment activities, such as trading counterparties, counterparties under swaps and other derivative contracts and other financial intermediaries and guarantors.

Any loss due to the failure of our investment counterparties to meet their obligations under our investments may have a material adverse effect on our financial condition and results of operations, as well as our liquidity and profitability.

**We are exposed to liquidity risk for certain of our investments.**

There may not be a liquid trading market for certain of our investments, such as privately placed fixed income securities, structured securities, private equity investments and real estate investments. The liquidity of trading markets is affected by numerous factors, including the existence of suitable buyers and market makers, market sentiment and volatility, the availability and cost of credit and general economic, political and social conditions. As of 30 June 2020 and 31 December 2019, we had total financial assets that are categorised as “Level 3”, as defined in note 23 to our 2019 audited consolidated financial statements included in the Offering Circular, in the fair value hierarchy with total fair value of US\$4,704 million and US\$4,546 million, or 2% and 2%, respectively, of total investments carried at fair value. The liquidity of these investments is affected by numerous factors, including the existence of suitable buyers and market makers, market sentiment and volatility, the availability and cost of credit and general economic, political and social conditions.

Due to the size of some of our fixed income investment holdings relative to the size and liquidity of the relevant market, our ability to sell certain securities without significantly depressing market prices, or at all, may be limited. If we were required to dispose of these or other potentially illiquid assets on short notice, we could be forced to sell such assets at prices significantly lower than the prices we have recorded in our consolidated financial statements.

**We are subject to foreign exchange rate risks.**

Because a significant portion of our assets, liabilities, revenues and expenses are currently denominated in a number of foreign currencies, which we translate to U.S. dollars for financial reporting purposes, changes in exchange rates on the translation of foreign currencies into U.S. dollars are directly reflected in our financial results. Foreign currency exchange rate fluctuations could materially adversely affect our reported results.

As each of our business units operates generally in its local currency (except for Hong Kong, which is primarily denominated in U.S. dollars) and largely matches the currencies of liabilities and assets generated locally, there is modest foreign exchange rate risk in the local currency balance sheets of our operating units. In addition, while remittances by our operating units are largely hedged during each budgeting period, we face foreign exchange rate risk arising from the minority of remittances which are not hedged at the start of each budgeting period.

In some of the geographical markets in which we operate, regulations place restrictions or controls on our ability to move currency into and out of that geographical market. This may increase our exposure to exchange rate fluctuations and impair our ability to deploy capital in the most advantageous manner, which could materially and adversely affect our financial condition and results of operations. See “– Risks Relating to the Instruments issued under the Programme – Our ability to service payments on the Instruments and to meet our obligations depends, in addition to assets held at the holding company, on dividends and other distributions and payments from and among our operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations.”

**We may need additional capital or debt financing in the future.**

To the extent our existing sources of capital are not sufficient to satisfy our needs, we may need to seek external sources. Our ability to obtain additional capital from external sources in the future is subject to a variety of uncertainties, including our future financial condition, results of operations and cash flows, regulatory considerations and general market conditions. Future debt financing, if it can be obtained, could include additional financial covenants and other terms that restrict the financial flexibility of our business.

**We may be unable to utilise reinsurance successfully.**

Our ability to obtain external reinsurance on a timely basis and at a reasonable cost is subject to a number of factors, many of which are beyond our control. In particular, certain risks that we are subject to, such as epidemics and pandemics, are difficult to reinsure. If we are unable to renew any expiring external coverage or obtain acceptable new external reinsurance coverage, our net risk exposure could increase or, if we are unwilling to bear an increase in net risk exposure, our overall underwriting capacity and the amount of risk we are able to underwrite would decrease. To the extent that we are unable to utilise external reinsurance successfully, our business, financial condition and results of operations may be materially and adversely affected.

We are also exposed to credit risk with respect to reinsurers in all lines of our insurance business. In particular, since reinsurance does not discharge our primary liability to our policyholders, a default by one or more of our reinsurers under our reinsurance arrangements would increase the financial losses arising out of a risk we have insured, which would reduce our profitability and may have a material adverse effect on our liquidity position. If our reinsurers fail to pay us on a timely basis, or at all, our business, financial condition and results of operations may be materially and adversely affected.

**New business activities present risks to our business.**

As part of our overall strategy, we may acquire certain businesses, assets and technologies, as well as develop new products and distribution channels that are complementary to our business. We may experience difficulties integrating, or be entirely unable to integrate, any investments, acquisitions, distribution arrangements or partnerships into our existing business and operations or be unable to identify successful initiatives in the future. Any such difficulties could have a material and adverse effect on our business, financial condition and results of operations.

**Our new products may be unsuccessful.**

An important factor in our continued growth is the development of innovative and profitable products. See *“Business – Our Products”*. We assess our products through our Risk Management Framework (“**RMF**”) and we use reinsurance to obtain product pricing expertise when developing new products. Nevertheless, there can be no assurance that our new products will be as successful as we intended, or at all. If our new products were unsuccessful, our business, financial condition and results of operations may be materially and adversely affected.

**An impairment in the carrying value of goodwill and other intangible assets could negatively impact our financial position or results of operations.**

Goodwill and other intangible assets are carried at book value (original costs less cumulative amortisation). These intangible assets are reviewed for impairment at least annually or more frequently if indicators are present. An impairment loss is recognised if the carrying amount of the assets exceeds its recoverable amount, which is the higher of the fair value of the assets less cost to sell and value in use. In evaluating the recoverability of such assets, management relies on a number of assumptions related to margin, growth rates, discount rates, expected performance of the business and other factors. There are inherent uncertainties related to these assumptions and management’s judgement in applying them. Furthermore, we cannot provide assurance that future market or business conditions will not result in the impairment of a portion of these intangible assets. Consequently, additional impairments may need to be taken in the future, which could negatively impact our financial position or results of operations.

Financial assets, other than those at fair value through profit or loss, also require impairment assessment on a regular basis. This assessment is done to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. Such impairments could have a material adverse effect on our financial position or results of operations.

Deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except in respect of temporary differences arising from the initial recognition of goodwill or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and which affects neither accounting nor taxable profit or loss at the time of the transaction. See note 2.15 to our 2019 audited consolidated financial statements included in the Offering Circular. Deferred tax assets are assessed periodically by management to determine if they are realisable. If, based on available information, it is more likely than not that the deferred income tax asset will not be realised, then a corresponding charge to net income will be recognised. Such charges could have a material adverse effect on our financial position or results of operations. In addition, changes in the corporate tax rates could affect the value of our deferred tax assets and may require a write-off of some of those assets.

**If actual experience versus estimates used in valuing and amortising DAC and deferred sales inducements (“DSI”) vary significantly, we may be required to accelerate the amortisation and/or impair the DAC or DSI, which could adversely affect our financial position or results of operations.**

We incur significant costs in connection with acquiring new and renewal insurance business. Costs that vary with and are primarily related to the production of new and renewal insurance business are deferred and referred to as DAC. Bonus amounts credited to certain policyholders, including day one bonuses, persistency bonuses and enhanced crediting rates, are deferred and referred to as DSI. The recovery of DAC and DSI is dependent upon the estimated future profitability of the related business. The amount of future profit or margin is dependent principally on investment returns in excess of the amounts credited to policyholders, mortality, morbidity, persistency, interest crediting rates, dividends paid to policyholders, expenses to administer the business, creditworthiness of reinsurance counterparties and certain economic variables, such as inflation. Of these factors, we anticipate that investment returns are most likely to impact the rate of amortisation of such costs. The aforementioned factors enter into management’s estimates of gross profits or margins, which generally are used to amortise such costs.

For the year ended 31 December 2019, approximately 78% of our DAC was amortised based on premiums. For such business, the amortisation is stable and relatively insensitive to experience variations. The remainder of the DAC is mostly amortised based on gross profits. If actual gross profits or margins are less than originally expected, then the amortisation of such costs would be accelerated in the period the actual experience is known and would result in a charge to income. Such adjustments could have a material adverse effect on our financial position or results of operations. See note 2.4.1 to our 2019 audited consolidated financial statements included in the Offering Circular.

**A failure in our or any outsourced information technology systems may adversely affect our operations.**

Our business depends heavily on the ability of our information technology systems to process a large number of transactions across different geographical markets and numerous product lines on a timely basis. The proper functioning of our financial controls, accounting, customer database, customer service and other data processing systems, including those relating to underwriting and claims processing functions, together with the communications systems linking our headquarters, local operating units and main information technology centres, is critical to our operations and to our ability to compete effectively. Although we maintain a network of disaster recovery facilities designed to be activated in place of primary facilities in the event of failure, we cannot assure you that our business activities would not be materially disrupted in the event of a partial or complete failure of any of these or other information technology or communications systems. A failure of our information technology or communications systems could damage our reputation and have a material adverse effect on our business, financial condition and results of operations.

In addition, we have entered into contractual outsourcing arrangements with third-party service providers for some of our information technology systems. These service providers, and their respective outsourcing arrangements, may perform poorly, may experience malfunctions or failures to their information technology systems and could be subject to human error, security breaches or employee misconduct, among other things. Any of these events could disrupt our business, damage our reputation and have a material adverse effect on our business, financial condition and results of operations.

**Cyber-attacks or other security breaches of our computer systems or computer systems maintained by others and the failure to maintain the confidentiality of customer or proprietary business information could damage our reputation, lead to regulatory sanctions and legal claims or a loss of customers and revenues.**

We process significant amounts of confidential and proprietary information on our computer systems, including customer transactional data and personal data about our employees, agents and customers and the employees and customers of our customers. We face many of the current cybersecurity threats to financial services organisations that come from email, web browsing, application and endpoint compromise, for example using malware, ransomware and phishing attacks. We remain vigilant and focused on identification of new cybersecurity threats and have implemented advanced protection and monitoring capabilities, as well as a dedicated Cyber Security Incident Response Team to respond in the event a major cyber-attack succeeds in breaching our defences. We also rely on commercial technologies and employees, agents and third parties to maintain the security of our information systems and the confidentiality of customer and proprietary business information, and are subject to the risk of intentional or unintentional disclosure or misappropriation of personal information or other confidential information. To date we have not experienced a material breach of our information systems, although we can give no assurances that the protections we have implemented will prevent a material loss of confidential and proprietary information in the future, particularly as we execute an increasing volume of sales through our remote sales capabilities. Any compromise of the security of our information systems or the failure to maintain the confidentiality or privacy of sensitive data, including personal information relating to our customers, employees and agents for any reason could cause significant interruptions in our operations, harm our reputation, subject us to regulatory sanctions and legal claims, lead to a loss of customers and revenues and otherwise adversely affect our business, financial condition or results of operations.

In addition, our business could be harmed indirectly by cyber-attacks or security breaches to computer systems maintained by others. We cannot assure you that cyber-attacks or security breaches to computer systems maintained by others could not have a material adverse effect on our business, financial condition or results of operations.

**Catastrophic events, which are unpredictable by nature, could materially and adversely affect our profitability and financial condition.**

Events such as epidemics, pandemics (including COVID-19), as well as restrictions on travel and other measures to limit their impact, international tensions in many parts of the world, terrorism, ongoing and future military and other actions, heightened security measures in response to these threats, natural disasters, impacts from climate change or other catastrophes may cause disruptions to commerce, reduced economic activity and market volatility and have an adverse effect on our business. Our life insurance business also exposes us to claims arising out of such events, in particular to the risk of catastrophic mortality, such as an epidemic, pandemic or other events that cause a large number of claims and/or increase in reserves and capital requirements.

In accordance with IFRS, we do not establish reserves for catastrophes in advance of their occurrence, and the loss or losses from a single catastrophe or multiple catastrophes could materially and adversely affect our business, financial condition and results of operations.

*See "Risks Relating to Our Business – The COVID-19 pandemic, and the actions taken by governmental authorities in response to the pandemic, have adversely impacted our business, and the ultimate effect on our business, financial condition and results of operations will depend on future developments that are highly uncertain."*

**Certain amounts presented in the Offering Circular are for the thirteen months ended or as of 31 December 2018 and for the year ended or as of 30 November 2017, and such periods may not be directly comparable.**

In February 2018, the Board resolved to change our financial year-end date from 30 November to 31 December. The 2018 audited consolidated financial statements adopting the new year-end date is for the thirteen months ended 31 December 2018. To facilitate a meaningful comparison of our performance in 2019, 2018 and 2017, we also report supplementary financial information on a calendar year basis covering the twelve months ended 31 December 2018 and the twelve months ended 31 December 2017, which is set out in notes 48 and 47 to our 2019 and 2018 audited consolidated financial statements, respectively, included in the Offering Circular. Embedded value information is provided as of and for the year ended 31 December 2019, with comparative information as of and for the years ended 31 December 2018 and 2017, and as of and for the year ended 30 November 2017. We have also provided information as of and for the year ended 30 November 2017, derived from our audited consolidated financial statements as of and for the thirteen months ended 31 December 2018 included in the Offering Circular.

Unless otherwise specified herein, information provided for 2019 is as of and for the year ended 31 December 2019, with comparative information provided as of and for the twelve months ended 31 December 2018 and 2017, respectively, as set out in note 48 to our 2019 audited consolidated financial statements and note 47 to our 2018 audited consolidated financial statements, included in the Offering Circular.

However, in certain sections of the *Management's Discussion and Analysis of Financial Statements and Results of Operations* and *Business* where supplemental financial information on a calendar year basis covering the twelve months ended 31 December 2018 and 2017 is not available, we present financial information for the year ended 31 December 2019 as compared to the thirteen months ended or as of 31 December 2018 and the year ended or as of 30 November 2017. In such instances, the amounts presented are for different operating periods and may not be directly comparable.

## **RISKS RELATING TO OUR INDUSTRY**

### **We face significant competition.**

We face significant competition in all of the geographical markets in which we operate. Our ability to compete is based on a number of factors, including premiums charged and other terms and conditions of coverage, product features, investment performance, services provided, distribution capabilities, scale, experience, commission structure, brand strength and name recognition, information technology and actual or perceived financial strength. In addition, in some of our markets, domestic insurance companies or foreign insurance companies that partner with domestic companies may benefit from different regulations or licensing requirements that may give them a competitive advantage. From time to time new regulations are passed that can allow for other competitors, including insurance companies, mutual fund companies, banks, investment management firms and technology companies, to enter the geographical markets in which we operate. To the extent regulatory changes lead to an increase in the number of players in our markets, competition may increase. The effects of competition could have a material adverse effect on our business, results of operations and financial condition. See "*Business – Competition*".

### **Compliance with solvency and capital requirements may force us to raise additional capital, change our business strategy or reduce our growth.**

Insurance companies are generally required by applicable law to maintain their solvency capital at a level in excess of statutory minimum standards. Our solvency is affected primarily by the solvency margins we are required to maintain, which are in turn affected by the volume and type of new insurance policies we sell, the composition of our in-force insurance policies and investments and by regulations on the determination of statutory reserves. Our solvency is also affected by a number of other factors, including the profit margin of our products, returns on our assets and investments, interest rates, underwriting and acquisition costs and policyholder and shareholder dividends.

In recent years, the insurance regulators in many of our markets have implemented, or announced their intention to implement, enhanced capital and solvency frameworks. Currently, the regulatory frameworks in Mainland China, Thailand, Singapore, Malaysia, Australia, Indonesia, South Korea, the Philippines, Taiwan (China) and Sri Lanka use a risk-based capital (“RBC”) regime. In addition, under the guidance of the Hong Kong Insurance Authority (“HKIA”), work continues towards a risk-based capital regime, which we expect will become effective from 1 January 2024. The Hong Kong risk-based capital regime is fundamentally different from the existing Solvency 1 regime. Depending on the final rules, the capital position of the Group could be adversely affected. The HKIA has also been developing a Group-Wide Supervision (“GWS”) framework in Hong Kong. It is anticipated that the GWS solvency framework will be based on a “Summation Approach”, whereby published group-level available and required capital will be calculated based on the sum of the available and required capital according to the local regulatory requirements for the relevant supervised entity, with the HKIA having the ability to vary the group capital requirement such that it is commensurate with the risks associated with the group. For a more detailed discussion about RBC and GWS, see “*Interim Results – Regulatory Developments*”.

In addition, the International Association of Insurance Supervisors (“IAIS”) has undertaken a number of initiatives that seek to foster a globally consistent framework for principles-based insurance regulation. Among other things, the IAIS initially adopted the “Insurance Core Principles” on 1 October 2011 to serve as guidance for insurance regulators, amended certain Insurance Core Principles due to its multi-year review of the Insurance Core Principles and adopted the Common Framework (“ComFrame”) for the regulation of Internationally Active Insurance Groups (“IAIG”) on 14 November 2019. As part of ComFrame, the IAIS is developing a risk-based group-wide global insurance capital standard (“ICS”). The Group has been designated as an IAIG. Field testing for the ICS was completed in 2019 with implementation of the ICS to be conducted in two phases. Under the first phase, ICS will be used for confidential, non-public reporting to group-wide supervisors in a monitoring period lasting five years. As the purpose of the monitoring period is to monitor the performance of the ICS over a period of time and not the capital adequacy of IAIGs, we do not anticipate reporting our ICS externally. It is also anticipated that the ICS will continue to evolve over the monitoring period. The second phase, beginning in 2025, will be implementation of the ICS as a group-wide prescribed capital requirement. Given the preliminary and uncertain nature of many of the IAIS proposals, we are continuing to assess the extent to which the Group would be affected by such initiatives if they are eventually implemented.

In order to comply with applicable solvency and capital requirements, or future changes to these requirements, we may need to transfer additional capital from a particular geographical market to another geographical market or raise or inject additional capital to meet our solvency and capital requirements, which may be dilutive to our shareholders. We may also need to change our business strategy, including the types of products we sell and how we manage our capital. Finally, compliance with solvency and capital requirements may require us to slow the growth of our business.

**Insurance companies are subject to laws and regulations which give priority to policyholders.**

In some of the geographical markets in which we operate, laws and regulations applicable to insurance companies contain provisions whereby policyholders are given priority over the claims of other creditors. This protection could adversely impact the claims of creditors of insurance companies other than policyholders.

**Government measures and regulations in response to financial and other crises may materially and adversely affect our business.**

In 2008, global financial and credit markets experienced extraordinary levels of volatility and disruption, putting downward pressure on financial and other asset prices generally and on credit availability. In response, governments and governmental and regulatory bodies in numerous jurisdictions have taken various measures in response to the problems faced by financial institutions, including insurance companies. These measures include increased regulatory scrutiny of, as well as restrictions on, the business and operations of certain financial institutions. For example, the Financial Institutions (Resolution) Ordinance (the “FIRO”) was passed by the Legislative Council on 22 June 2016 and came into force on 7 July 2017. The key provisions under the FIRO, including the establishment of a resolution regime which aims to promote and maintain the stability and effective

working of the Hong Kong financial system, protect depositors and policyholders, minimise the need for recourse to public funds and contain costs of resolution, will apply to all financial institutions. Legislation was passed in July 2015 to provide for the creation of an independent insurance authority and the HKIA took over the regulation of insurers from 26 June 2017. For more information, see “*Regulation – Regulatory Framework – Hong Kong*”. These measures, and related laws, rules and regulations, may change from time to time, and we cannot assure you that future legislative or regulatory changes would not have a material adverse effect on our business, financial condition and results of operations.

**Changes in taxation may materially and adversely affect our business, financial condition and results of operations.**

Our business and operations are subject to the tax laws and regulations of the countries and markets in which they are organised and in which they operate. Changes in tax laws, tax regulations or interpretations of these laws or regulations may have a material adverse effect on our business, financial condition and results of operations. These changes also could materially reduce the sales of some of our products. We cannot predict whether any tax laws or regulations impacting corporate taxes or insurance products will be enacted, what the specific terms of any such laws or regulations will be or whether, if at all, any laws or regulations would have a material adverse effect on our business, financial condition and results of operations. The recent decision of the United States to suspend the special status of Hong Kong may also adversely affect us, including possible adverse changes to our reporting and other obligations under FATCA (as defined below).

**Changes in accounting standards may adversely affect the Group’s financial condition.**

The consolidated financial statements of the Group are prepared in accordance with all applicable HKFRS and IFRS. IFRS is substantially consistent with HKFRS and the accounting policy selections that AIA has made in preparing these consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. Accordingly, from time to time the Group is required to adopt new or revised accounting standards as accounting standard setters issue new guidance which further interprets or seeks to revise accounting pronouncements and expand disclosure requirements. It is possible that future accounting standards could change, which could have a material adverse effect on AIA’s financial condition and results of operations. In particular, two key accounting standard changes are currently underway – IFRS 17, *Insurance Contracts* and IFRS 9, *Financial Instruments*.

IFRS 17, *Insurance Contracts*, issued by the IASB in 2017 with an original effective date of 1 January 2021 and subsequently deferred to 1 January 2023, will replace the current IFRS 4. 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. IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. The final amendments to the standard were issued by the IASB in June 2020.

IFRS 9, *Financial Instruments*, replaced IAS 39 and was effective for AIA’s financial year ended 31 December 2019. However, because its activities are predominantly connected with insurance, AIA is eligible for and has elected to apply the temporary option to defer the application of IFRS 9 until 1 January 2023 to align with that of IFRS 17, in order to implement the changes in parallel with IFRS 17. IFRS 9 addresses several aspects of accounting for financial instruments, including the classification, recognition and measurement of financial assets and financial liabilities.

The Group is in the process of implementing both standards, including the final amendments to IFRS 17, targeting the effective date of 1 January 2023. As of the date of this Supplemental Offering Circular, the impact of the changes is not known. However, the changes could have a material adverse effect on our results of operations in the future.

**LIBOR reform may adversely affect the interest rates on and value of certain derivatives and floating rate securities we hold and any other assets or liabilities whose value may be tied to LIBOR.**

Actions by regulators or law enforcement agencies, as well as ICE Benchmark Administration (the current administrator of LIBOR) may result in changes to the way LIBOR is determined or the establishment of alternative reference rates. For example, on 27 July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, and it subsequently announced on 12 July 2018 that LIBOR may cease to be a regulated benchmark under Regulation (EU) 2016/1011. On 22 June 2017, the Alternative Reference Rates Committee (“ARRC”) convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (the “NY Federal Reserve”) identified the Secured Overnight Funding Rate (“SOFR”) as the rate that, in the consensus view of the ARRC, represented best practice for use in certain new U.S. dollar derivatives and other financial contracts. On 25 April 2019 the ARRC released recommended model SOFR fallback provisions. However, the introduction of any such alternative to LIBOR, including SOFR, does not necessarily mean that the broader market will adopt it.

Plans for alternative reference rates for other currencies have also been announced. At this time, it is not possible to predict how markets will respond to the transition away from LIBOR, and the effect of any changes or reforms to LIBOR or discontinuation of LIBOR on new or existing financial instruments to which we have exposure. Industry participants across the derivatives, bonds, loans and securitisation segments of the capital markets are engaged in various market initiatives, which aim to develop and implement consensual fall back methodologies and associated documentary solutions in the case of LIBOR and other interbank benchmark interest rates. If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, interest rates on certain derivatives and floating rate securities we hold and any other assets or liabilities whose value is tied to LIBOR, may be adversely affected. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of such instruments.

#### **RISKS RELATING TO THE INSTRUMENTS ISSUED UNDER THE PROGRAMME**

**Our ability to service payments on the Instruments and to meet our obligations depends, in addition to assets held at the holding company, on dividends and other distributions and payments from and among our operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations.**

We are a holding company. Other than the assets held at the holding company, we depend upon dividends and other distributions and payments from subsidiaries and branches of subsidiaries for substantially all of our cash flow. Our assets are held by these subsidiaries and branches of subsidiaries. Our ability to pay our expenses and meet our obligations, including payments on the Instruments issued under the Programme, is largely dependent upon the flow of funds from and among our subsidiaries and branches of subsidiaries. We cannot assure you that our subsidiaries and branches of subsidiaries will be able to make dividend payments and other distributions and payments in an amount sufficient to meet our cash requirements or to enable us to make payment under the Instruments.

The payment on the Instruments issued under the Programme and other distributions and payments from and among our subsidiaries and branches of subsidiaries are regulated by applicable insurance, foreign exchange and tax laws, rules and regulations. The amount and timing of dividends, distributions and other payments by our subsidiaries or branches of subsidiaries may require regulatory approval in certain jurisdictions, the confirmation of the relevant appointed actuary and the approval of the board of directors of the relevant entity, any of which may prohibit the payment of dividends or other distributions and payments by our insurance subsidiaries and branches of subsidiaries if they determine that such payment could be adverse to the interests of policyholders or contract holders of the relevant subsidiary or branch. Distributions and other payments by our subsidiaries and branches could also be subject to relevant taxation, regulations regarding the repatriation of earnings, monetary transfer restrictions and foreign currency exchange regulations.

For a more detailed discussion of the regulations in our Key Segments that may require our subsidiaries to meet certain solvency or other financial requirements and receive regulatory approval to pay dividends to us, see “Regulation”.

In addition, in response to the COVID-19 pandemic, regulators in some jurisdictions have imposed restrictions on the amount of dividends that insurance companies can pay to their shareholders. See *“Risks Relating to Our Business – The COVID-19 pandemic, and the actions taken by governmental authorities in response to the pandemic, have adversely impacted our business, and the ultimate effect on our business, financial condition and results of operations will depend on future developments that are highly uncertain.”*

**The Instruments may not be a suitable investment for all investors.**

Each potential investor in the Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in the Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including where principal, interest or distribution is payable in one or more currencies, or where the currency for principal, interest or distribution payments is different from the potential investor’s currency;
- understand thoroughly the terms of the Instruments and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Instruments may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser’s overall portfolios. A potential investor should not invest in Instruments which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Instruments will perform under changing conditions, the resulting effects on the value of such Instruments and the impact this investment will have on the potential investor’s overall investment portfolio.

Additionally, the investment activities of some investors are subject to legal investment laws and regulations, or review or regulation by some authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Instruments are legal investments for it, (b) the Instruments can be used as collateral for various types of borrowing or (c) any other restrictions apply to its purchase of the Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Instruments under any applicable RBC or similar rules.

**The Terms and Conditions of the Instruments may be modified without the consent of the Noteholders and Securityholders (collectively, the “Instrumentholders”) in certain circumstances.**

The Conditions of the Instruments contain provisions for calling meetings of Instrumentholders to consider and vote on matters affecting their interests generally. These provisions permit defined voting majorities to modify certain terms and conditions governing the Instruments. If the requisite number of Instrumentholders vote to modify terms and conditions of the Instruments, the modified terms will apply to all Instruments and bind all Instrumentholders including Instrumentholders who did not attend and vote at the relevant meeting and Instrumentholders who voted in a manner contrary to the majority. As a result, you may find that the modified terms and conditions of the Instruments are

not as favourable to you as you would deem appropriate. See “*Terms and Conditions of the Notes – Meetings of Noteholders and Modifications*” and “*Terms and Conditions of the Securities – Meetings of Securityholders and Modifications*”.

**A change in English and Hong Kong law which governs the Instruments may adversely affect Instrumentholders.**

The Conditions of the Instruments are governed by English law in effect as of the date of issue of the Instruments, except in relation to certain Securities Conditions, which are governed by Hong Kong law. No assurance can be given as to the impact of any possible judicial decision or change to English or Hong Kong law or administrative practice after the date of issue of the Instruments.

**The Instruments may be represented by Global Instruments, and holders of a beneficial interest in a Global Instrument must rely on the procedures of the relevant Clearing System(s).**

The Instruments issued under the Programme may be represented by one or more Global Instruments. Such Global Instruments will be, in the case of Rule 144A Global Instruments, registered in the name of Cede & Co., as nominee of, and as deposited with a custodian for, DTC and, in the case of Regulation S Global Instruments, registered in the name of a nominee of, and deposited with a common depository for, Euroclear and Clearstream, Luxembourg or lodged with the CMU Service (each of DTC, Euroclear, Clearstream, Luxembourg and the CMU Service, a “**Clearing System**”). Except in the circumstances described in the relevant Global Instrument, investors will not be entitled to receive Definitive Instruments. The relevant Clearing Systems will maintain records of the beneficial interests in the Global Instruments. While the Instruments are represented by one or more Global Instruments, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Instruments are represented by one or more Global Instruments, we will discharge our payment obligations under the Instruments by making payments to the depository for DTC, Euroclear and Clearstream, Luxembourg or, as the case may be, to the CMU Service, for distribution to their account holders. A holder of a beneficial interest in a Global Instrument must rely on the procedures of the relevant Clearing Systems to receive payments under the Instruments. We have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Instruments.

Holders of beneficial interests in the Global Instruments will not have a direct right to vote in respect of the Instruments. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing Systems to appoint appropriate proxies.

**Instrumentholders should be aware that Definitive Instruments which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.**

Instruments may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Instruments may provide that, for so long as the Instruments are represented by a Global Instrument and the relevant Clearing Systems so permit, the Instruments will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Instruments will only be issued if the relevant Clearing Systems are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business. The Pricing Supplement may provide that, if Definitive Instruments are issued, such Instruments will be issued in respect of all holdings of Instruments equal to or greater than the minimum denomination. However, Instrumentholders should be aware that Definitive Instruments that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Instruments will in no circumstances be issued to any person holding Instruments in an amount lower than the minimum denomination and such Instruments will be cancelled and holders will have no rights against us (including rights to receive principal, interest or distribution, or to vote) in respect of such Instruments.

**The Terms and Conditions of the Instruments permit us to issue further instruments that form a single series with the Instruments but are treated as a separate series for U.S. federal income taxes purposes, which may affect the market value of the Instruments.**

We may, from time to time, without the consent of the Instrumentholders of a series, create and issue further instruments having the same terms and conditions as the Instruments of such series so as to be consolidated and form a single series with such Instruments. Even if such additional instruments are treated for non-tax purposes as part of the same series as such Instruments, such additional instruments may in some cases be treated as a separate series for U.S. federal income tax purposes. In such case, such additional instruments may be considered to have been issued with original issue discount (“OID”) for U.S. federal income tax purposes even if such Instruments were not issued with OID, or such additional instruments may have a different amount of OID than such Instruments for U.S. federal income tax purposes. These differences may affect the market value of the Instruments of the affected series if such additional instruments are not otherwise distinguishable from such Instruments.

**Under certain circumstances, payments on the Instruments may be subject to U.S. information reporting and withholding tax under FATCA.**

Under the Foreign Account Tax Compliance Act provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), and related U.S. Treasury guidance (“FATCA”), a withholding tax of 30% will be imposed in certain circumstances on (a) payments of certain U.S. source income (including interest and dividends) (“withholdable payments”) and (b) payments made by certain foreign financial institutions (“FFIs”) that agree to comply with FATCA (“participating FFIs”) to the extent attributable to withholdable payments (“foreign passthru payments”). It is uncertain at present when payments will be treated as “attributable” to withholdable payments. FATCA withholding on foreign passthru payments generally will not apply to debt obligations that are issued on or before the date that is six months after the date on which the final U.S. Treasury regulations that define foreign passthru payments are filed with the U.S. Federal Register (such date that is six months after the date of such filing, the “Grandfathering Date”), unless such obligations are materially modified after that date or are not treated as debt for U.S. federal income tax purposes.

It is possible that, in order to comply with FATCA, we (or if the Instruments are held through another financial institution, such other financial institution) may be required, pursuant to an agreement with the U.S. Internal Revenue Service (the “IRS”) or under applicable non-U.S. law enacted in connection with an intergovernmental agreement relating to FATCA entered into between the United States and another jurisdiction (an “IGA”) to request certain information or documentation from holders or beneficial owners of the Instruments, which may be provided to the IRS. In addition, (a) if the Instruments are treated as debt for U.S. federal income tax purposes and are issued after the Grandfathering Date, or (b) if the Instruments are treated as debt for U.S. federal income tax purposes and are issued on or before the Grandfathering Date, but the terms of such Instruments are materially modified after the Grandfathering Date or (c) if the Instruments are treated as equity for U.S. federal income tax purposes, then it is possible that we or such other financial institution may be required to apply FATCA withholding to all or a portion of payments with respect to such Instruments made on or after the date that is two years after the date on which the final regulations that define foreign passthru payments are published in the U.S. Federal Register if such information or documentation is not provided or if payments are made to certain FFIs that have not agreed to comply with an agreement with the IRS (and are not subject to similar requirements under applicable non-U.S. law enacted in connection with an IGA). We will not have any obligation to gross up or otherwise pay additional amounts for any withholding or deduction required with respect to payments on the Instruments under or in connection with FATCA.

Although the United States and Hong Kong have entered into an IGA (the validity of which is unclear as a result of the recent decision of the United States to suspend the special status of Hong Kong), the IGA does not address withholding on foreign passthru payments.

Each non-U.S. person considering an investment in the Instruments, particularly if such person may be classified as an FFI, should consult its own tax adviser regarding the application of FATCA to the Instruments. The foregoing discussion does not describe the FATCA considerations of an Instrument that is an Index Linked Interest Note or an Index Linked Redemption Note.

**Bearer Instruments where denominations involve integral multiples may be traded in amounts that are not integral multiples of the minimum Specified Denomination (as defined in the relevant Pricing Supplement).**

In relation to any issue of Bearer Instruments which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Instruments may be traded in amounts that are not integral multiples of such minimum Specified Denomination.

In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Instrument in respect of such holding (should Definitive Instruments be printed) and would need to purchase a principal amount of Instruments such that its holding amounts to a Specified Denomination. If Definitive Instruments are issued, each potential investor should be aware that Definitive Instruments which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

**Changes in market interest rates may adversely affect the value of Instruments which bear a fixed rate of interest or distribution.**

We expect that the trading price of the Instruments which bear a fixed rate of interest or distribution will depend on a variety of factors, including the interest rate environment. Each of these factors may be volatile, and may or may not be within our control. If interest rates, or expected future interest rates, rise during the term of the Instruments which bear a fixed rate of interest or distribution, the trading price of the Instruments which bear a fixed rate of interest or distribution will likely decrease. Because interest rates and interest rate expectations are influenced by a wide variety of factors, many of which are beyond our control, we cannot assure you that changes in interest rates or interest rate expectations will not adversely affect the trading price of the Instruments which bear a fixed rate of interest or distribution.

#### **RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES**

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

**Notes subject to optional redemption by us may have a lower market value than Notes that cannot be redeemed.**

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that we would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or any political subdivision thereof or any authority therein or thereof having power to tax, we may redeem all outstanding Notes in accordance with the Conditions. Notes may also be subject to optional redemption by us to the extent set forth in the Conditions and the relevant Pricing Supplement.

An optional redemption feature is likely to limit the market value of Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may be expected to redeem Notes when our cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

**Notes carrying an interest rate which may be converted from fixed to floating interest rates, and vice-versa, may have lower market values than other Notes.**

Fixed/Floating Rate Notes may bear interest at a rate that we may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of such Notes since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If we convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

**The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.**

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared with conventional interest-bearing securities with comparable maturities.

**Dual Currency Notes have features which are different from single currency issues.**

We may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Each potential investor should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

**Failure by a potential investor to pay a subsequent instalment of partly-paid Notes may result in it losing all of its investment.**

We may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in a potential investor losing all of its investment.

**The market price of Floating Rate Notes with a multiplier or other leverage factor may be volatile.**

Notes with floating interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

**There are various risks associated with Index Linked Notes.**

We may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). Each potential investor should be aware that:

- the market price of such Notes may be volatile and may be linked to factors other than our credit;

- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations.

In general, the earlier the change in the Relevant Factor, the greater the effect on yield. The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

**Variable Rate Notes with a multiplier or other leverage factor can be volatile investments.**

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

**RISKS RELATING TO THE SECURITIES**

**The Subordinated Securities and the Deeply Subordinated Securities are subordinated obligations.**

The obligations of the Issuer under the Subordinated Securities and the Deeply Subordinated Securities will constitute unsecured and subordinated obligations of the Issuer. In the event of the Winding-Up of the Issuer, the rights of the holders of Subordinated Securities and the Deeply Subordinated Securities to receive payments in respect of the Subordinated Securities, will rank senior to the holders of its Junior Obligations and *pari passu* with the holders of its Parity Obligations, but junior to the claims of all other creditors, including, all Senior Creditors (including, for the avoidance of doubt, the holders of the Senior Perpetual Securities and the Notes (and in the case of the Deeply Subordinated Securities, the Subordinated Securities)). In the event of a shortfall of funds or a Winding-Up, an investor in the Subordinated Securities and the Deeply Subordinated Securities may lose all or some of its investment and will not receive a full return of the principal amount or any unpaid Arrears of Distribution.

**Perpetual Securities may be issued for which investors have no right to require redemption.**

Perpetual Securities are perpetual and have no maturity date. Perpetual Securityholders have no right to require the Issuer and the Issuer is under no obligation to redeem Perpetual Securities at any time, and an investor who acquires Perpetual Securities may only dispose of such Perpetual Securities by sale. Perpetual Securityholders who wish to sell their Perpetual Securities may be unable to do so at a price at or above the amount they have paid for them, or at all. Therefore, holders of Perpetual Securities should be aware that they may be required to bear the financial risks of an investment in Perpetual Securities for an indefinite period of time.

**Securityholders may not receive Distribution payments if the Issuer elects to or is required to defer or cancel Distribution payments under the Securities Conditions.**

The Issuer may, at its sole discretion and subject to certain conditions as set out in the Securities Conditions and, where applicable, as specified in the applicable Pricing Supplement, elect to or may be required to defer or cancel any scheduled Distribution on the Securities for any period of time. The Issuer is not subject to any limits as to the number of times Distributions can be deferred pursuant to the Securities Conditions, subject to compliance with certain restrictions.

Following a deferral, Arrears of Distributions may be compounding or non-compounding, subject to the Securities Terms and Conditions and the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Securityholders. Any such deferral of Distribution shall not constitute a default for any purpose.

Following a cancellation, Distributions are non-compounding and any Distribution that is cancelled shall therefore not be payable at any time thereafter, whether in a Winding-Up or otherwise.

Any deferral or cancellation of Distribution may have an adverse effect on the market price of the Securities. In addition, if the Distribution deferral or cancellation provision of the Securities is specified in the applicable Pricing Supplement, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Group's financial condition.

**The Securities may be redeemed at the Issuer's option on the date(s) specified in the relevant Pricing Supplement or on the occurrence of certain other events.**

The Securities will be redeemable at the option of the Issuer on certain dates as specified in the applicable Pricing Supplement. The date(s) on which the Issuer elects to redeem the Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the Securityholders. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

**There are limited remedies for default under the Securities.**

Any scheduled Distribution will not be due if, as provided for in the relevant Pricing Supplement, the Issuer elects or is required not to pay all or a part of that distribution pursuant to the Securities Conditions. Notwithstanding any of the provisions relating to payment defaults, the right to institute Winding-Up proceedings is limited to circumstances where payment under the Securities has become due and the Issuer fails to make the payment when due. The only remedy against the Issuer available to any Securityholder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be proving in such Winding-Up and/or claiming in the liquidation of the Issuer in respect the Securities. The right to proving and/or claiming in Winding-Up in respect of any of the Issuer's payment obligations arising from the Securities is limited to circumstances provided by applicable law.

**The Issuer may raise or redeem other capital which affects the price of the Securities.**

The Issuer may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount or type of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Securityholders on a Winding-Up or may increase the likelihood of a deferral or cancellation of Distributions under the Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of Securityholders to sell their Securities.

**The Issuer may issue or incur other liabilities.**

In addition, subject to the limit on the aggregate principal amount of Securities that can be issued under the Programme (which can be amended from time to time by the Issuer without the consent of the Securityholders), there is no restriction on the amount of unsubordinated securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the

Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by holders of Securities on a winding-up of the Issuer and/or may increase the likelihood of a non-payment under the Securities.

**The insolvency laws of Hong Kong may differ from those of other jurisdictions with which the Holders of the Securities are familiar.**

The Issuer is incorporated under the laws of Hong Kong, and any insolvency proceeding relating to the Issuer would likely involve Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of insolvency laws of jurisdictions with which the Holders of the Securities are familiar. The Issuer cannot give any assurance that any deferred Distributions would constitute a claim under applicable insolvency laws of Hong Kong with the same ranking as would be afforded to such deferred Distributions in other jurisdictions.

**RISKS RELATING TO THE MARKET GENERALLY**

Set out below is a brief description of certain market risks, including liquidity risk, foreign exchange rate risk, interest rate risk and credit risk:

**Instruments issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.**

Instruments issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Instruments which is already issued). If the Instruments are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. If the Instruments are trading at a discount, investors may not be able to receive a favourable price for their Instruments, and in some circumstances investors may not be able to sell their Instruments at all or at their fair market value. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Instruments issued under the Programme. Accordingly, we cannot assure you as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Instruments.

**Foreign exchange rate risks and exchange controls may result in investors receiving less interest, distribution or principal than expected.**

We will pay principal and interest on the Instruments in the currency specified in the relevant Pricing Supplement (the “**Specified Currency**”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (a) the Investor’s Currency equivalent yield on the Instruments, (b) the Investor’s Currency equivalent value of the principal payable on the Instruments and (c) the Investor’s Currency equivalent market value of the Instruments. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest, distribution or principal than expected, or no interest, distribution or principal.

**The credit ratings assigned to the Instruments may not reflect all risks and may be lowered or withdrawn.**

One or more independent credit rating agencies may assign credit ratings to an issue of Instruments and/or the Programme. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Instruments and/or the Programme. Furthermore, we cannot assure you that a given credit rating will remain in effect for any period of time or that such rating will not be lowered, suspended or withdrawn.

A downgrade or potential downgrade in a rating may reduce the number of investors in the Instruments and adversely affect the price and liquidity of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

**Uncertainty relating to the LIBOR calculation method and the potential phasing out of LIBOR after 2021 may adversely affect the value of the Floating Rate Notes.**

On July 27, 2017, the UK Financial Conduct Authority (“FCA”) announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 and that market participants should not rely on LIBOR being available after 2021 (the “FCA Announcement”). It is not possible to predict the effect of the FCA Announcement, any changes in the methods pursuant to which the LIBOR rates are determined and any other reforms to LIBOR, including to the rules promulgated by the FCA in relation thereto, that will be enacted in the United Kingdom and elsewhere, which may adversely affect the trading market for LIBOR-based securities, including the Floating Rate Notes, result in the phasing out of LIBOR as a reference rate for securities, or both. In addition, any changes announced by the FCA (including the FCA Announcement), ICE Benchmark Administration Limited as independent administrator of LIBOR or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments and the value of the Floating Rate Notes may be materially affected. Further, uncertainty as to the extent and manner in which the United Kingdom government’s recommendations following its review of LIBOR in September 2012 will continue to be adopted and the timing of such changes may adversely affect the current trading market for LIBOR based securities and the value of the Floating Rate Notes.

Pursuant to the terms of the Floating Rate Notes, if the reference rate for the Floating Rate Notes is LIBOR and the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date (each as defined in the Notes Conditions) have occurred, a substitute for LIBOR will be determined as described in Notes Condition 5(b)(iii)(B) (Screen Rate Determination for Floating Rate Notes). In the case of U.S. dollar LIBOR, the reference rate for the Floating Rate Notes may be determined using SOFR. The application of these provisions could result in an interest rate that is different from what would have otherwise been calculated using LIBOR and could materially affect the value of the Floating Rate Notes. Further, the same factors that may lead to the discontinuation or unavailability of LIBOR may make one or more of the fallback provisions impossible or impracticable to determine. If LIBOR is unavailable and an alternative reference rate has not been determined pursuant to the fallback provisions, the interest rate for an interest determination date will be the same as on the immediately preceding interest determination date, and such rate of interest could remain the rate of interest for the Floating Rate Notes for the remaining life of the Floating Rate Notes. Although the proposed U.S. Treasury Regulations on the transition from interbank offered rates to other reference rates (which generally can be relied on by the taxpayers before the final regulations are issued) provide certain U.S. federal income tax relief to taxpayers if certain requirements are met, there is no assurance that any change in the calculation of the interest rate on the Floating Rate Notes due to a Benchmark Transition Event would meet such requirements and, therefore, there is no assurance that holders or beneficial owners of the Floating Rate Notes would not suffer adverse U.S. federal income tax consequences as a result of any such change. In addition, any such change may result in other tax consequences to holders or beneficial owners of the Floating Rate Notes. Each person considering an investment in the Floating Rate Notes should consult its own tax adviser regarding tax consequences relating to a change in the calculation of the interest rate on the Floating Rate Notes due to a Benchmark Transition Event.

**SOFR is a relatively new market index that may be altered or discontinued and as the related market continues to develop, there may be an adverse effect on the return on or value of the Notes.**

The NY Federal Reserve began to publish SOFR in April 2018. Although the NY Federal Reserve has also begun publishing historical indicative SOFR going back to 2014, such prepublication historical data inherently involves assumptions, estimates and approximations. You should not rely on any historical changes or trends in SOFR as an indicator of the future performance of SOFR. Since the initial publication of SOFR, daily changes in the rate have, on occasion, been more volatile than daily

changes in comparable benchmark or market rates. As a result, the return on and value of SOFR-linked debt securities may fluctuate more than floating rate debt securities that are linked to less volatile rates. The future performance of SOFR is impossible to predict and therefore no future performance of SOFR may be inferred from any of the historical actual or historical indicative data.

Hypothetical or historical performance data are not indicative of, and have no bearing on, the potential performance of SOFR.

Also, since SOFR is a relatively new market index, SOFR-linked debt securities may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to SOFR, such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of the Floating Rate Notes may be lower than those of later-issued SOFR-linked debt securities as a result. Similarly, if SOFR does not prove to be widely used in securities like the Floating Rate Notes, the trading price of those securities may be lower than those of debt securities linked to rates that are more widely used. Debt securities indexed to SOFR may not be able to be sold or may not be able to be sold at prices that will provide a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

The NY Federal Reserve notes on its publication page for SOFR that use of SOFR is subject to important limitations, indemnification obligations and disclaimers, including that the NY Federal Reserve may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR at any time without notice. There can be no guarantee that SOFR will not be discontinued or altered in a manner that is materially adverse to you. If the manner in which SOFR is calculated is changed or if SOFR is discontinued, that change or discontinuance may result in a reduction or elimination of the amount of interest payable on the Floating Rate Notes and a reduction in their trading prices.

**The composition and characteristics of SOFR are not the same as those of U.S. dollar LIBOR, and SOFR is not expected to be a comparable replacement for U.S. dollar LIBOR.**

SOFR is a broad Treasury repo financing rate that represents overnight secured funding transactions and is not the economic equivalent of U.S. dollar LIBOR. While SOFR is a secured rate, U.S. dollar LIBOR is an unsecured rate. And, while SOFR is currently only an overnight rate, U.S. dollar LIBOR is a forward-looking rate that represents interbank funding for a specified term. As a result, there can be no assurance that SOFR will perform in the same way as U.S. dollar LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, bank credit risk, market volatility or global or regional economic, financial, political, regulatory, judicial or other events. For the same reasons, SOFR is not expected to be a comparable replacement for U.S. dollar LIBOR.

## SELECTED INTERIM CONSOLIDATED FINANCIAL AND OTHER DATA

The tables set forth below show certain selected historical consolidated financial information and other data of the Group. The financial information as of and for the six months ended 30 June 2020 and 2019 set forth below has been derived from our unaudited interim condensed consolidated financial statements included elsewhere in this Supplement Offering Circular. The information on VONB for the six months ended 30 June 2020 and 2019 and the information on EV Equity as of 30 June 2020 and 31 December 2019 set forth below has been derived from “*Supplementary Embedded Value Information*” included elsewhere in this Supplemental Offering Circular. The selected historical consolidated financial and other data should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the unaudited interim condensed consolidated financial statements and the information in “*Supplementary Embedded Value Information*” included elsewhere in this Supplemental Offering Circular.

The interim condensed consolidated income statement and interim condensed consolidated statement of financial position include amounts attributable to unit-linked contracts. Such amounts are excluded in calculating OPAT, which is set forth in “– *Other Data*” below.

The accounting policies adopted in the interim condensed consolidated income statement and the interim condensed consolidated statement of financial position as of and for the six months ended 30 June 2020 are consistent with those of the previous financial year, except for changes in accounting policy with respect to the measurement of insurance contract liabilities of other participating business with distinct portfolios, which represents our Hong Kong participating business. There are also certain non-material amendments to IFRS adopted for the first time beginning 1 January 2020 as disclosed in note 2 to our unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular. The revised accounting policy in relation to the Hong Kong participating business has been applied retrospectively, and the effects of adoption of the revised accounting policy have been included in the financial information for the six months ended 30 June 2019 (as adjusted) and as of 31 December 2019 (as adjusted) set forth below. Details of the change in accounting policy are disclosed in note 28 to our unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular. This accounting policy change has no impact on VONB and EV equity.

## CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	Six months ended 30 June	Six months ended 30 June
	2020	2019	2019
		(as adjusted)	(as previously reported)
(in US\$ millions)			
<b>Revenue</b>			
Premiums and fee income .....	17,268	16,687	16,687
Premiums ceded to reinsurers.....	(1,135)	(1,069)	(1,069)
Net premiums and fee income .....	16,133	15,618	15,618
Investment return .....	3,381	8,510	8,510
Other operating revenue .....	150	148	148
<b>Total revenue.....</b>	<b>19,664</b>	<b>24,276</b>	<b>24,276</b>
<b>Expenses</b>			
Insurance and investment contract benefits .....	13,930	17,346	16,841
Insurance and investment contract benefits ceded.....	(899)	(951)	(951)
Net insurance and investment contract benefits.....	13,031	16,395	15,890
Commission and other acquisition expenses .....	2,157	2,037	2,037
Operating expenses .....	1,242	1,168	1,168
Finance costs .....	143	136	136
Other expenses .....	519	444	444
<b>Total expenses .....</b>	<b>17,092</b>	<b>20,180</b>	<b>19,675</b>
<b>Profit before share of profit from associates and joint ventures .....</b>	<b>2,572</b>	<b>4,096</b>	<b>4,601</b>
Share of profit from associates and joint ventures .....	2	-	-
<b>Profit before tax.....</b>	<b>2,574</b>	<b>4,096</b>	<b>4,601</b>
Income tax expenses attributable to policyholders' returns .....	(23)	(115)	(115)
<b>Profit before tax attributable to shareholders' profits .....</b>	<b>2,551</b>	<b>3,981</b>	<b>4,486</b>
Tax expense.....	(391)	(719)	(719)
Tax attributable to policyholders' returns .....	23	115	115
Tax expense attributable to shareholders' profits .....	(368)	(604)	(604)
<b>Net profit .....</b>	<b>2,183</b>	<b>3,377</b>	<b>3,882</b>
Less: amounts attributable to non-controlling interests .....	(14)	18	18
<b>Net profit attributable to shareholders of the Issuer .....</b>	<b>2,197</b>	<b>3,359</b>	<b>3,864</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 30 June 2020	As of 31 December 2019  (as adjusted)	As of 31 December 2019  (as previously reported)
(in US\$ millions)			
<b>Assets</b>			
Intangible assets .....	2,429	2,520	2,520
Investments in associates and joint ventures .....	558	615	615
Property, plant and equipment .....	2,698	2,865	2,865
Investment property .....	4,556	4,834	4,834
Reinsurance assets .....	3,826	3,833	3,833
Deferred acquisition and origination costs .....	26,205	26,328	26,328
Financial investments:			
Loans and deposits .....	9,957	10,086	10,086
Available for sale			
Debt securities .....	147,129	138,852	138,852
At fair value through profit or loss			
Debt securities .....	34,023	33,132	33,132
Equity securities .....	46,791	50,322	50,322
Derivative financial instruments .....	1,051	971	971
Total financial investments .....	238,951	233,363	233,363
Deferred tax assets .....	20	23	23
Current tax recoverable .....	217	205	205
Other assets .....	5,794	5,605	5,605
Cash and cash equivalents .....	5,950	3,941	3,941
<b>Total assets .....</b>	<b>291,204</b>	<b>284,132</b>	<b>284,132</b>
<b>Liabilities</b>			
Insurance contract liabilities .....	198,806	192,181	189,597
Investment contract liabilities .....	11,334	12,273	12,273
Borrowings .....	6,886	5,757	5,757
Obligations under repurchase agreements .....	1,484	1,826	1,826
Derivative financial instruments .....	915	412	412
Provisions .....	232	225	225
Deferred tax liabilities .....	6,212	6,214	6,237
Current tax liabilities .....	342	432	432
Other liabilities .....	7,738	9,417	9,417
<b>Total liabilities .....</b>	<b>233,949</b>	<b>228,737</b>	<b>226,176</b>
<b>Equity</b>			
Share capital .....	14,135	14,129	14,129
Employee share-based trusts .....	(155)	(220)	(220)
Other reserves .....	(11,911)	(11,887)	(11,887)
Retained earnings .....	41,667	40,922	40,372
Fair value reserve .....	13,495	11,669	14,663
Foreign currency translation reserve .....	(1,408)	(698)	(698)
Property revaluation reserve .....	1,008	1,073	1,163
Others .....	(27)	(41)	(14)
Amounts reflected in other comprehensive income.....	13,068	12,003	15,114
<b>Total equity attributable to shareholders of the Issuer .....</b>	<b>56,804</b>	<b>54,947</b>	<b>57,508</b>
Non-controlling interests .....	451	448	448
<b>Total equity .....</b>	<b>57,255</b>	<b>55,395</b>	<b>57,956</b>
<b>Total liabilities and equity .....</b>	<b>291,204</b>	<b>284,132</b>	<b>284,132</b>

## OTHER DATA

We measure the scale and profitability of our business using various key performance indicators, including VONB, ANP, TWPI, OPAT and EV Equity. For a discussion of these metrics, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview – Key Performance Indicators*”.

(in US\$ millions, except ratios)	For the six months ended 30 June	
	2020	2019
<b>VONB</b> <sup>(1)</sup> .....	1,410	2,275
<b>ANP</b> <sup>(1)</sup> .....	2,579	3,443
<b>TWPI</b> <sup>(1)</sup> .....	16,926	16,405
<b>OPAT</b> <sup>(1)(2)(6)</sup> .....	2,933	2,836
	As of 30 June 2020	As of 31 December 2019
<b>EV Equity</b> <sup>(1)</sup> .....	61,420	63,905
<b>HKIO Solvency Ratio</b> <sup>(3)</sup> .....	328%	362%
<b>Group Local Capital Summation</b>		
<b>Method (“Group LCSM”) Cover</b>		
<b>Ratio</b> <sup>(4)(5)</sup> .....	350%	366%
<b>Leverage Ratio</b> <sup>(6)(7)</sup> .....	10.7%	9.4%

(1) Definitions of VONB, ANP, TWPI, OPAT and EV Equity are provided in the Glossary beginning on page A-1 of the Original Offering Circular.

(2) For a reconciliation of OPAT to net profit, see note 5 to our 2020 unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular. OPAT is before non-operating investment returns and other items, net of tax.

(3) This ratio applies to AIA Co., our principal operating subsidiary, on the HKIO basis.

(4) This ratio applies to the Group and is based on our current understanding of the likely GWS framework. For more information see “*Interim Results – Regulatory Capital*” and “*Interim Results – Regulatory Developments – Group capital requirements*”.

(5) Excludes medium term notes.

(6) The leverage ratio is calculated by dividing Total Borrowings by Total Capitalisation, each as set out or defined in “*Total Capitalisation*”.

(7) For the six months ended 30 June 2020, we revised our accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios, which represents our Hong Kong participating business. The figures for the six months ended and as at 30 June 2020 have been presented following the change in accounting policy, while the comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to our 2020 unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular for additional information.

## INTERIM RESULTS

### INTERIM FINANCIAL REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2020

The management discussion and analysis below cover the financial results for the six months period from 1 January 2020 to 30 June 2020 for the current period and for the six months period from 1 January 2019 to 30 June 2019 for the prior period. All figures included in this Supplemental Offering Circular are presented in actual reporting currency (the U.S. dollar) and based on actual exchange rates unless otherwise stated.

#### Summary and Key Financial Highlights

In the six months ended 30 June 2020, the impacts of the global COVID-19 pandemic have been widespread and unprecedented. Our immediate priority was to ensure the safety of our staff while providing uninterrupted service for our customers, agents and partners.

As a result of containment measures limiting face-to-face sales, VONB decreased by 38% compared with the six months ended 30 June 2019. As restrictions eased and digital capabilities became more widely adopted, we saw encouraging new business sales momentum across the Group. ANP increased in May 2020 and we achieved month-on-month growth in June 2020. AIA China delivered year-on-year growth in both ANP and VONB for the second quarter of 2020 on a like-for-like basis<sup>(1)</sup> and this momentum has continued into July 2020.

OPAT increased by 3% compared with the six months ended 30 June 2019, demonstrating the resilience of our large in-force portfolio of long-term business with high-quality, recurring sources of earnings.

EV equity remained broadly stable before the payment of the final shareholder dividend for 2019, as EV operating profit was more than offset by negative investment return variances and the impact of a further reduction in our long-term economic assumptions reflecting lower interest rates.

The Group remained financially strong at 30 June 2020 with the solvency position of AIA Co., our primary operating entity, at 328%. Under the new GWS basis at 30 June 2020, the Group's LCSM cover ratio was 350%.<sup>(2)</sup>

The Board has declared an interim dividend of 35.00 Hong Kong cents per share. This represents an increase of 5% compared with the interim dividend in 2019 and reflects both the Group's strong financial position and the unprecedented macroeconomic and capital markets environment caused by COVID-19. The Board follows an established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

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<sup>(1)</sup> Excludes the US\$36 million impact of the tax rule change on policies issued by AIA China in the three months ended 31 March 2019, which was reported in the VONB for the three months ended 30 June 2019. See note 2 to the "Supplementary Embedded Value Information" included elsewhere in this Supplemental Offering Circular for further information.

<sup>(2)</sup> Excludes medium term notes.

## EMBEDDED VALUE

VONB of US\$1,410 million for the six months ended 30 June 2020 decreased by 38% compared with the six months ended 30 June 2019. As some markets eased containment measures and our businesses adopted new digital capabilities for customer meetings and sales, we increased total ANP in May 2020 from the April 2020 low that coincided with the peak of containment measures and achieved month-on-month growth in June 2020. AIA China delivered year-on-year growth in both ANP and VONB for the second quarter of 2020 on a like-for-like basis<sup>(1)</sup> as containment measures in Mainland China were progressively eased and this momentum has continued into July 2020.

VONB from our agency distribution channel declined by 30% and accounted for 78% of the Group's total VONB in the six months ended 30 June 2020. Our partnership distribution channel reported a 50% drop in VONB, driven primarily by a significant reduction in VONB from our retail independent financial adviser ("IFA") channel in Hong Kong. This was due to minimal Mainland Chinese visitors to Hong Kong following the introduction of quarantine measures in early February 2020.

ANP decreased by 25% compared with the six months ended 30 June 2019 to US\$2,579 million and VONB margin declined to 54.4%. The decrease in VONB margin resulted from a combination of product and geographical mix shifts and the impact of acquisition expense overruns. Within the overall product mix shift, an increased proportion of traditional protection business, where margins remained stable, was more than offset by shifts to lower-margin deferred annuities in Hong Kong and to participating products in Mainland China, as our agents focused on additional sales to existing customers.

EV operating profit was US\$3,878 million for the six months ended 30 June 2020, a reduction of 14% mainly driven by the decline in VONB. Operating variances remained positive at US\$389 million, including positive medical claims experience driven by lower incidences of non-critical claims.

EV Equity remained broadly stable as at 30 June 2020 before the payment of the shareholder dividend, as EV operating profit was more than offset by negative investment return variances and the impact of the further reduction in our long-term economic assumptions. The reduction in assumptions reflects our long-term view of the levels of government bond yields as at 30 June 2020. EV Equity, after the payment of the shareholder dividend and the effect of exchange rates, was US\$61,420 million at 30 June 2020.

## IFRS EARNINGS

OPAT increased by 3% to US\$2,933 million, demonstrating the quality of our geographically diverse and growing in-force portfolio of protection and long-term savings business. Recurring premiums accounted for close to 90% of total premiums received in the six months ended 30 June 2020. Positive claims experience offset negative lapse experience in Thailand and the effect of reduced yields on new fixed income investments and lower expected long-term equity returns in the six months ended 30 June 2020. TWPI increased by 5% to US\$16,926 million compared with the six months ended 30 June 2019. Operating margin remained stable at 17.5% for the six months ended 30 June 2020. The expense ratio was 7.3% for the six months ended 30 June 2020, compared with 7.1% for the six months ended 30 June 2019, as a result of lower new business volumes and the inclusion of the business acquired from CBA in Australia in the second half of the year ended 31 December 2019.

## CAPITAL AND DIVIDENDS

The solvency ratio of AIA Co., our principal operating company, remained strong at 328% at 30 June 2020, compared with 362% at 31 December 2019.

The HKIA is introducing a GWS framework which includes an assessment of the capital position of the Group, referred to as the Group LCSM. Under our current understanding of the likely application

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<sup>(1)</sup> Excludes the US\$36 million impact of the tax rule change on policies issued by AIA China in the three months ended 31 March 2019, which was reported in the VONB for the three months ended 30 June 2019. See note 2 to the "Supplementary Embedded Value Information" included elsewhere in this Supplemental Offering Circular for further information.

of the GWS framework to the Group, the Group's published Group available capital and Group minimum capital requirement will be calculated as the sum of the available capital and minimum capital requirement according to the local regulatory requirements for each relevant supervised entity of the Group, including the net asset value for the listed holding company. On this basis at 30 June 2020, the Group LCSM surplus above minimum capital requirement was US\$36,968 million with a Group LCSM cover ratio of 350%<sup>(2)</sup> at 30 June 2020.

Given the timing of regulatory reporting and board governance cycles, local remittances for the year ending 31 December 2020 will be largely weighted to the second half of the year ending 31 December 2020. In particular, remittances from Mainland China are planned for the second half of the year ending 31 December 2020 to align with the incorporation of our new wholly-owned subsidiary in Shanghai. Our local businesses remitted US\$649 million to the Group Corporate Centre for the six months ended 30 June 2020. Positive remittances from Other Markets during the six months ended 30 June 2020 were offset by capital contributions to Australia and New Zealand resulting from industry-wide changes to local regulatory capital requirements. In the six months ended 30 June 2019, remittances of US\$1,853 million included a one-off remittance from Thailand due to the timing of required regulatory approvals.

The Board has declared an interim dividend of 35.00 Hong Kong cents per share. This represents an increase of 5% compared with the interim dividend in 2019 and reflects both the Group's strong financial position and the unprecedented macroeconomic and capital markets environment caused by COVID-19. The Board follows an established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

#### **EVENTS AFTER THE REPORTING PERIOD**

On 19 June 2020, AIA Co. received approval from the CBIRC to convert its existing Shanghai branch to a wholly-owned subsidiary. This new subsidiary was the first wholly foreign owned life insurance company approved for incorporation in Mainland China. On 9 July 2020, the subsidiary was incorporated in Shanghai to operate AIA's life insurance business in Mainland China following completion of the conversion process.

Once the conversion process is completed, future remittances to the Group from this subsidiary will be subject to withholding tax at the applicable tax rate in Mainland China (currently 5%). OPAT and net profit from AIA China will be subject to 5% withholding tax from the date of conversion. EV and VONB from AIA China have been subject to 5% withholding tax from 9 July 2020 onwards.

#### **OUTLOOK**

Driven by the effects of the COVID-19 pandemic and associated containment measures, the global economy went into recession in the six months ended 30 June 2020. Policies enforcing social distancing, movement control and travel restrictions rapidly disrupted supply chains and severely affected consumption, resulting in a rapid increase in unemployment. The easing of monetary policies that started in March 2020, including interest rate cuts, liquidity injections and preferential loans, helped to reduce extreme volatility in financial markets. Many governments have implemented fiscal stimulus packages to cushion the impact on businesses and households and this is expected to drive fiscal deficits to double-digit levels in 2020, particularly in advanced economies. The immediate cost of government borrowing remains low, however the outlook is uncertain given the need for large-scale government bond issuance to fund deficits.

While we have seen encouraging sales momentum in our businesses as containment measures have been relaxed, additional restrictions preventing customers from meeting face-to-face with our agents and other distributors may potentially slow sales again. While our financial position remains resilient, persistent low levels of government bond yields could slow free surplus emergence and remittances from some of our businesses.

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<sup>(2)</sup> Excludes medium term notes.

In Asia, fiscal positions remain more balanced than in many other regions, and the widespread adoption of e-commerce and online payments by consumers and businesses has contributed to economic resilience. The strong domestic drivers of demand and major demographic trends in Asia are intact and will continue to provide strong structural support for the long-term prospects of AIA's business.

The need for AIA's insurance products is expected to continue to grow given rising incomes, low levels of private insurance penetration and limited social welfare coverage. We continue to develop our distribution capabilities, recruiting high-quality individuals into our Premier Agency while also working with our strategic partners to leverage their extensive customer reach. We believe our new strategic plan will transform AIA into a simpler, faster, more connected company, more capable than ever of harnessing the opportunities available to us across Asia. We aim to deliver differentiated propositions and exceptional service to our increasingly demanding customers while continuing to generate long-term sustainable value for our shareholders.

## New Business Performance

### VONB, ANP AND MARGIN BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 30 June 2020			Six months ended 30 June 2019			VONB Change YoY %
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	
Hong Kong	306	51.0%	565	945	68.0%	1,367	(68)%
Thailand	199	63.9%	312	215	66.8%	321	(7)%
Singapore	127	59.3%	214	173	64.8%	267	(27)%
Malaysia	81	50.5%	159	130	65.4%	198	(38)%
Mainland China	594	81.8%	726	702	93.2%	753	(15)%
Other Markets <sup>(1)</sup>	240	39.7%	603	224	41.8%	537	7%
<b>Subtotal</b>	<b>1,547</b>	<b>59.3%</b>	<b>2,579</b>	<b>2,389</b>	<b>68.9%</b>	<b>3,443</b>	<b>(35)%</b>
Adjustment to reflect consolidated reserving and capital requirements	(50)	n/m	n/m	(39)	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(77)	n/m	n/m	(75)	n/m	n/m	n/m
<b>Total before non-controlling interests</b>	<b>1,420</b>	<b>54.4%</b>	<b>2,579</b>	<b>2,275</b>	<b>65.6%</b>	<b>3,443</b>	<b>(38)%</b>
Non-controlling interests <sup>(1)</sup>	(10)	n/m	n/m	-	n/m	n/m	n/m
<b>Total</b>	<b>1,410</b>	<b>54.4%</b>	<b>2,579</b>	<b>2,275</b>	<b>65.6%</b>	<b>3,443</b>	<b>(38)%</b>

Note:

(1) During the six months ended 30 June 2020, ANP and VONB for Other Markets included the results from our 49% shareholding in Tata AIA Life Insurance Company Limited ("Tata AIA Life"). The contributions to ANP and VONB amounted to US\$110 million and US\$34 million, respectively. The total reported VONB for the Issuer during the six months ended 30 June 2020 excluded the VONB attributable to non-controlling interests of US\$10 million. During the six months ended 30 June 2019, ANP and VONB have not been restated and do not include any contribution from Tata AIA Life or a deduction for the amount attributable to non-controlling interests. The VONB attributable to non-controlling interests for the six months ended 30 June 2019 was US\$15 million.

VONB of US\$1,410 million decreased by 38% for the six months ended 30 June 2020 compared with the six months ended 30 June 2019, primarily driven by the substantial reduction in sales volumes. As some markets eased containment measures and our businesses adopted new digital capabilities for customer meetings and sales, we increased total ANP in May 2020 from the April 2020 low that coincided with the peak of containment measures and achieved month-on-month growth in June 2020. AIA China delivered year-on-year growth in both ANP and VONB for the second quarter of 2020 on a like-for-like basis<sup>(1)</sup> as containment measures in Mainland China were progressively eased and this momentum has continued into July 2020.

VONB from our agency distribution channel declined by 30% and accounted for 78% of the Group's total VONB in the six months ended 30 June 2020. Our partnership distribution channel reported a 50% drop in VONB, driven primarily by a significant reduction in VONB from our retail IFA channel in Hong Kong. This was due to minimal Mainland Chinese visitors to Hong Kong following the introduction of quarantine measures in early February 2020.

ANP decreased by 25% to US\$2,579 million and VONB margin reduced to 54.4%, in each case for the six months ended 30 June 2020 compared with the six months ended 30 June 2019. The decrease in VONB margin resulted from a combination of product and geographical mix shifts and the impact of acquisition expense overruns. Within the overall product mix shift, an increased proportion

(1) Excludes the US\$36 million impact of the tax rule change on policies issued by AIA China in the three months ended 31 March 2019, which was reported in the VONB for the three months ended 30 June 2019. See note 2 to the "Supplementary Embedded Value Information" included elsewhere in this Supplemental Offering Circular for further information.

of traditional protection business, where margins remained stable, was more than offset by shifts to lower-margin deferred annuities in Hong Kong and to participating products in Mainland China, as our agents focused on additional sales to existing customers.

Mainland China was the largest contributor to the Group's VONB for the six months ended 30 June 2020, despite reporting a 15% reduction in VONB as year-on-year growth in the second quarter of 2020 on a like-for-like basis<sup>(1)</sup> moderated the decline in the first quarter of 2020. VONB margin decreased by 11.4 percentage points to 81.8%, reflecting a shift in product mix as we generated new sales of long-term participating business from our existing customers. VONB margin for our traditional protection products remained at a similar level in the six months ended 30 June 2020 compared to the six months ended 30 June 2019 and these products contributed nearly 80% of VONB.

AIA Hong Kong reported a 68% reduction in VONB and a 59% decline in ANP, in each case for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, although we saw encouraging early signs of recovery in new business sales for our domestic customer segment in May 2020 and June 2020 during a period when social distancing restrictions were temporarily relaxed. VONB margin decreased by 17.0 percentage points to 51.0% reflecting a shift to lower-margin products including additional sales of deferred annuities that qualify for tax deductions to existing customers, reduced profitability from participating products due to lower US dollar bond yields and acquisition expense overruns.

Thailand reported a 7% decline in VONB for the six months ended 30 June 2020 compared to the six months ended 30 June 2019. Sales momentum began to recover in June 2020, with ANP from the agency channel improving in June 2020 compared with May 2020 as government restrictions eased. VONB margin remained broadly stable despite lower Thai government bond yields, due to increased sales of critical illness and medical riders.

VONB in Singapore reduced by 27% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as growth in the first quarter of 2020 was offset by the reduction in sales in the second quarter of 2020 after containment measures were implemented. VONB margin decreased by 5.5 percentage points, mainly from acquisition expense overruns and a higher proportion of single premium unit-linked business.

Malaysia reported a 38% reduction in VONB for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as the decline in new business sales during the peak of the movement restrictions in April 2020 was partly offset by month-on-month growth across all distribution channels in May 2020 and June 2020. VONB margin declined by 14.9 percentage points to 50.5% due to a higher mix of group insurance business and acquisition expense overruns.

Other Markets delivered VONB growth of 7% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, which included the contribution from Tata AIA Life for the six months ended 30 June 2020 (but not for the six months ended 30 June 2019). Excluding Tata AIA Life, VONB declined by 8% in the six months ended 30 June 2020. VONB growth from our businesses in Vietnam and Taiwan (China) during the six months ended 30 June 2020 was more than offset by second quarter 2020 reductions in Australia (including New Zealand), the Philippines and Indonesia due to containment measures imposed by local authorities.

The VONB results for the Group for the six months ended 30 June 2020 are reported after a deduction of US\$137 million for consolidated reserving and capital requirements over and above local statutory requirements, the present value of unallocated Group Office expenses and VONB attributable to non-controlling interests.

## **EV Equity**

### **EV OPERATING PROFIT**

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<sup>(1)</sup> Excludes the US\$36 million impact of the tax rule change on policies issued by AIA China in the three months ended 31 March 2019, which was reported in the VONB for the three months ended 30 June 2019. See note 2 to the "Supplementary Embedded Value Information" included elsewhere in this Supplemental Offering Circular for further information.

EV operating profit declined by 14% to US\$3,878 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, mainly driven by the decline in VONB. Operating variances remained positive at US\$389 million, including positive medical claims experience driven by lower incidences of non-critical claims.

## EV MOVEMENT

EV remained broadly stable as at 30 June 2020 before the payment of the shareholder dividend, as EV operating profit of US\$3,878 million was more than offset by negative investment return variances of US\$3,378 million and the impact of the further reduction in our long-term economic assumptions of US\$935 million. The reduction in assumptions reflected our long-term view of the levels of government bond yields as at 30 June 2020, and VONB for the second half of the year ending 31 December 2020 will be calculated using these assumptions.

EV, after the payment of the shareholder dividend of US\$1,452 million and the negative effect of exchange rates of US\$920 million, was US\$59,574 million at 30 June 2020.

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

US\$ millions, unless otherwise stated	Six months ended 30 June 2020		
	ANW	VIF	EV
<b>Opening EV</b>	<b>28,241</b>	<b>33,744</b>	<b>61,985</b>
Value of new business	(363)	1,773	1,410
Expected return on EV	2,844	(654)	2,190
Operating experience variances	494	(69)	425
Operating assumption changes	(152)	116	(36)
Finance costs	(111)	-	(111)
<b>EV operating profit</b>	<b>2,712</b>	<b>1,166</b>	<b>3,878</b>
Investment return variances	(3,076)	(302)	(3,378)
Effect of changes in economic assumptions	33	(968)	(935)
Other non-operating variances	426	(91)	335
<b>Total EV profit</b>	<b>95</b>	<b>(195)</b>	<b>(100)</b>
Dividends	(1,452)	-	(1,452)
Other capital movements	61	-	61
Effect of changes in exchange rates	(323)	(597)	(920)
<b>Closing EV</b>	<b>26,622</b>	<b>32,952</b>	<b>59,574</b>

  

US\$ millions, unless otherwise stated	Six months ended 30 June 2019		
	ANW	VIF	EV
<b>Opening EV</b>	<b>24,637</b>	<b>29,880</b>	<b>54,517</b>
Value of new business	(339)	2,614	2,275
Expected return on EV	2,506	(498)	2,008
Operating experience variances	245	84	329
Operating assumption changes	(7)	21	14
Finance costs	(103)	-	(103)
<b>EV operating profit</b>	<b>2,302</b>	<b>2,221</b>	<b>4,523</b>
Investment return variances	1,484	92	1,576
Other non-operating variances	83	(63)	20
<b>Total EV profit</b>	<b>3,869</b>	<b>2,250</b>	<b>6,119</b>
Dividends	(1,448)	-	(1,448)
Other capital movements	90	-	90
Effect of changes in exchange rates	(10)	478	468
<b>Closing EV</b>	<b>27,138</b>	<b>32,608</b>	<b>59,746</b>

## EV EQUITY

	As at 30 June 2020	As at 31 December 2019
<b>US\$ millions, unless otherwise stated</b>		
<b>EV</b>	<b>59,574</b>	<b>61,985</b>
Goodwill and other intangible assets <sup>(1)</sup>	1,846	1,920
<b>EV Equity</b>	<b>61,420</b>	<b>63,905</b>

Note:

(1) Consistent with the IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

## IFRS Profit

### OPAT<sup>(1)</sup> BY SEGMENT

	Six months ended 30 June 2020	Six months ended 30 June 2019	YoY %
<b>US\$ millions, unless otherwise stated</b>			
Hong Kong <sup>(2)</sup>	1,005	935	7%
Thailand	478	528	(9)%
Singapore	303	281	8%
Malaysia	148	167	(11)%
Mainland China	640	537	19%
Other Markets <sup>(3)</sup>	333	388	(14)%
Group Corporate Centre <sup>(3)</sup>	26	-	n/m
<b>Total</b>	<b>2,933</b>	<b>2,836</b>	<b>3%</b>

Notes:

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

(2) For the six months ended 30 June 2020, we revised our accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios, which represents our Hong Kong participating business. The figures for the six months ended 30 June 2020 have been presented following the change in accounting policy, while the comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to our 2020 unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular for additional information.

(3) Prior to the six months ended 30 June 2020, the Group had reflected the withholding tax charge under Group Corporate Centre. Starting from the six months ended 30 June 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

OPAT increased by 3% to US\$2,933 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, demonstrating the quality of our geographically diverse and growing in-force portfolio of protection and long-term savings business. Recurring premiums accounted for close to 90% of total premiums received in the six months ended 30 June 2020. In the six months ended 30 June 2020, significant positive claims experience offset negative lapse experience in Thailand and the effect of reduced yields on new fixed income investments and lower expected long-term equity returns.

Mainland China delivered growth with a 19% increase in OPAT for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, primarily from our growing in-force portfolio and favourable claims experience.

Hong Kong's OPAT increased by 7% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, driven by earnings growth from our large in-force portfolio and significantly lower medical claims, partly offset by reduced investment income from lower bond yields and the reduction in our long-term investment return assumptions made at the year ended 31 December 2019.

Thailand reported a 9% reduction in OPAT for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as positive claims experience was more than offset by negative lapse experience from weaker consumer sentiment and lower equity returns.

OPAT in Singapore increased by 8% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, driven by growth in earnings from our in-force portfolio and improved medical claims experience.

Malaysia's OPAT declined 11% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as underlying growth was more than offset by a one-off provision ahead of an industry-wide initiative to identify and pay accumulated unreported death claims. Excluding this provision, Malaysia's OPAT grew by 6%, supported by positive claims experience.

OPAT in Other Markets declined by 14% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019 as Australia recorded a reduction of US\$42 million primarily due to lower recovery rates for income protection claimants. Growth in Taiwan (China) and Vietnam broadly offset lower OPAT from Indonesia, the Philippines and South Korea.

#### TWPI BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 30 June 2020	Six months ended 30 June 2019	YoY %
Hong Kong	6,136	6,104	1%
Thailand	1,981	1,929	3%
Singapore	1,502	1,456	3%
Malaysia	1,049	1,063	(1)%
Mainland China	3,001	2,561	17%
Other Markets	3,257	3,292	(1)%
<b>Total</b>	<b>16,926</b>	<b>16,405</b>	<b>3%</b>

TWPI increased by 3% to US\$16,926 million for the six months ended 30 June 2020 compared with the six months ended 30 June 2019. Recurring premiums accounted for close to 90% of total premiums received in the six months ended 30 June 2020.

#### IFRS OPERATING PROFIT INVESTMENT RETURN

US\$ millions, unless otherwise stated	Six months ended 30 June 2020	Six months ended 30 June 2019	YoY %
Interest income	3,420	3,223	6%
Expected long-term investment return for equities and real estate	1,129	1,102	2%
<b>Total</b>	<b>4,549</b>	<b>4,325</b>	<b>5%</b>

IFRS operating profit investment return increased by 5% to US\$4,549 million for the six months ended 30 June 2020 compared with the six months ended 30 June 2019. The growth was primarily driven by the increase in the size of our investment portfolio, which was partly offset by reduced yields on new fixed income investments and lower expected equity returns as compared to the six months ended 30 June 2019.

#### OPERATING EXPENSES

US\$ millions, unless otherwise stated	Six months ended 30 June 2020	Six months ended 30 June 2019	YoY %
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Operating expenses	1,242	1,168	6%
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Operating expenses grew by 6% to US\$1,242 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019. The expense ratio was 7.3% for the six months ended 30 June 2020 compared with 7.1% for the six months ended 30 June 2019 as a result of lower new business volumes and the inclusion of the business acquired from CBA in Australia in the second half of the year ended 31 December 2019 once control of this business was secured.

#### NET PROFIT<sup>(1)(3)</sup>

US\$ millions, unless otherwise stated	Six months ended 30 June 2020	Six months ended 30 June 2019	YoY %
OPAT <sup>(3)</sup>	2,933	2,836	3%
Short-term fluctuations in investment return related to equities and real estate, net of tax <sup>(2)(3)</sup>	(1,290)	696	n/m
Reclassification of revaluation loss/(gain) for property held for own use, net of tax <sup>(2)(3)</sup>	61	(114)	n/m
Corporate transaction related costs, net of tax	(37)	(30)	n/m
Implementation costs of new accounting standards, net of tax	(22)	(24)	n/m
Other non-operating investment return and other items, net of tax <sup>(3)</sup>	552	(5)	n/m
<b>Total</b>	<b>2,197</b>	<b>3,359</b>	<b>(35)%</b>

Notes:

- (1) Attributable to shareholders of the Company only excluding non-controlling interests.
- (2) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
- (3) For the six months ended 30 June 2020, we revised our accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios, which represents our Hong Kong participating business. The figures for the six months ended 30 June 2020 have been presented following the change in accounting policy, while the comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to our 2020 unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular for additional information.

#### IFRS NON-OPERATING MOVEMENT

IFRS net profit was US\$2,197 million for the six months ended 30 June 2020, compared with US\$3,359 million for the six months ended 30 June 2019. AIA's net profit definition includes mark-to-market movements from our equity portfolio and investment property portfolios. The result in the six months ended 30 June 2020 included negative short-term fluctuations from our long-term assumptions for equities and real estate of US\$1,290 million, compared with positive movements of US\$696 million in the six months ended 30 June 2019. Other non-operating items in the six months ended 30 June 2020 included corporate transaction related costs of US\$37 million, implementation costs of new accounting standards of US\$22 million and other non-operating investment return and other items of US\$552 million which largely consisted of realised gains from our available for sale debt securities.

## Capital

### WORKING CAPITAL AND NET FUNDS TO GROUP CORPORATE CENTRE

Working capital increased to US\$13,750 million at 30 June 2020 and is largely composed of highly liquid financial assets held at the Group Corporate Centre. This growth in working capital was after the payment of the 2019 final shareholder dividend of US\$1,452 million in the six months ended 30 June 2020. Growth in working capital contributes to the Group's financial flexibility.

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

Given the timing of regulatory reporting and board governance cycles, local remittances for the year ended 31 December 2020 will be largely weighted to the second half of the year ending 31 December 2020. In particular, remittances from Mainland China are planned for the second half of the year ending 31 December 2020 to align with the incorporation of our new wholly-owned subsidiary in Shanghai. Positive remittances from Other Markets during the six months ended 30 June 2020 were offset by capital contributions to Australia and New Zealand resulting from industry-wide changes to local regulatory capital requirements.

In the six months ended 30 June 2019, remittances of US\$1,853 million included a one-off remittance from Thailand due to the timing of required regulatory approvals.

We raised US\$1,055 million from issuances under our Global Medium-term Note and Securities Programme and we made interim payments of US\$536 million for the acquisition of CMLA.

The movements in working capital are summarised as follows:

US\$ millions, unless otherwise stated	Six months ended 30 June 2020	Six months ended 30 June 2019
<b>Opening working capital</b>	<b>13,471</b>	<b>10,296</b>
Group Corporate Centre operating results <sup>(1)</sup>	26	-
Net remittance from business units		
Hong Kong	622	636
Thailand	15	456
Singapore	(8)	25
Malaysia	24	3
Mainland China	-	572
Other Markets	(4)	161
<b>Net remittance to Group Corporate Centre</b>	<b>649</b>	<b>1,853</b>
Payment for acquisition of CMLA	(536)	-
Increase in borrowings	1,055	797
Purchase of shares held by employee share-based trusts	(6)	(24)
Payment of dividends	(1,452)	(1,448)
Mark-to-market movements in debt securities and others <sup>(1)</sup>	543	557
<b>Closing working capital</b>	<b>13,750</b>	<b>12,031</b>

Note:

(1) Prior to the six months ended 30 June 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from the six months ended 30 June 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

## IFRS Balance Sheet

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION<sup>(1)</sup>

US\$ millions, unless otherwise stated	As at 30 June 2020	As at 31 December 2019	Change %
<b>Assets</b>			
Financial investments	238,951	233,363	2%
Investment property	4,556	4,834	(6)%
Cash and cash equivalents	5,950	3,941	51%
Deferred acquisition and origination costs	26,205	26,328	-%
Other assets	15,542	15,666	(1)%
<b>Total assets</b>	<b>291,204</b>	<b>284,132</b>	<b>2%</b>
<b>Liabilities</b>			
Insurance and investment contract liabilities	210,140	204,454	3%
Borrowings	6,886	5,757	20%
Other liabilities	16,923	18,526	(9)%
<b>Less total liabilities</b>	<b>233,949</b>	<b>228,737</b>	<b>2%</b>
<b>Equity</b>			
Total equity	57,255	55,395	3%
Less non-controlling interests	451	448	1%
<b>Total equity attributable to shareholders of AIA Group Limited</b>	<b>56,804</b>	<b>54,947</b>	<b>3%</b>

### MOVEMENT IN SHAREHOLDERS' EQUITY<sup>(1)</sup>

US\$ millions, unless otherwise stated	Six months ended 30 June 2020	Year ended 31 December 2019	Six months ended 30 June 2019
<b>Opening shareholders' equity</b>	<b>57,508</b>	<b>39,488</b>	<b>39,488</b>
Retrospective adjustment for change in accounting policies	(2,561)	1,377	1,377
<b>Opening shareholders' equity, as adjusted</b>	<b>54,947</b>	<b>40,865</b>	<b>40,865</b>
Net profit	2,197	5,979	3,359
Fair value gains on assets	1,826	9,211	5,249
Purchase of shares held by employee share-based trusts	(6)	(21)	(24)
Dividends	(1,452)	(1,961)	(1,448)
Revaluation (losses)/gains on property held for own use	(65)	154	124
Foreign currency translation adjustments	(710)	603	356
Other capital movements	67	117	100
<b>Total movement in shareholders' equity</b>	<b>1,857</b>	<b>14,082</b>	<b>7,716</b>
<b>Closing shareholders' equity</b>	<b>56,804</b>	<b>54,947</b>	<b>48,581</b>

Note:

- (1) For the six months ended 30 June 2020, we revised our accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios, which represents our Hong Kong participating business. The figures for the six months ended 30 June 2020 have been presented following the change in accounting policy, while the comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to our 2020 unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular for additional information.

## TOTAL INVESTMENTS

<b>US\$ millions, unless otherwise stated</b>	<b>As at 30 June 2020</b>	<b>Percentage of total</b>	<b>As at 31 December 2019</b>	<b>Percentage of total</b>
Total policyholder and shareholder	221,363	88%	212,742	87%
Total unit-linked contracts and consolidated investment funds	30,027	12%	31,456	13%
<b>Total investments</b>	<b>251,390</b>	<b>100%</b>	<b>244,198</b>	<b>100%</b>

The investment mix remained stable during the six months ended 30 June 2020 as set out below:

## UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS

<b>US\$ millions, unless otherwise stated</b>	<b>As at 30 June 2020</b>	<b>Percentage of total</b>	<b>As at 31 December 2019</b>	<b>Percentage of total</b>
<b>Unit-linked contracts and consolidated investment funds</b>				
Debt securities	5,901	20%	5,866	19%
Loans and deposits	563	2%	703	2%
Equities	22,602	75%	24,101	77%
Cash and cash equivalents	923	3%	752	2%
Derivatives	38	-	34	-
<b>Total unit-linked contracts and consolidated investment funds</b>	<b>30,027</b>	<b>100%</b>	<b>31,456</b>	<b>100%</b>

## POLICYHOLDER AND SHAREHOLDER INVESTMENTS

US\$ millions, unless otherwise stated	As at 30 June 2020	Percentage of total	As at 31 December 2019	Percentage of total
<b>Participating funds and Other participating business with distinct portfolios</b>				
Government bonds	7,884	4%	7,751	4%
Other government and government agency bonds	11,303	5%	9,974	5%
Corporate bonds and structured securities	48,198	22%	40,842	19%
Loans and deposits	2,404	1%	2,523	1%
<b>Subtotal – Fixed income investments</b>	<b>69,789</b>	<b>32%</b>	<b>61,090</b>	<b>29%</b>
Equities	17,716	8%	18,739	8%
Investment property and property held for own use	1,011	-	1,065	1%
Cash and cash equivalents	731	-	481	-
Derivatives	302	-	231	-
<b>Subtotal Participating funds and Other participating business with distinct portfolios</b>	<b>89,549</b>	<b>40%</b>	<b>81,606</b>	<b>38%</b>
<b>Other policyholder and shareholder</b>				
Government bonds	41,435	19%	43,345	21%
Other government and government agency bonds	17,137	8%	16,727	8%
Corporate bonds and structured securities	49,294	22%	47,479	22%
Loans and deposits	6,990	3%	6,860	3%
<b>Subtotal – Fixed income investments</b>	<b>114,856</b>	<b>52%</b>	<b>114,411</b>	<b>54%</b>
Equities	6,473	3%	7,482	4%
Investment property and property held for own use	5,478	3%	5,829	3%
Cash and cash equivalents	4,296	2%	2,708	1%
Derivatives	711	-	706	-
<b>Subtotal other policyholder and shareholder</b>	<b>131,814</b>	<b>60%</b>	<b>131,136</b>	<b>62%</b>
<b>Total policyholder and shareholder</b>	<b>221,363</b>	<b>100%</b>	<b>212,742</b>	<b>100%</b>

## ASSETS

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

Total assets increased by US\$7,072 million to US\$291,204 million at 30 June 2020, compared with US\$284,132 million at 31 December 2019 due to positive net revenues and mark-to-market gains from our debt securities.

Total investments, including financial investments, investment property, property held for own use and cash and cash equivalents, increased by US\$7,192 million to US\$251,390 million at 30 June 2020, compared with US\$244,198 million at 31 December 2019.

Of the total US\$251,390 million investments at 30 June 2020, US\$221,363 million were held in respect of policyholders and shareholders and the remaining US\$30,027 million were backing unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US\$184,645 million at 30 June 2020 compared with US\$175,501 million at 31 December 2019.

Government bonds, other government and government agency bonds represented 42% of fixed income investments at 30 June 2020, compared with 44% at 31 December 2019. Corporate bonds and structured securities accounted for 53% of fixed income investments at 30 June 2020, compared with 50% at 31 December 2019.

The average credit rating of our fixed income portfolio excluding government bonds remained stable at A- compared to the position at 31 December 2019. Our corporate bond portfolio is well diversified with over 1,500 issuers with an average holding size of US\$57 million. At 30 June 2020, bonds rated at BBB- amounted to US\$9 billion, equivalent to 5% of our total bond portfolio, and we held US\$3.5 billion of bonds rated below investment grade or not rated, representing 2% of the total bond portfolio. Less than US\$600 million of our bonds, representing 0.3% of our total bond portfolio, were downgraded to below investment grade and we did not experience any asset impairments in the six months ended 30 June 2020, reflecting the overall quality of our investment portfolio.

Equity securities held in respect of policyholders and shareholders totalled US\$24,189 million at 30 June 2020, of which US\$17,716 million, or 73% of the equity investments, were participating business related. The reduction in equity securities of US\$2,032 million reflected the negative mark-to-market movements during the six months ended 30 June 2020. Equity securities represented 5% of our investment portfolio outside our participating business.

Cash and cash equivalents increased by US\$2,009 million to US\$5,950 million at 30 June 2020 compared with US\$3,941 million at 31 December 2019, after the payment of the shareholder dividend of US\$1,452 million. The increase largely reflected strong positive net cash inflows from our operating business which were held as liquidity buffers in the face of uncertain markets throughout the second quarter of 2020, which was further augmented by the net proceeds of the issuances of medium-term notes totalling US\$1,055 million during the six months ended 30 June 2020.

Investment property and property held for own use in respect of policyholders and shareholders totalled US\$6,489 million at 30 June 2020 compared with US\$6,894 million at 31 December 2019.

Deferred acquisition and origination costs remained largely stable at US\$26,205 million at 30 June 2020 compared with US\$26,328 million at 31 December 2019.

Other assets decreased to US\$15,542 million at 30 June 2020 compared with US\$15,666 million at 31 December 2019, reflecting a decrease in property, plant and equipment, which was mainly driven by reduced valuations of property held for own use.

## **LIABILITIES**

Total liabilities increased to US\$233,949 million at 30 June 2020 from US\$228,737 million at 31 December 2019.

Insurance and investment contract liabilities increased to US\$210,140 million at 30 June 2020 compared with US\$204,454 million at 31 December 2019, reflecting the underlying growth of the in-force portfolio partially offset by negative mark-to-market movements on equities backing unit-linked and participating policies and negative foreign exchange translation.

Borrowings increased to US\$6,886 million at 30 June 2020, due to the net issuances of medium-term notes of US\$1,055 million during the six months ended 30 June 2020. The leverage ratio, which is defined as borrowings expressed as a percentage of total borrowings and equity, was higher at 10.7%, compared with 9.4% at 31 December 2019.

Other liabilities were US\$16,923 million at 30 June 2020, compared with US\$18,526 million at 31 December 2019, reflecting the partial settlement of the acquisition of CMLA of US\$536 million and a decrease in repurchase agreements and investment-related payables.

Details of commitments and contingencies are included in note 26 to our unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular.

## Regulatory Capital

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

In addition to the local HKIO requirements for AIA Co., the HKIA will be introducing a GWS framework, which will include an assessment of the capital position of the Group, referred to as the Group LCSM. Legislation setting out the GWS framework was enacted on 17 July 2020 and the HKIA is expected to commence application of the GWS framework by early 2021. See “– Regulatory Developments”.

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

### AIA CO. SOLVENCY POSITION

As at 30 June 2020, the total available capital for AIA Co., increased to US\$12,342 million and the solvency ratio remained strong at 328% as measured under the HKIO basis.

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

US\$ millions, unless otherwise stated	As at 30 June 2020	As at 31 December 2019
Total available capital	12,342	11,856
Regulatory minimum capital (100%)	3,762	3,272
AIA Co. Solvency ratio (%)	328%	362%

### GROUP SOLVENCY POSITION

Under our current understanding of the likely application of the GWS framework to the Group, we expect the published group-level total available capital (“**Group available capital**”) and group-level minimum capital requirement (“**Group minimum capital requirement**”) will be calculated as the sum of the available capital and minimum capital requirement according to the local regulatory requirements for each of the relevant supervised entities of the Group, including the net asset value for the listed holding company. The Group LCSM surplus is the difference between the Group available capital and the Group minimum capital requirement and the Group LCSM cover ratio is the ratio of the Group available capital to the Group minimum capital requirement.

On this basis at 30 June 2020, the Group LCSM surplus above the minimum capital requirement was US\$36,968 million with a Group LCSM cover ratio of 350%<sup>(2)</sup>.

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

US\$ millions, unless otherwise stated	As at 30 June 2020
Group available capital	51,752
Group minimum capital requirement	14,784
Group LCSM surplus	36,968
Group LCSM cover ratio	350%

<sup>(2)</sup> Excludes medium term notes.

The table below shows a reconciliation between the Group LCSM surplus and EV free surplus.

#### RECONCILIATION BETWEEN GROUP LCSM SURPLUS AND EV FREE SURPLUS

US\$ millions, unless otherwise stated	As at 30 June 2020
Group LCSM surplus at 30 June 2020	36,968
Adjustment for AIA China <sup>(1)</sup>	(6,974)
Adjustment to reflect shareholders' view of capital <sup>(2)</sup>	(7,511)
<b>EV free surplus local basis at 30 June 2020</b>	<b>22,483</b>
Adjustment to reflect consolidated reserving and capital requirements	(10,712)
<b>EV free surplus consolidated basis at 30 June 2020</b>	<b>11,771</b>

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 LCSM 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 30 June 2020.

#### Regulatory Developments

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

##### **Group-wide Supervision**

The HKIA has been developing a GWS framework to align with international standards, as set by the IAIS, to supervise Hong Kong domiciled IAIGs. Legislation setting out the GWS framework, referred to as the framework for supervised group of designated insurance holding companies, was enacted on 17 July 2020 and is to be supplemented further with subsidiary legislation and guidelines. The GWS framework is intended to commence in early 2021 and is reflective of the requirements under the IAIS Framework.

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

##### **Group capital requirements**

Under detailed group capital requirements under the GWS framework, it is anticipated that the GWS solvency framework will be based on a "Summation Approach". The Group Local Capital Summation Method ("**Group LCSM**") is the method to be used by the HKIA as a measure of group solvency under the new GWS framework. Subject to the final capital rules to be introduced in subsidiary legislation, Group available capital is the sum of the available capital of the relevant supervised entities of the Group according to the local regulatory requirements. Group minimum capital requirement is the sum of the minimum required capital of those same entities. Adjustments are made to eliminate double counting. The Group LCSM cover ratio is the ratio of the Group available capital to the Group minimum capital requirement.

It is also expected that the HKIA will adopt standards for capital qualifying subordinated debt instruments that will align with the IAIS Framework. Under the IAIS Framework, the ICS has established guidelines for subordinated debt instruments that qualify as regulatory capital. This will be a change from the existing framework.

### **Other Regulatory Developments**

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

- Hong Kong risk-based capital regime: A multi-year consultation process is being run by the HKIA to develop a risk-based capital regime in Hong Kong applicable to Hong Kong licensed insurance companies (distinct from the group-wide supervision framework applicable at the group level). This risk-based capital regime will replace the current Solvency 1 regime. AIA continues to be closely and constructively engaged with the HKIA on this development and is participating in quantitative impact studies. Based on the most recent information provided, our current expectation is that the regime will be effective from 1 January 2024.
- Relaxation of Foreign Ownership Limits for Life Insurers in Mainland China: Further to its initial announcement in 2017 to relax the foreign ownership limits in the financial services sector, the Mainland Chinese Government has, as of 6 December 2019, officially lifted these ownership restrictions effective 1 January 2020 to allow for 100% foreign ownership of licensed life insurance companies in China. On 19 June 2020, AIA Co. received approval from the CBIRC to convert its existing Shanghai branch to a wholly-owned subsidiary. This new subsidiary, AIA Life Insurance Company Limited, was subsequently incorporated in Shanghai.

### **Accounting Standards Developments**

In May 2017, the International Accounting Standards Board (IASB) first issued IFRS 17, Insurance Contracts. IFRS 17 introduces fundamental changes to existing accounting standards in insurance contract measurement, profit recognition, financial statement presentation and disclosures. On 25 June 2020, the effective date of IFRS 17 was deferred to 1 January 2023 and the temporary exemption from applying IFRS 9 for insurers using IFRS standards was extended to 1 January 2023.

### **Global Medium-term Note (GMTN) and Securities Programme**

Under our US\$8 billion GMTN and Securities programme, on 7 April 2020, the Issuer issued US dollar-denominated fixed rate medium-term notes that are listed on The Stock Exchange of Hong Kong Limited. The offering comprised US\$1,000 million of 10-year notes at an annual rate of 3.375%. On 24 June 2020, the Issuer issued unlisted Australian dollar-denominated fixed rate medium-term notes, which consisted of AUD90 million of 10-year notes at an annual rate of 2.95%. The US dollar equivalent issued is approximately US\$62 million.

At 30 June 2020, the aggregate carrying amount of the debt issued to the market under the GMTN and Securities programme was US\$6,816 million.

### **Credit Ratings**

At 30 June 2020, AIA Co. has financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from Standard & Poor's.

At 30 June 2020, AIA Group Limited has issuer credit ratings of A2 (Low Credit Risk) with a stable outlook from Moody's; AA- (Very High Credit Quality) with a stable outlook from Fitch; and A (Strong) with a positive outlook from Standard & Poor's.

## **Dividends**

The Board has declared an interim dividend of 35.00 Hong Kong cents per share. This represents an increase of 5% compared with the interim dividend in 2019 and reflects both the Group's strong financial position and the unprecedented macroeconomic and capital markets environment caused by COVID-19. The Board follows an established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

## **INTERIM BUSINESS REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The information below covers the financial results for the six-month period from 1 January 2020 to 30 June 2020 for the current period and for the six-month period from 1 January 2019 to 30 June 2019 for the prior period.

### **DISTRIBUTION**

#### **AGENCY**

AIA's proprietary agency network is our primary distribution channel and sits at the heart of our relationships with our customers. Our agents deliver professional advice and services to our customers as they help them meet their evolving needs for protection and long-term savings.

In the six months ended 30 June 2020, mobility and travel restrictions imposed by authorities across our markets to control the spread of COVID-19 constrained our agents' ability to conduct face-to-face sales meetings with customers. We have seen encouraging early signs of business recovery with strong month-on-month increases in VONB for June 2020 over May 2020 as restrictions started to ease across our markets.

VONB fell by 30% to US\$1,194 million compared to the six months ended 30 June 2019, accounting for 78% of the Group's total VONB. ANP decreased by 23% to US\$1,708 million compared to the six months ended 30 June 2019 and VONB margin declined to 69.9%, which was largely driven by changes in product mix and acquisition expense overruns that reflected the large reduction in new business volumes.

During the pandemic, we worked tirelessly to enable our active, professional agents to provide ongoing support to customers. We rapidly developed and deployed new digital tools across recruitment, sales and service and moved many of our business processes online to offer uninterrupted service and engagement with our agents and customers.

Our focus on quality recruitment and enhancing productivity to drive sustainable growth through our Premier Agency remains a key strategic priority for the Group. We have used the current environment as an opportunity to accelerate our agent recruitment and build future capacity as we onboard and train these new recruits remotely using our digital tools. In the six months ended 30 June 2020, the Group held over 8,000 online recruitment seminars with particular success in Mainland China, India and Southeast Asia. We also launched a series of targeted recruitment schemes that focused on attracting high-quality talent. Supported by these initiatives, we have seen growth in the total number of new agency recruits across the Group in the six months ended 30 June 2020, despite the suspension of agency licensing examinations in several markets, including Hong Kong and Thailand, when restrictions were at their peak.

All our agency businesses across the Group successfully implemented new remote selling platforms to help agents complete the sales process without the need for a physical face-to-face meeting. These platforms facilitate non face-to-face sales conversations with video recording and secure remote digital signature functionality. To supplement these new proprietary digital sales tools, we have also launched new training programmes for our agents, aimed at developing and enhancing customer engagement through online seminars, social media and messaging platforms. Over 40% of all agency cases issued in the second quarter of 2020 were closed using remote sales technology. Our new remote sales capabilities across the Group are complementary to our proven Premier Agency model for professional, face-to-face advice and played a key role in mitigating the impact of mobility restrictions on our agency force in the six months ended 30 June 2020.

In July 2020, AIA achieved over 12,700 Million Dollar Round Table (MDRT) members registered in 2019 and was once again the world's leading multinational insurance group by registered MDRT members. Our continued leadership in this measure demonstrates the ongoing success of our Premier Agency strategy in developing and growing our professional agency.

## **DISTRIBUTION**

### **PARTNERSHIPS**

AIA's partnership business complements our agency distribution, providing additional customer access across our markets. Our strong long-term relationships with prominent financial institutions and other corporate partners provide us with significant opportunities for growth across the Asia-Pacific region as we work closely together to offer much-needed protection and long-term savings propositions to their extensive customer bases.

In the six months ended 30 June 2020, our partnership distribution channels were also challenged as a result of the mobility and travel restrictions imposed by authorities across the region to control the spread of COVID-19, although new business sales momentum has started to recover from April 2020 lows with progressive month-on-month increases in VONB in May 2020 and June 2020.

Total VONB from partnerships declined by 50% to US\$335 million in the six months ended 30 June 2020 compared to the six months ended 30 June 2019, driven primarily by a significant reduction in VONB from our retail IFA channel in Hong Kong. ANP from partnerships decreased by 29% to US\$871 million compared to the six months ended 30 June 2019 and VONB margin declined to 38.4%, primarily reflecting a change in geographical mix.

We worked closely with our partners across the region to adapt swiftly to the challenging operating environment by strengthening our digital capabilities to engage, connect with and serve customers remotely during the six months ended 30 June 2020.

VONB from our bancassurance channel declined by 14% in the six months ended 30 June 2020, demonstrating the resilience of our exclusive and strategic partnerships and despite the temporary prohibition of in-branch bancassurance sales in many of our markets. Face-to-face sales resumed when restrictions were gradually relaxed in June 2020, and VONB from our bancassurance channel more than doubled from May 2020. Many of our exclusive and strategic partners are adopting new digital leads generation and sales models where insurance specialists are able to directly engage with prospective customers online. For example, our strategic partnership with Bank of the Philippine Islands (BPI) in the Philippines was one of our first bancassurance partnerships to implement an analytics-driven digital leads generation process, and more than 150,000 sales leads were generated via digital-led campaigns and passed to our insurance specialists in the second quarter of 2020.

VONB from our intermediated channels (including IFAs, brokers, private banks and specialist advisers) declined by 74% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, primarily driven by the significant reduction in VONB from our retail IFA channel in Hong Kong due to the extremely low levels of Mainland Chinese visitors to Hong Kong in the six months ended 30 June 2020.

We also continued to make further progress with our strategic non-traditional partners and direct marketing channels across the region during the six months ended 30 June 2020. We leveraged our strategic partnership with WeDoctor to offer thousands of free online medical consultations in Mainland China and achieved growth in our direct marketing business in South Korea in the second quarter of 2020. In early August 2020, we also announced the formation of a new long-term strategic partnership with Practo PTE Ltd, India's leading digital healthcare platform.

## SEGMENTAL INFORMATION

Our reporting segments are categorised as follows: (i) each Key Segment, consisting of Mainland China, Hong Kong (which includes Macau), Thailand, Singapore (which includes Brunei) and Malaysia; (ii) combined results for our Other Markets, consisting of the combined results of Australia (including New Zealand), Cambodia, Indonesia, South Korea, the Philippines, Taiwan (China), Vietnam and Myanmar (which began operations as a wholly owned foreign life insurer in November 2019), as well as our 99.01% owned subsidiary in Sri Lanka and our 49% interest in our joint venture in India; and (iii) our Group Corporate Centre reporting segment.

The following summarises the results of operations of each of our geographical market segments.

### Mainland China

	Six months ended 30 June	
	2020	2019
	<b>(in US\$ millions, except VONB margin)</b>	
VONB <sup>(1)</sup> .....	594	702
VONB margin <sup>(2)</sup> .....	81.8%	93.2%
ANP .....	726	753
TWPI .....	3,001	2,561
OPAT.....	640	537

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.

(2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

### COVID-19 Situation Overview

The central government in Mainland China began implementing stringent nationwide social distancing and movement controls in January 2020. These measures have been progressively lifted since March 2020, although large-scale social gatherings, including agency recruitment seminars, remained prohibited in Beijing in July 2020 after a local outbreak in June 2020.

#### **Six Months Ended 30 June 2020 Compared with Six Months Ended 30 June 2019**

AIA China reported a 15% reduction in VONB to US\$594 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as positive year-on-year growth in the second quarter of 2020 on a like-for-like basis<sup>(1)</sup> moderated the substantial decline in the first quarter of 2020.

ANP was flat at US\$ 726 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, supported by growth in the second quarter of 2020 as social distancing measures and movement controls were progressively lifted across the country since March 2020.

VONB margin decreased by 11.4 percentage points to 81.8% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, reflecting a shift in product mix as we generated new sales of long-term participating savings products from our existing customers. VONB margin for our traditional protection products remained at a similar level for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, and these products contributed nearly 80% of VONB.

TWPI increased by 17% to US\$3,001 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019.

(1) Excludes the US\$36 million impact of the tax rule change on policies issued by AIA China in the three months ended 31 March 2019, which was reported in the VONB for the three months ended 30 June 2019. See note 2 to the "Supplementary Embedded Value Information" included elsewhere in this Supplemental Offering Circular for further information.

OPAT grew by 19% to US\$640 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, primarily from our growing in-force portfolio and favourable claims experience.

AIA China rapidly enhanced and extended its existing digital platforms and became AIA's first business operation to implement a full suite of agency support applications covering remote sales and completion, online agency recruitment, training programmes and other engagement activities. This helped to mitigate the effect of the COVID-19 measures on the ability of our agents and customers to conduct sales conversations through physical face-to-face meetings. In April 2020, more than 70% of our active agents closed new cases using remote signatures from customers, demonstrating the resilience of our professional agency force in Mainland China.

Our new online recruitment capabilities enabled us to hold more than 600 seminars with over 150,000 attendees in the six months ended 30 June 2020. This supported strong growth in the number of high-quality new recruits compared with six months ended 30 June last year, including continued good progress in our newer operations in Tianjin and Shijiazhuang, Hebei.

AIA China continues to improve customer experience through the adoption of new technology. In the six months ended 30 June 2020, we further expanded our use of Artificial Intelligence ("AI") technology to enhance the sales and service experience for both our agents and customers. In April 2020, we launched an AI-enabled outbound call facility that now handles over 15,000 policyholder calls per month. We also began testing an AI-enabled training simulation tool for agents that is aimed at systematically enhancing the professionalism and quality of advice from new agents by honing their skills to handle a range of customer queries under different scenarios.

AIA China's health and wellness solutions provide value-added support to our customers across their entire healthcare journey and help differentiate our propositions from competitors. In January 2020, we added new services to our proprietary medical network, including personal case management services for both our critical illness and high net worth clients that offer professional advice from a dedicated team through the journey from pre-diagnosis to treatment and rehabilitation. In response to COVID-19, AIA China supported our customers with simplified and streamlined claims services as well as additional coverage. We also supported our local communities with complimentary protection for eligible medical workers and donations of medical supplies as well as offering thousands of free online medical consultations through our strategic partner, WeDoctor.

In June 2020, AIA Co. received approval from the CBIRC to convert its Shanghai branch into a wholly-owned subsidiary of AIA Co. The Shanghai branch of AIA Co. commenced operations as a wholly-owned life insurer in 1992 when Mainland China opened up its insurance market for foreign investment. With this new approval, the Shanghai branch was converted into AIA Life Insurance Company Limited and incorporated in Shanghai in July 2020. Building on our successful model of geographical expansion in Tianjin and Shijiazhuang, Hebei, we have begun the application process for regulatory approvals to establish new branches in additional territories within Mainland China.

## Hong Kong

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in US\$ millions, except VONB margin)</b>	
VONB <sup>(1)</sup> .....	306	945
VONB margin <sup>(2)</sup> .....	51.0%	68.0%
ANP .....	565	1,367
TWPI .....	6,136	6,104
OPAT <sup>(3)</sup> .....	1,005	935

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.

(2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

(3) For the six months ended 30 June 2020, we revised our accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios, which represents our Hong Kong participating business. The figures for the six months ended 30 June 2020 have been presented following the

change in accounting policy, while the comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to our 2020 unaudited interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular for additional information.

## **COVID-19 Situation Overview**

Social distancing measures and mandatory quarantine requirements were gradually implemented by the Hong Kong SAR government from 30 January 2020, including the suspension of the Individual Visit Scheme for Mainland Chinese visitors. Arrivals from Mainland China have been subject to a 14-day mandatory quarantine since early February 2020, arrivals from Macau and Taiwan (China) have been subject to a 14-day mandatory quarantine since 25 March 2020, and all non-Hong Kong residents arriving from other countries and regions by plane have been denied entry since 25 March 2020. These border controls remain strictly enforced with some minor exemptions and have reduced the overall monthly average number of Mainland Chinese visitors to Hong Kong to only several thousand per month in the second quarter of 2020, while a recent rise in locally transmitted cases has seen the tightening of social distancing measures in July 2020.

### ***Six Months Ended 30 June 2020 Compared with Six Months Ended 30 June 2019***

AIA Hong Kong reported a 68% reduction in VONB to US\$306 million and a 59% decline in ANP to US\$565 million, in each case for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, although we saw encouraging early signs of recovery in new business sales for our domestic customer segment in May 2020 and June 2020 during a period when social distancing restrictions were temporarily relaxed. Since the implementation of the mandatory quarantine requirements, new business sales from our Mainland Chinese visitor customer segment have effectively stopped, while a general reluctance to meet face-to-face caused a significant decline in ANP from our domestic customer segment.

VONB margin decreased by 17.0 percentage points to 51.0% for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, reflecting a shift to lower margin products including additional sales of deferred annuities that qualify for tax deductions to existing customers, reduced profitability from participating products due to lower US dollar bond yields and acquisition expense overruns.

TWPI increased by 1% to US\$6,136 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019.

OPAT increased by 7% to US\$1,005 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, driven by earnings growth from our large in-force portfolio and significantly lower medical claims, partly offset by investment experience resulting from lower bond yields and the reduction in long-term investment return assumptions made in the year ended 31 December 2019.

AIA Hong Kong provided strong support to our agents during this challenging period, including the development of innovative digital tools to enable remote online completion of sales, recruitment and training. The growth of our Premier Agency remains a key strategic focus for AIA Hong Kong and we continued to drive targeted recruitment of new high-calibre recruits and development of our existing agents with an emphasis on increasing the utilisation of our newly-launched digital marketing and sales platforms. Recruitment momentum was significantly impacted as regulatory licensing examinations were suspended for several months until late April 2020, although we have seen marked improvement in the number of new agent recruits since the examinations were re-opened.

During the six months ended 30 June 2020, the decrease in sales volumes from our exclusive partnership with Citibank was more moderate than our agency business, although VONB for partnerships saw a larger decline overall because of the effect of the reduction in Mainland Chinese visitors on the retail IFA channel.

In addition to developing new digital tools to mitigate business disruption for our agency and distribution partners, AIA Hong Kong also enhanced our online customer portals and launched a series of initiatives to support our customers and our local communities. In the six months ended 30

June 2020, we provided additional life and hospitalisation cover for all our in-force customers and contributed free COVID-19 cover on diagnosis for all cleaning service professionals in Hong Kong and Macau.

## Thailand

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in US\$ millions, except VONB margin)</b>	
VONB <sup>(1)</sup> .....	199	215
VONB margin <sup>(2)</sup> .....	63.9%	66.8%
ANP .....	312	321
TWPI .....	1,981	1,929
OPAT.....	478	528

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.

(2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

## COVID-19 Situation Overview

The Thai government declared a State of Emergency on 26 March 2020. Measures imposed included strict overnight curfews, work from home policies and social distancing rules that included the temporary closure of selected bank branches across the country. In early June 2020, the authorities began to gradually relax restrictions with the lifting of curfew and the resumption of nearly all business activities.

### ***Six Months Ended 30 June 2020 Compared with Six Months Ended 30 June 2019***

AIA Thailand reported a reduction in VONB of 7% to US\$199 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019. Sales momentum began to recover in June 2020, with improved ANP from the agency channel in June 2020 compared with May 2020, as government restrictions eased.

ANP decreased by 3% to US\$312 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019.

VONB margin remained broadly stable at 63.9% for the six months ended 30 June 2020 despite lower Thai government bond yields, due to increased sales of critical illness and medical riders.

TWPI increased by 3% to US\$1,981 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019.

OPAT decreased by 9% to US\$478 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as positive claims experience was more than offset by negative lapses experience from weaker consumer sentiment and lower equity returns.

AIA Thailand's market-leading agency began the six months ended 30 June 2020 with strong momentum and delivered VONB growth in the first quarter of 2020. While sales volumes declined in the second quarter of 2020 as a result of containment measures introduced in late March 2020, sales momentum improved in June 2020 as restrictions were gradually eased. In the six months ended 30 June 2020, we continued to drive the execution of our Financial Adviser ("FA") programme to transform the quality and professionalism of our agency force. The reduction in VONB for our FA agents was smaller than the overall agency and they contributed over 30% of total agency VONB, demonstrating the greater resilience of our Premier Agency during uncertain times. Agency recruitment was slower as regulatory licence examination centres were closed throughout most of the second quarter of 2020. We continued to focus on attracting new talents that meet our quality

recruitment criteria, supported by our new online recruitment platform which includes a comprehensive pre-licensing training programme.

Our strategic bancassurance partnership with Bangkok Bank delivered positive ANP growth for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, despite some temporary branch closures due to COVID-19 restrictions during the second quarter of 2020. We recorded a reduction in VONB for this channel overall from the effect of lower government bond yields.

In the six months ended 30 June 2020, AIA Thailand continued to focus on diversifying its product mix with the launch of an expanded range of health and critical illness products across all distribution channels to leverage increased health awareness. These new protection products and riders supported growth in VONB from AIA Vitality integrated products for the six months ended 30 June 2020. We also remained a market leader in the Thai group insurance market although we achieved flat VONB in this segment.

## Singapore

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in US\$ millions, except VONB margin)</b>	
VONB <sup>(1)</sup> .....	127	173
VONB margin <sup>(2)</sup> .....	59.3%	64.8%
ANP .....	214	267
TWPI .....	1,502	1,456
OPAT .....	303	281

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.

(2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

## COVID-19 Situation Overview

The Singapore government implemented a series of Circuit Breaker measures to restrict mobility on 7 April 2020 in response to a surge in local transmissions of COVID-19. As part of these measures, only essential services were permitted to operate, notably excluding the sale of life insurance products through face-to-face meetings. Various restrictions, including those on insurance sales, have gradually been lifted since mid-May 2020 as the economy re-opens through a phased transition process.

### **Six Months Ended 30 June 2020 Compared with Six Months Ended 30 June 2019**

AIA Singapore reported a 27% reduction in VONB to US\$127 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as growth in the first quarter of 2020 was offset by the reduction in sales volumes in the second quarter of 2020 after the containment measures were implemented. Sales momentum has progressively improved since April 2020 as restrictions gradually eased and business activities began to normalise.

ANP declined 20% to US\$214 million and VONB margin decreased by 5.5 percentage points to 59.3%, in each case for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, driven primarily by the impact of acquisition expense overruns and a higher proportion of single premium unit-linked business.

TWPI increased by 3% to US\$1,502 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019.

OPAT increased by 8% to US\$303 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, driven by growth in earnings from our in-force portfolio and improved medical claims experience.

AIA Singapore delivered strong VONB growth in agency in the first quarter of 2020 and focused on supporting our Premier Agency during the second quarter of 2020. We enhanced our digital sales processes and tools, introducing new capabilities that enabled our agents to conduct sales remotely with customers from April 2020. Even as the restrictions eased in June 2020, more than 80% of cases sold through our agency continued to be closed on the new digital platform, which highlights the ability of our professional agency to quickly adopt new technology. We also launched iSmart, a mobile application which provides our agents with digital tools and content to grow their social media presence.

Our exclusive bancassurance partnership with Citibank has historically served onshore and offshore customers. In the six months ended 30 June 2020, our offshore customers were particularly affected by border controls that were implemented in January 2020. Combined with domestic containment measures for our onshore customers, our partnership distribution recorded a substantial decline in VONB for the second quarter of 2020.

AIA Singapore launched a series of initiatives in response to the pandemic to provide support and protection for our customers and the local community. We provided mortality and hospitalisation cover for COVID-19 infections to nearly half of Singapore's population. We also offered complimentary, on-demand telemedicine services covering diagnosis, treatment, medical referrals, and delivery of medication to our HealthShield and corporate medical scheme customers.

## Malaysia

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in US\$ millions, except VONB margin)</b>	
VONB <sup>(1)</sup> .....	81	130
VONB margin <sup>(2)</sup> .....	50.5%	65.4%
ANP .....	159	198
TWPI .....	1,049	1,063
OPAT.....	148	167

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.

(2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

## COVID-19 Situation Overview

On 18 March 2020, the Malaysian authorities implemented a Movement Control Order (“MCO”) which strictly prohibited mass movements and gatherings across the country and barred the entry of all foreign visitors into the country. For insurance companies, only a limited range of essential services, such as claims handling, was allowed under the MCO. The MCO remained in force until 3 May 2020, after which restrictions gradually eased and the majority of businesses started to resume operations. As of 31 July 2020, some restrictions, such as those on large gatherings, remained in-force.

### **Six Months Ended 30 June 2020 Compared with Six Months Ended 30 June 2019**

AIA Malaysia reported VONB of US\$81 million for the six months ended 30 June 2020, a 38% reduction compared with the six months ended 30 June 2019. The significant decline in new business sales during the peak of the movement restrictions in April 2020 was partly offset by strong month-on-month increases across all distribution channels in May 2020 and June 2020.

ANP reduced by 20% to US\$159 million, while VONB margin declined by 14.9 percentage points to 50.5%, in each case for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, due to a higher mix of group insurance business and acquisition expense overruns.

TWPI decreased by 1% to US\$1,049 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019.

OPAT declined by 11% to US\$148 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019, as underlying growth was offset by a one-off provision ahead of an industry-wide initiative to identify and pay accumulated unreported death claims. Excluding this provision, OPAT grew by 6%, supported by positive claims experience.

AIA Malaysia's agency channel reported lower VONB in the six months ended 30 June 2020 compared to the six months ended 30 June 2019, although agency activity has seen a significant rebound following the resumption of face-to-face meetings with customers after the relaxation of the MCO in May 2020 and June 2020. We introduced new mobile-enabled digital solutions that enabled our agency force to continue to sell, recruit and manage their day-to-day activities remotely. Nearly two-thirds of our agency force have adopted these new tools.

Our exclusive partnership with Public Bank experienced similar challenges to our agency with restricted activities in bank branches and the cessation of telemarketing activities for April 2020. Face-to-face sales momentum began to recover in May 2020 and June 2020 with significant month-on-month increases in activity for in-branch insurance specialists. In the six months ended 30 June 2020, we maintained our leadership position and delivered strong VONB growth in the employee benefits segment, which was less affected by the containment measures.

In the past few months, AIA Malaysia launched a series of initiatives to support our customers and the community. We provided complimentary mortality and hospitalisation coverage for COVID-19 infections to all our individual and corporate customers. We also offered free COVID-19 coverage, including the sponsorship of tests, to frontline healthcare workers throughout the nation. AIA Vitality members have a new option to donate the monetary equivalent of their Vitality Weekly rewards earned while maintaining their healthy habits to support those in need within the community.

## Other Markets

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in US\$ millions, except VONB margin)</b>	
VONB <sup>(1)</sup> .....	240	224
VONB margin <sup>(2)</sup> .....	39.7%	41.8%
ANP .....	603	537
TWPI .....	3,257	3,292
OPAT <sup>(3)</sup> .....	333	388

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.

(2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

(3) Prior to the six months ended 30 June 2020, the Group had reflected the withholding tax charge under Group Corporate Centre. Starting from the six months ended 30 June 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

AIA's Other Markets include Australia (including New Zealand), Cambodia, India, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam.

The VONB and ANP results for the six months ended 30 June 2020 included the contribution from our 49% shareholding of Tata AIA Life. The IFRS results for Tata AIA Life continue to be accounted for using the equity method. For the avoidance of doubt, our results for the six months ended 30 June 2019 have not been restated and VONB and ANP from Tata AIA Life are not included in the comparative figures for the six months ended 30 June 2019 shown in this section.

### **Six Months Ended 30 June 2020 Compared with Six Months Ended 30 June 2019**

Other Markets delivered VONB growth of 7% to US\$240 million in the six months ended 30 June 2020, including the contribution from Tata AIA Life's results for the six months ended 30 June 2020 (but not for the six months ended 30 June 2019). Excluding Tata AIA Life, VONB declined by 8% in the six months ended 30 June 2020. Strong VONB growth from our businesses in Vietnam and Taiwan (China) was more than offset by second quarter 2020 reductions in Australia (including New Zealand), the Philippines and Indonesia due to the strict COVID-19 containment measures imposed by local authorities.

Excluding Tata AIA Life, ANP declined by 6% and VONB margin was stable.

We have seen encouraging early signs of recovery for the Other Markets with strong month-on-month growth in May 2020 and June 2020 as lockdown measures have been gradually eased in some markets.

TWPI decreased by 1% to US\$3,257 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019.

OPAT declined by 14% to US\$333 million for the six months ended 30 June 2020 compared to the six months ended 30 June 2019 as Australia recorded a reduction of US\$42 million in OPAT, primarily due to lower recovery rates for income protection claimants. Growth in Vietnam and Taiwan (China) was offset by lower OPAT from Indonesia, the Philippines and South Korea.

## **MANAGEMENT UPDATES**

On 1 June 2020, Mr. Lee Yuan Siong assumed the role of Group Chief Executive and President and joined our Board of Directors as an Executive Director and a member of the Risk Committee. He succeeded Mr. Ng Keng Hooi, who has retired from his executive positions with the Issuer.

On 29 May 2020, upon the conclusion of our Annual General Meeting, Mr. Mohamed Azman Yahya retired as an Independent Non-executive Director.

## STRATEGY UPDATE

On 20 August 2020, we announced our new growth strategy to fulfil our purpose of helping people live healthier, longer and better lives. Our strategic priorities set out to achieve:

- **An unparalleled platform focused on Asia:** We will remain focused on Asia and on leveraging our 100% ownership structures;
- **World-class digital technology:** Technology, digital and analytics will be at the core of the new strategy, which is expected to transform the experience of our customers, distributors, partners and employees;
- **Best-in-class customer experience:** We will build on personalised engagement, including through the use of data and analytics, and focus on speed, transparency and convenience;
- **Differentiated quality distribution:** We will accelerate the growth of our Premier Agency using digital and analytics, particularly in our developing and emerging markets. We will also integrate our technology with our bancassurance and digital partnerships to expand our customer reach;
- **Compelling propositions:** We will offer platforms and ecosystems that deliver improved customer outcomes and differentiate our protection and long-term savings propositions from our competitors;
- **An empowered culture:** We will become a simpler, faster and more connected organisation by streamlining our organisational structure to improve cross-functional collaboration, embedding new agile ways of working for specific functions, and upskilling and attracting technology, digital and analytics talent; and
- **Financial discipline and strength:** We will focus on delivering sustainable, profitable growth for our shareholders.

Our strategy is built on five long term structural drivers of growth in Asia:

1. The fast growing middle class population in Asia has increasing personal financial assets and a growing need to optimise their asset allocation;
2. There is a significant need for protection, given the increasing prevalence of lifestyle related diseases, increasing private health expenditure that outpaces the growth in disposable income and an ageing population;
3. Consumers' mindsets are rapidly shifting and they have greater concerns about health and wellness. These consumers require relevant content for greater engagement and expect on-demand services and personalised propositions;
4. Advances in technology and digital are opening up increasing opportunities for greater connectivity, scale and efficiency, driven by deeper customer insights and analytics; and
5. There is a growing expectation from stakeholders for businesses to embrace their purpose while focusing on sustainability and resilience.

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VALUE INFORMATION**

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**(2) INTERIM SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-  
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(1) References to page numbers in the independent review report on the interim consolidated financial statements and the independent review report on the interim supplementary embedded value information refer to the original page numbers in the 2020 interim results announcement of the Issuer which may be found at <http://www.aia.com>, and cross-references to page numbers included in the independent review reports are to such original page numbering. Neither the 2020 interim results announcement nor any other information on the Issuer's website has been incorporated by reference into the Offering Circular.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED**  
(incorporated in Hong Kong with limited liability)



羅兵咸永道

## **Introduction**

We have reviewed the interim condensed consolidated financial statements set out on pages 58 to 122, which comprise the interim consolidated statement of financial position of AIA Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2020 and the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34 and IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34 and IAS 34.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong  
20 August 2020

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

## INTERIM CONSOLIDATED INCOME STATEMENT

US\$m	Notes	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited and as adjusted)						
<b>Revenue</b>									
Premiums and fee income		17,268	16,687						
Premiums ceded to reinsurers		<u>(1,135)</u>	<u>(1,069)</u>						
Net premiums and fee income		16,133	15,618						
Investment return	8	3,381	8,510						
Other operating revenue		<u>150</u>	<u>148</u>						
<b>Total revenue</b>		<b><u>19,664</u></b>	<b><u>24,276</u></b>						
<b>Expenses</b>									
Insurance and investment contract benefits		13,930	17,346						
Insurance and investment contract benefits ceded		<u>(899)</u>	<u>(951)</u>						
<b>Net insurance and investment contract benefits</b>		<b>13,031</b>	<b>16,395</b>						
Commission and other acquisition expenses		2,157	2,037						
Operating expenses		1,242	1,168						
Finance costs		143	136						
Other expenses		<u>519</u>	<u>444</u>						
<b>Total expenses</b>	9	<b><u>17,092</u></b>	<b><u>20,180</u></b>						
<b>Profit before share of profit from associates and joint ventures</b>		<b>2,572</b>	<b>4,096</b>						
Share of profit from associates and joint ventures		<u>2</u>	<u>–</u>						
<b>Profit before tax</b>		<b><u>2,574</u></b>	<b><u>4,096</u></b>						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Income tax expenses attributable to policyholders' returns</td> <td style="width: 20%; text-align: right;">(23)</td> <td style="width: 20%; text-align: right;">(115)</td> </tr> <tr> <td><b>Profit before tax attributable to shareholders' profits</b></td> <td style="text-align: right;"><b><u>2,551</u></b></td> <td style="text-align: right;"><b><u>3,981</u></b></td> </tr> </table>				Income tax expenses attributable to policyholders' returns	(23)	(115)	<b>Profit before tax attributable to shareholders' profits</b>	<b><u>2,551</u></b>	<b><u>3,981</u></b>
Income tax expenses attributable to policyholders' returns	(23)	(115)							
<b>Profit before tax attributable to shareholders' profits</b>	<b><u>2,551</u></b>	<b><u>3,981</u></b>							
Tax expense	10	(391)	(719)						
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Tax attributable to policyholders' returns</td> <td style="width: 20%; text-align: right;">23</td> <td style="width: 20%; text-align: right;">115</td> </tr> <tr> <td>Tax expense attributable to shareholders' profits</td> <td style="text-align: right;"><u>(368)</u></td> <td style="text-align: right;"><u>(604)</u></td> </tr> </table>				Tax attributable to policyholders' returns	23	115	Tax expense attributable to shareholders' profits	<u>(368)</u>	<u>(604)</u>
Tax attributable to policyholders' returns	23	115							
Tax expense attributable to shareholders' profits	<u>(368)</u>	<u>(604)</u>							
<b>Net profit</b>		<b><u>2,183</u></b>	<b><u>3,377</u></b>						
<i>Net profit attributable to:</i>									
<b>Shareholders of AIA Group Limited</b>		<b>2,197</b>	<b>3,359</b>						
Non-controlling interests		<u>(14)</u>	<u>18</u>						
<b>Earnings per share (US\$)</b>									
Basic	11	0.18	0.28						
Diluted	11	0.18	0.28						

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited and as adjusted)
US\$m		
<b>Net profit</b>	<b>2,183</b>	3,377
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on available for sale financial assets (net of tax of: six months ended 30 June 2020: US\$(84)m; six months ended 30 June 2019: US\$(529)m) <sup>(2)</sup>	<b>2,742</b>	5,383
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: six months ended 30 June 2020: US\$61m; six months ended 30 June 2019: US\$14m) <sup>(2)</sup>	<b>(865)</b>	(125)
Foreign currency translation adjustments	<b>(679)</b>	351
Cash flow hedges	<b>12</b>	3
Share of other comprehensive (expense)/income from associates and joint ventures	<b>(65)</b>	19
Subtotal	<u><b>1,145</b></u>	<u>5,631</u>
Items that will not be reclassified subsequently to profit or loss:		
Revaluation (losses)/gains on property held for own use (net of tax of: six months ended 30 June 2020: US\$5m; six months ended 30 June 2019: US\$(5)m)	<b>(65)</b>	124
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: six months ended 30 June 2020: US\$(1)m; six months ended 30 June 2019: nil)	<b>2</b>	–
Subtotal	<u><b>(63)</b></u>	<u>124</u>
Total other comprehensive income	<u><b>1,082</b></u>	<u>5,755</u>
<b>Total comprehensive income</b>	<u><b>3,265</b></u>	<u>9,132</u>
<i>Total comprehensive income attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>3,262</b>	9,091
Non-controlling interests	<b>3</b>	41

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\$4,709m (six months ended 30 June 2019: US\$7,935m) relates to the fair value gains on available for sale financial assets and US\$926m (six months ended 30 June 2019: US\$139m) relates to the fair value gains on available for sale financial assets transferred to income on disposal during the period.

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	Notes	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (As adjusted)
<b>Assets</b>			
Intangible assets	13	2,429	2,520
Investments in associates and joint ventures		558	615
Property, plant and equipment		2,698	2,865
Investment property		4,556	4,834
Reinsurance assets		3,826	3,833
Deferred acquisition and origination costs		26,205	26,328
<b>Financial investments:</b>	14, 16		
Loans and deposits		9,957	10,086
Available for sale			
Debt securities		147,129	138,852
At fair value through profit or loss			
Debt securities		34,023	33,132
Equity securities		46,791	50,322
Derivative financial instruments	15	1,051	971
		238,951	233,363
Deferred tax assets		20	23
Current tax recoverable		217	205
Other assets		5,794	5,605
Cash and cash equivalents	17	5,950	3,941
<b>Total assets</b>		<b>291,204</b>	<b>284,132</b>
<b>Liabilities</b>			
Insurance contract liabilities	18	198,806	192,181
Investment contract liabilities	18	11,334	12,273
Borrowings	19	6,886	5,757
Obligations under repurchase agreements	20	1,484	1,826
Derivative financial instruments	15	915	412
Provisions		232	225
Deferred tax liabilities		6,212	6,214
Current tax liabilities		342	432
Other liabilities		7,738	9,417
<b>Total liabilities</b>		<b>233,949</b>	<b>228,737</b>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	Notes	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019 (As adjusted)
<b>Equity</b>			
Share capital	21	14,135	14,129
Employee share-based trusts	21	(155)	(220)
Other reserves	21	(11,911)	(11,887)
Retained earnings		41,667	40,922
Fair value reserve	21	13,495	11,669
Foreign currency translation reserve	21	(1,408)	(698)
Property revaluation reserve	21	1,008	1,073
Others		(27)	(41)
Amounts reflected in other comprehensive income		13,068	12,003
<i>Total equity attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>56,804</b>	54,947
Non-controlling interests		451	448
<b>Total equity</b>		<b>57,255</b>	55,395
<b>Total liabilities and equity</b>		<b>291,204</b>	284,132

Approved and authorised for issue by the Board of Directors on 20 August 2020.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Notes	Other comprehensive income									Total equity
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	
<b>Balance at 1 January 2020, as previously reported</b>		14,129	(220)	(11,887)	40,372	14,663	(698)	1,163	(14)	448	57,956
Retrospective adjustments for change in accounting policy	28	-	-	-	550	(2,994)	-	(90)	(27)	-	(2,561)
<b>Balance at 1 January 2020, as adjusted</b>		14,129	(220)	(11,887)	40,922	11,669	(698)	1,073	(41)	448	55,395
Net profit		-	-	-	2,197	-	-	-	-	(14)	2,183
Fair value gains on available for sale financial assets <sup>(2)</sup>		-	-	-	-	2,727	-	-	-	15	2,742
Fair value gains on available for sale financial assets transferred to income on disposal <sup>(2)</sup>		-	-	-	-	(865)	-	-	-	-	(865)
Foreign currency translation adjustments		-	-	-	-	-	(681)	-	-	2	(679)
Cash flow hedges		-	-	-	-	-	-	-	12	-	12
Share of other comprehensive expense from associates and joint ventures		-	-	-	-	(36)	(29)	-	-	-	(65)
Revaluation losses on property held for own use		-	-	-	-	-	-	(65)	-	-	(65)
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	-	2	-	2
<b>Total comprehensive income/ (expense) for the period</b>		-	-	-	2,197	1,826	(710)	(65)	14	3	3,265
Dividends	12	-	-	-	(1,452)	-	-	-	-	-	(1,452)
Shares issued under share option scheme and agency share purchase plan		6	-	-	-	-	-	-	-	-	6
Share-based compensation		-	-	47	-	-	-	-	-	-	47
Purchase of shares held by employee share-based trusts		-	(6)	-	-	-	-	-	-	-	(6)
Transfer of vested shares from employee share-based trusts		-	71	(71)	-	-	-	-	-	-	-
<b>Balance at 30 June 2020 – Unaudited</b>		<b>14,135</b>	<b>(155)</b>	<b>(11,911)</b>	<b>41,667</b>	<b>13,495</b>	<b>(1,408)</b>	<b>1,008</b>	<b>(27)</b>	<b>451</b>	<b>57,255</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\$4,709m relates to the fair value gains on available for sale financial assets and US\$926m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the six months ended 30 June 2020.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

US\$m	Notes	Other comprehensive income									Total equity
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	
<b>Balance at 1 January 2019, as previously reported</b>		14,073	(258)	(11,910)	35,661	2,211	(1,301)	1,020	(8)	400	39,888
Retrospective adjustments for change in accounting policy	28	-	-	-	1,219	247	-	(77)	(12)	-	1,377
<b>Balance at 1 January 2019, as adjusted</b>		14,073	(258)	(11,910)	36,880	2,458	(1,301)	943	(20)	400	41,265
Net profit		-	-	-	3,359	-	-	-	-	18	3,377
Fair value gains on available for sale financial assets <sup>(2)</sup>		-	-	-	-	5,363	-	-	-	20	5,383
Fair value gains on available for sale financial assets transferred to income on disposal <sup>(2)</sup>		-	-	-	-	(125)	-	-	-	-	(125)
Foreign currency translation adjustments		-	-	-	-	-	348	-	-	3	351
Cash flow hedges		-	-	-	-	-	-	-	3	-	3
Share of other comprehensive income from associates and joint ventures		-	-	-	-	11	8	-	-	-	19
Revaluation gains on property held for own use		-	-	-	-	-	-	124	-	-	124
<b>Total comprehensive income for the period</b>		-	-	-	3,359	5,249	356	124	3	41	9,132
Dividends	12	-	-	-	(1,448)	-	-	-	-	-	(1,448)
Shares issued under share option scheme and agency share purchase plan		55	-	-	-	-	-	-	-	-	55
Acquisition of non-controlling interests		-	-	(3)	-	-	-	-	-	(1)	(4)
Share-based compensation		-	-	45	-	-	-	-	-	-	45
Purchase of shares held by employee share-based trusts		-	(24)	-	-	-	-	-	-	-	(24)
Transfer of vested shares from employee share-based trusts		-	58	(58)	-	-	-	-	-	-	-
Revaluation reserve transferred to retained earnings on disposal		-	-	-	24	-	-	(24)	-	-	-
<b>Balance at 30 June 2019 – Unaudited and as adjusted</b>		<u>14,128</u>	<u>(224)</u>	<u>(11,926)</u>	<u>38,815</u>	<u>7,707</u>	<u>(945)</u>	<u>1,043</u>	<u>(17)</u>	<u>440</u>	<u>49,021</u>

**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\$7,935m relates to the fair value gains on available for sale financial assets and US\$139m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the six months ended 30 June 2019.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited and as adjusted)
US\$m		
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>2,574</b>	4,096
Adjustments for:		
Financial investments	<b>(7,459)</b>	(14,838)
Insurance and investment contract liabilities, and deferred acquisition and origination costs	<b>9,053</b>	12,233
Obligations under repurchase and securities lending agreements	<b>(314)</b>	820
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items	<b>(4,024)</b>	(4,235)
Operating cash items:		
Interest received	<b>3,377</b>	3,232
Dividends received	<b>460</b>	425
Interest paid	<b>(24)</b>	(22)
Tax paid	<b>(377)</b>	(476)
<b>Net cash provided by operating activities</b>	<b>3,266</b>	1,235
<b>Cash flows from investing activities</b>		
Payments for intangible assets	<b>(81)</b>	(73)
Distribution or dividend from an associate	<b>2</b>	3
Payments for increase in interest of joint ventures	<b>(2)</b>	(4)
Proceeds from sales of investment property and property, plant and equipment	<b>–</b>	20
Payments for investment property and property, plant and equipment	<b>(51)</b>	(43)
Acquisition of subsidiaries	<b>(536)</b>	–
<b>Net cash used in investing activities</b>	<b>(668)</b>	(97)
<b>Cash flows from financing activities</b>		
Issuances of medium-term notes	<b>1,055</b>	1,301
Redemption of medium-term notes	<b>–</b>	(500)
Proceeds from other borrowings	<b>911</b>	138
Repayment of other borrowings	<b>(841)</b>	(77)
Acquisition of non-controlling interests	<b>–</b>	(4)
Payments for lease liabilities <sup>(1)</sup>	<b>(96)</b>	(71)
Interest paid on medium-term notes	<b>(107)</b>	(97)
Dividends paid during the period	<b>(1,452)</b>	(1,448)
Purchase of shares held by employee share-based trusts	<b>(6)</b>	(24)
Shares issued under share option scheme and agency share purchase plan	<b>6</b>	55
<b>Net cash used in financing activities</b>	<b>(530)</b>	(727)
Net increase in cash and cash equivalents	<b>2,068</b>	411
Cash and cash equivalents at beginning of the financial period	<b>3,753</b>	2,146
Effect of exchange rate changes on cash and cash equivalents	<b>(59)</b>	20
<b>Cash and cash equivalents at end of the financial period</b>	<b>5,762</b>	2,577

Note:

(1) The total cash outflow for leases for the six months ended 30 June 2020 was US\$100m (six months ended 30 June 2019: US\$86m).

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

		As at 30 June 2020 (Unaudited)	As at 30 June 2019 (Unaudited)
Cash and cash equivalents in the interim consolidated statement of financial position	17	<b>5,950</b>	2,869
Bank overdrafts		<b>(188)</b>	(292)
<b>Cash and cash equivalents in the interim condensed consolidated statement of cash flows</b>		<b>5,762</b>	2,577

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 throughout the Asia-Pacific region. 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. Basis of preparation and statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting and International Accounting Standard (IAS) 34, Interim Financial Reporting. International Financial Reporting Standards (IFRS) is substantially consistent with Hong Kong Financial Reporting Standards (HKFRS) and the accounting policy selections that the Group has made in preparing these interim condensed consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. References to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) in these interim condensed consolidated financial statements should be read as referring to the equivalent HKFRS, HKAS and Hong Kong (IFRIC) Interpretations (HK(IFRIC) – Int) as the case may be. Accordingly, there are no differences of accounting practice between HKFRS and IFRS affecting these interim condensed consolidated financial statements. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2019.

The accounting policies adopted are consistent with those of the previous financial year, except as described as follow and in note 28. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

## 2. Basis of preparation and statement of compliance (continued)

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

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

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

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

## 2. Basis of preparation and statement of compliance (continued)

- (b) The following relevant new amendments to standards have been adopted for the first time for the financial year ending 31 December 2020 and have no material impact to the Group:
- Amendments to IAS 1 and IAS 8, Definition of Material;
  - Amendments to IAS 39 and IFRS 7, Interest Rate Benchmark Reform; and
  - Amendments to IFRS 3, Definition of a Business.
- (c) The following relevant new amendments to standards have been issued but are not effective for the financial year ending 31 December 2020 and have not been early adopted (the financial years for which the adoption is required for the Group are stated in parentheses). The Group has assessed the impact of these new amendments on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Group:
- Amendment to IAS 1, Classification of Liabilities as Current or Non-Current (2023);
  - Amendment to IAS 16, Proceeds before Intended Use (2022);
  - Amendment to IAS 37, Cost of Fulfilling a Contract (2022);
  - Amendment to IAS 41, Taxation in Fair Value Measurements (2022);
  - Amendment to IFRS 1, Subsidiary as a First-time Adopter (2022);
  - Amendment to IFRS 3, Reference to the Conceptual Framework (2022);
  - Amendment to IFRS 9, Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (2022);
  - Amendment to IFRS 16, Covid-19-Related Rent Concessions (2021); and
  - Amendment to IFRS 16, Lease Incentives (2022).
- (d) The following relevant new standard has been issued but is not effective for the financial year ending 31 December 2020 and has not been early adopted:
- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of HKFRS 17, Insurance Contracts. On 25 June 2020, the IASB issued the amendments to IFRS 17 and the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. HKICPA has not yet made any amendments to HKFRS 17 related to IASB deferral for IFRS 17. The Group is in the midst of conducting a detailed assessment of the new standard.

## 2. Basis of preparation and statement of compliance (continued)

### (e) Voluntary change in accounting policy

During the reporting period, the Group revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios. Prior to this change in accounting policy, the Group recognised and measured the insurance contract liabilities for this business based on the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. With effect from 1 January 2020, and applied retrospectively, the Group now recognises and measures the insurance contract liabilities for this business based on the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance contract liability is recorded for the proportion of the net assets of this other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation. This approach is consistent with the existing accounting for insurance contract liabilities arising from participating business. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time, the current policyholder participation in declared dividends for Hong Kong ranged from 70% to 90%.

The impacts of this voluntary change in accounting policy are described in note 28.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgement on estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Actual results may differ from these estimates. The interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRS and IFRS.

The interim condensed consolidated financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 57. The interim condensed consolidated financial statements have also been reviewed by the Company's Audit Committee.

The financial statements relating to the financial year ended 31 December 2019 that are included in the interim condensed consolidated financial statements as comparative information does not constitute the Group's statutory financial statements for that financial period but is derived from those financial statements. The Group has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 March 2020. Their report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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

### 3. Exchange rates

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

	US dollar exchange rates		
	Six months ended 30 June 2020 (Unaudited)	Year ended 31 December 2019	Six months ended 30 June 2019 (Unaudited)
Hong Kong	7.76	7.84	7.84
Thailand	31.60	31.03	31.61
Singapore	1.40	1.36	1.36
Malaysia	4.25	4.14	4.12
Mainland China	7.03	6.91	6.79

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

	US dollar exchange rates		
	As at 30 June 2020 (Unaudited)	As at 31 December 2019	As at 30 June 2019 (Unaudited)
Hong Kong	7.75	7.79	7.81
Thailand	30.88	29.84	30.71
Singapore	1.40	1.35	1.35
Malaysia	4.28	4.09	4.14
Mainland China	7.07	6.97	6.87

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

### 4. Change in group composition

In September 2017, the Group entered into an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia. On 1 November 2019, the Group, CBA and The Colonial Mutual Life Assurance Society Limited (CMLA) entered into a contractual joint cooperation agreement, which provided an alternative completion structure for the original planned acquisition. The consideration with respect to this acquisition was AUD2,109m or US\$1,454m at exchange rate of the date of the acquisition. The fair value of consideration at acquisition date comprised US\$344m in cash, deferred cash consideration of US\$1,041m and contingent consideration of US\$69m.

As at 31 December 2019, the consideration was subject to purchase price adjustments that had not yet been finalised. Such adjustments were still under negotiation during the current period. The values of consideration and goodwill are therefore provisional as of 30 June 2020. In the period to 30 June 2020, no further changes have been made to these provisional values of consideration or goodwill, which will be finalised within 12 months of the acquisition date.

## 5. Operating profit after tax

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

US\$m	Note	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited and as adjusted)
<b>Operating profit after tax</b>	7	<b>2,958</b>	2,856
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Short-term fluctuations in investment return related to equities and real estate (net of tax of: six months ended 30 June 2020: US\$193m; six months ended 30 June 2019: US\$(120)m) <sup>(1)</sup>			
		<b>(1,309)</b>	696
Reclassification of revaluation losses/(gains) for property held for own use (net of tax of: six months ended 30 June 2020: US\$(1)m; six months ended 30 June 2019: nil) <sup>(1)</sup>			
		<b>61</b>	(114)
Corporate transaction related costs (net of tax of: six months ended 30 June 2020: US\$12m; six months ended 30 June 2019: US\$12m)			
		<b>(37)</b>	(30)
Implementation costs for new accounting standards (net of tax of: six months ended 30 June 2020: US\$2m; six months ended 30 June 2019: US\$2m)			
		<b>(22)</b>	(24)
Other non-operating investment return and other items (net of tax of: six months ended 30 June 2020: US\$(115)m; six months ended 30 June 2019: US\$67m)			
		<b>532</b>	(7)
<b>Net profit</b>		<b><u>2,183</u></b>	<b><u>3,377</u></b>
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>2,933</b>	2,836
Non-controlling interests		<b>25</b>	20
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>2,197</b>	3,359
Non-controlling interests		<b>(14)</b>	18

Note:

(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 with IFRS measurement and presentation.

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

## 6. Total weighted premium income and annualised new premiums

For management decision-making and internal performance management purposes, the Group measures business volumes during the period 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 7.

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 interim 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.

<b>TWPI</b>	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited)
US\$m		
<b>TWPI by geography</b>		
Hong Kong	<b>6,136</b>	6,104
Thailand	<b>1,981</b>	1,929
Singapore	<b>1,502</b>	1,456
Malaysia	<b>1,049</b>	1,063
Mainland China	<b>3,001</b>	2,561
Other Markets	<b>3,257</b>	3,292
<b>Total</b>	<b>16,926</b>	16,405
<b>First year premiums by geography</b>		
Hong Kong	<b>462</b>	1,237
Thailand	<b>282</b>	300
Singapore	<b>145</b>	181
Malaysia	<b>141</b>	163
Mainland China	<b>693</b>	734
Other Markets	<b>439</b>	480
<b>Total</b>	<b>2,162</b>	3,095
<b>Single premiums by geography</b>		
Hong Kong	<b>876</b>	1,074
Thailand	<b>91</b>	112
Singapore	<b>521</b>	562
Malaysia	<b>87</b>	102
Mainland China	<b>234</b>	87
Other Markets	<b>440</b>	370
<b>Total</b>	<b>2,249</b>	2,307

## 6. Total weighted premium income and annualised new premiums (continued)

<b>TWPI (continued)</b> US\$m	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited)
<b>Renewal premiums by geography</b>		
Hong Kong	5,586	4,760
Thailand	1,690	1,618
Singapore	1,305	1,219
Malaysia	899	890
Mainland China	2,285	1,818
Other Markets	2,774	2,774
<b>Total</b>	<b>14,539</b>	<b>13,079</b>
	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited)
<b>ANP</b> US\$m		
<b>ANP by geography</b>		
Hong Kong	565	1,367
Thailand	312	321
Singapore	214	267
Malaysia	159	198
Mainland China	726	753
Other Markets <sup>(1)</sup>	603	537
<b>Total</b>	<b>2,579</b>	<b>3,443</b>

Note:

- (1) ANP from Tata AIA Life Insurance Company Limited (Tata AIA Life), which is 49 per cent owned by the Group, is accounted for using the equity method and has been included in the Other Markets' ANP result for the six months ended 30 June 2020 (six months ended 30 June 2019: exclude any contribution from Tata AIA Life).

## 7. Segment information

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

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 on an annualised basis as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing shareholders' allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests and fair value reserve).

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

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

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

## 7. Segment information (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
<b>Six months ended 30 June 2020 – Unaudited</b>								
ANP	565	312	214	159	726	603	-	2,579
TWPI	6,136	1,981	1,502	1,049	3,001	3,257	-	16,926
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	6,631	1,909	1,596	901	3,039	2,151	57	16,284
Investment return	1,695	631	616	279	509	573	246	4,549
<b>Total revenue</b>	<b>8,326</b>	<b>2,540</b>	<b>2,212</b>	<b>1,180</b>	<b>3,548</b>	<b>2,724</b>	<b>303</b>	<b>20,833</b>
Net insurance and investment contract benefits	6,155	1,415	1,619	770	2,388	1,304	47	13,698
Commission and other acquisition expenses	770	397	170	127	222	463	8	2,157
Operating expenses	220	113	96	90	185	445	93	1,242
Finance costs and other expenses	88	26	28	7	22	39	111	321
<b>Total expenses</b>	<b>7,233</b>	<b>1,951</b>	<b>1,913</b>	<b>994</b>	<b>2,817</b>	<b>2,251</b>	<b>259</b>	<b>17,418</b>
Share of profit from associates and joint ventures	-	-	-	-	-	2	-	2
<b>Operating profit before tax</b>	<b>1,093</b>	<b>589</b>	<b>299</b>	<b>186</b>	<b>731</b>	<b>475</b>	<b>44</b>	<b>3,417</b>
Tax on operating profit before tax	(80)	(111)	4	(36)	(91)	(127)	(18)	(459)
<b>Operating profit after tax</b>	<b>1,013</b>	<b>478</b>	<b>303</b>	<b>150</b>	<b>640</b>	<b>348</b>	<b>26</b>	<b>2,958</b>
<i>Operating profit after tax attributable to:</i>								
Shareholders of AIA Group Limited	1,005	478	303	148	640	333	26	2,933
Non-controlling interests	8	-	-	2	-	15	-	25

### Key operating ratios:

Expense ratio	3.6%	5.7%	6.4%	8.6%	6.2%	13.7%	-	7.3%
Operating margin	16.5%	24.1%	20.2%	14.3%	21.3%	10.7%	-	17.5%
Operating return on shareholders' allocated equity	18.8%	14.4%	16.9%	15.8%	28.7%	7.8%	-	13.2%

### Operating profit before tax includes:

Finance costs	16	-	1	1	16	5	102	141
Depreciation and amortisation	51	11	15	10	43	57	18	205

US\$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
<b>30 June 2020 – Unaudited</b>								
Total assets	100,513	36,508	40,668	15,801	29,761	50,773	17,180	291,204
Total liabilities	84,848	27,167	36,260	13,804	24,641	40,103	7,126	233,949
Total equity	15,665	9,341	4,408	1,997	5,120	10,670	10,054	57,255
Shareholders' allocated equity	10,560	6,073	3,334	1,811	4,487	8,270	8,774	43,309
Net capital (out)/in flows	(622)	(15)	8	(24)	-	4	(756)	(1,405)

### Total assets include:

Investments in associates and joint ventures	4	-	-	1	-	553	-	558
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## 7. Segment information (continued)

Segment information may be reconciled to the interim 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>	Interim consolidated income statement	
<b>Six months ended 30 June 2020</b>					
<b>- Unaudited</b>					
Net premiums, fee income and other operating revenue	16,284	-	(1)	16,283	Net premiums, fee income and other operating revenue
Investment return	4,549	(2,886)	1,718	3,381	Investment return
<b>Total revenue</b>	<b>20,833</b>	<b>(2,886)</b>	<b>1,717</b>	<b>19,664</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	13,698	(1,384)	717	13,031	Net insurance and investment contract benefits
Other expenses	3,720	-	341	4,061	Other expenses
<b>Total expenses</b>	<b>17,418</b>	<b>(1,384)</b>	<b>1,058</b>	<b>17,092</b>	<b>Total expenses</b>
Share of profit from associates and joint ventures	2	-	-	2	Share of profit from associates and joint ventures
<b>Operating profit before tax</b>	<b>3,417</b>	<b>(1,502)</b>	<b>659</b>	<b>2,574</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 7. Segment information (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
<b>Six months ended 30 June 2019</b>								
<b>– Unaudited and as adjusted</b>								
<b>ANP</b>	1,367	321	267	198	753	537	–	3,443
<b>TWPI</b>	6,104	1,929	1,456	1,063	2,561	3,292	–	16,405
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	6,666	1,891	1,640	922	2,439	2,179	31	15,768
Investment return	1,507	678	605	288	471	560	216	4,325
<b>Total revenue</b>	<b>8,173</b>	<b>2,569</b>	<b>2,245</b>	<b>1,210</b>	<b>2,910</b>	<b>2,739</b>	<b>247</b>	<b>20,093</b>
Net insurance and investment contract benefits	6,107	1,405	1,640	787	1,854	1,359	26	13,178
Commission and other acquisition expenses	736	372	182	123	200	428	4	2,045
Operating expenses	222	111	112	88	168	357	110	1,168
Finance costs and other expenses	79	27	16	8	26	31	94	281
<b>Total expenses</b>	<b>7,144</b>	<b>1,915</b>	<b>1,950</b>	<b>1,006</b>	<b>2,248</b>	<b>2,175</b>	<b>234</b>	<b>16,672</b>
Share of profit from associates and joint ventures	–	–	–	–	–	–	–	–
<b>Operating profit before tax</b>	<b>1,029</b>	<b>654</b>	<b>295</b>	<b>204</b>	<b>662</b>	<b>564</b>	<b>13</b>	<b>3,421</b>
Tax on operating profit before tax	(86)	(126)	(14)	(35)	(125)	(166)	(13)	(565)
<b>Operating profit after tax</b>	<b>943</b>	<b>528</b>	<b>281</b>	<b>169</b>	<b>537</b>	<b>398</b>	<b>–</b>	<b>2,856</b>
<i>Operating profit after tax attributable to:</i>								
<b>Shareholders of AIA Group Limited</b>	935	528	281	167	537	388	–	2,836
Non-controlling interests	8	–	–	2	–	10	–	20

### Key operating ratios:

Expense ratio	3.6%	5.8%	7.7%	8.3%	6.6%	10.8%	–	7.1%
Operating margin	15.4%	27.4%	19.3%	15.9%	21.0%	12.1%	–	17.4%
Operating return on shareholders' allocated equity	19.8%	15.7%	17.0%	18.8%	27.5%	11.1%	–	14.0%

### Operating profit before tax includes:

Finance costs	16	1	–	1	19	4	87	128
Depreciation and amortisation	36	11	14	12	38	41	11	163

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

### Total assets include:

Investments in associates and joint ventures	3	–	–	4	–	608	–	615
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## 7. Segment information (continued)

Segment information may be reconciled to the interim 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>	Interim consolidated income statement	
<b>Six months ended 30 June 2019</b>					
<b>- Unaudited and as adjusted</b>					
Net premiums, fee income and other operating revenue	15,768	–	(2)	15,766	Net premiums, fee income and other operating revenue
Investment return	4,325	1,797	2,388	8,510	Investment return
<b>Total revenue</b>	<b>20,093</b>	<b>1,797</b>	<b>2,386</b>	<b>24,276</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	13,178	981	2,236	16,395	Net insurance and investment contract benefits
Other expenses	3,494	–	291	3,785	Other expenses
<b>Total expenses</b>	<b>16,672</b>	<b>981</b>	<b>2,527</b>	<b>20,180</b>	<b>Total expenses</b>
Share of profit from associates and joint ventures	–	–	–	–	Share of profit from associates and joint ventures
<b>Operating profit before tax</b>	<b>3,421</b>	<b>816</b>	<b>(141)</b>	<b>4,096</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 8. Investment return

US\$m	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Interest income	3,443	3,273
Dividend income	459	454
Rental income	87	89
<b>Investment income</b>	<b>3,989</b>	<b>3,816</b>
<b>Available for sale</b>		
Net realised gains from debt securities	926	139
<b>Net gains of available for sale financial assets reflected in the interim consolidated income statement</b>	<b>926</b>	<b>139</b>
<b>At fair value through profit or loss</b>		
Net gains of debt securities	719	689
Net (losses)/gains of equity securities	(3,165)	4,074
Net fair value movement on derivatives	843	(110)
<b>Net (losses)/gains in respect of financial instruments at fair value through profit or loss</b>	<b>(1,603)</b>	<b>4,653</b>
Net fair value movement of investment property	(276)	89
Net foreign exchange gains/(losses)	363	(246)
Other net realised (losses)/gains	(18)	59
<b>Investment experience</b>	<b>(608)</b>	<b>4,694</b>
<b>Investment return</b>	<b>3,381</b>	<b>8,510</b>

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

US\$m	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Foreign exchange gains/(losses)	111	(183)

## 9. Expenses

US\$m	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited and as adjusted)
Insurance contract benefits	6,878	6,493
Change in insurance contract liabilities	7,207	10,209
Investment contract benefits	(155)	644
<b>Insurance and investment contract benefits</b>	<b>13,930</b>	<b>17,346</b>
Insurance and investment contract benefits ceded	(899)	(951)
<b>Insurance and investment contract benefits, net of reinsurance ceded</b>	<b>13,031</b>	<b>16,395</b>
Commission and other acquisition expenses incurred	2,725	3,384
Deferral and amortisation of acquisition costs	(568)	(1,347)
<b>Commission and other acquisition expenses</b>	<b>2,157</b>	<b>2,037</b>
Employee benefit expenses	817	780
Depreciation	132	111
Amortisation	49	32
Other operating expenses	244	245
<b>Operating expenses</b>	<b>1,242</b>	<b>1,168</b>
Investment management expenses and others	283	257
Depreciation on property held for own use	16	27
Restructuring and other non-operating costs <sup>(1)</sup>	190	98
Change in third-party interests in consolidated investment funds	30	62
<b>Other expenses</b>	<b>519</b>	<b>444</b>
Finance costs	143	136
<b>Total</b>	<b>17,092</b>	<b>20,180</b>

Note:

- (1) 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.

## 9. Expenses (continued)

Finance costs may be analysed as:

US\$m	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Repurchase agreements	15	23
Medium-term notes	111	100
Lease liabilities	8	10
Other loans	9	3
<b>Total</b>	<b>143</b>	<b>136</b>

Employee benefit expenses consist of:

US\$m	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Wages and salaries	664	630
Share-based compensation	48	40
Pension costs – defined contribution plans	46	45
Pension costs – defined benefit plans	7	8
Other employee benefit expenses	52	57
<b>Total</b>	<b>817</b>	<b>780</b>

## 10. Income tax

US\$m	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited)
<b>Tax charged in the interim consolidated income statement</b>		
Current income tax – Hong Kong Profits Tax	77	99
Current income tax – overseas	213	133
Deferred income tax on temporary differences	101	487
<b>Total</b>	<b>391</b>	<b>719</b>

Income tax expense is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year.

The tax benefit or expense attributable to life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, New Zealand, the Philippines and Sri Lanka is included in the tax charge or credit and is analysed separately in the interim consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from period to period. The tax expenses attributable to policyholders' returns included above is US\$23m (six months ended 30 June 2019: US\$115m).

During the reporting period, Indonesia enacted a change in the corporate income tax rate from 25 to 22 per cent for fiscal years 2020 and 2021 and 20 per cent from fiscal year 2022 onwards.

## 11. 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 period. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for the purpose of computing basic and diluted earnings per share.

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited and as adjusted)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	2,197	3,359
Weighted average number of ordinary shares in issue (million)	12,055	12,036
<b>Basic earnings per share (US cents per share)</b>	<b>18.22</b>	<b>27.91</b>

## 11. Earnings per share (continued)

### 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 30 June 2020 and 2019, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 24.

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited and as adjusted)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	2,197	3,359
Weighted average number of ordinary shares in issue (million)	12,055	12,036
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	19	29
Weighted average number of ordinary shares for diluted earnings per share (million)	12,074	12,065
<b>Diluted earnings per share (US cents per share)</b>	<b>18.20</b>	<b>27.84</b>

At 30 June 2020, 9,824,311 share options (30 June 2019: 8,803,510) 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 5) 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 period. As of 30 June 2020 and 2019, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 24.

	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited and as adjusted)
Basic (US cents per share)	24.33	23.56
Diluted (US cents per share)	24.29	23.51

## 12. Dividends

Dividends to shareholders of the Company attributable to the interim period:

US\$m	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited)
Interim dividend declared after the reporting date of 35.00 Hong Kong cents per share (six months ended 30 June 2019: 33.30 Hong Kong cents per share) <sup>(1)</sup>	<b>545</b>	514

Note:

(1) Based upon shares outstanding at 30 June 2020 and 2019 that are entitled to a dividend, other than those held by employee share-based trusts.

The above interim dividend was declared after the reporting date and 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 interim period:

US\$m	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited)
Final dividend in respect of the previous financial period, approved and paid during the interim period of 93.30 Hong Kong cents per share (six months ended 30 June 2019: 84.80 Hong Kong cents per share)	<b>1,452</b>	1,302
Special dividend in respect of the previous financial period, approved and paid during the interim period of nil per share (six months ended 30 June 2019: 9.50 Hong Kong cents per share)	<b>-</b>	146

### 13. 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	–	42	–	42
Disposals	–	(14)	(2)	(16)
Foreign exchange movements	(50)	(12)	(9)	(71)
<b>At 30 June 2020 – Unaudited</b>	<b>1,505</b>	<b>703</b>	<b>884</b>	<b>3,092</b>
<b>Accumulated amortisation</b>				
At 1 January 2020	(4)	(422)	(191)	(617)
Amortisation charge for the period	–	(49)	(24)	(73)
Disposals	–	13	2	15
Foreign exchange movements	–	9	3	12
<b>At 30 June 2020 – Unaudited</b>	<b>(4)</b>	<b>(449)</b>	<b>(210)</b>	<b>(663)</b>
<b>Net book value</b>				
At 31 December 2019	1,551	265	704	2,520
<b>At 30 June 2020 – Unaudited</b>	<b>1,501</b>	<b>254</b>	<b>674</b>	<b>2,429</b>

The Group holds intangible assets for its long-term use and the annual amortisation charge of US\$146m (31 December 2019: US\$121m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period.

## 14. Financial investments

### DEBT SECURITIES

Debt securities by type comprise the following:

US\$m	Policyholder and shareholder				Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(5)</sup> FVTPL	Total
	Participating funds and other participating business with distinct portfolios		Other policyholder and shareholder					
	FVTPL	AFS	FVTPL	AFS				
<b>30 June 2020 – Unaudited</b>								
Government bonds <sup>(1)</sup>	7,884	–	1,495	39,940	49,319	1,647	–	50,966
Other government and government agency bonds <sup>(2)</sup>	6,455	4,848	76	17,061	28,440	319	333	29,092
Corporate bonds	11,273	36,433	279	48,030	96,015	1,537	1,937	99,489
Structured securities <sup>(3)</sup>	314	178	346	639	1,477	128	–	1,605
<b>Total<sup>(4)</sup></b>	<b>25,926</b>	<b>41,459</b>	<b>2,196</b>	<b>105,670</b>	<b>175,251</b>	<b>3,631</b>	<b>2,270</b>	<b>181,152</b>
<b>31 December 2019</b>								
Government bonds <sup>(1)</sup>	7,751	–	1,397	41,948	51,096	1,600	–	52,696
Other government and government agency bonds <sup>(2)</sup>	5,974	4,000	76	16,651	26,701	270	347	27,318
Corporate bonds	11,096	29,213	303	46,115	86,727	1,615	1,946	90,288
Structured securities <sup>(3)</sup>	291	242	378	683	1,594	88	–	1,682
<b>Total<sup>(4)</sup></b>	<b>25,112</b>	<b>33,455</b>	<b>2,154</b>	<b>105,397</b>	<b>166,118</b>	<b>3,573</b>	<b>2,293</b>	<b>171,984</b>

Notes:

- (1) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates.
- (2) 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.
- (3) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (4) Debt securities of US\$8,063m (31 December 2019: US\$8,150m) are restricted due to local regulatory requirements.
- (5) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

## 14. Financial investments (continued)

### EQUITY SECURITIES

Equity securities by type comprise the following:

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 FVTPL	Other policyholder and shareholder FVTPL				
<b>30 June 2020 – Unaudited</b>						
Equity shares	11,644	5,129	16,773	5,738	557	23,068
Interests in investment funds	6,072	1,344	7,416	16,306	1	23,723
<b>Total</b>	<b>17,716</b>	<b>6,473</b>	<b>24,189</b>	<b>22,044</b>	<b>558</b>	<b>46,791</b>

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 FVTPL	Other policyholder and shareholder FVTPL				
<b>31 December 2019</b>						
Equity shares	12,114	6,613	18,727	6,302	331	25,360
Interests in investment funds	6,625	869	7,494	17,468	–	24,962
<b>Total</b>	<b>18,739</b>	<b>7,482</b>	<b>26,221</b>	<b>23,770</b>	<b>331</b>	<b>50,322</b>

Note:

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

### DEBT AND EQUITY SECURITIES

US\$m	As at 30 June 2020 (Unaudited)	As at 31 December 2019
<b>Debt securities</b>		
Listed	145,240	137,014
Unlisted	35,912	34,970
<b>Total</b>	<b>181,152</b>	<b>171,984</b>
<b>Equity securities</b>		
Listed	24,856	26,743
Unlisted <sup>(1)</sup>	21,935	23,579
<b>Total</b>	<b>46,791</b>	<b>50,322</b>

Note:

(1) Including US\$19,729m (31 December 2019: US\$21,333m) of investment funds which can be redeemed daily.

## 14. Financial investments (continued)

### LOANS AND DEPOSITS

US\$m	As at 30 June 2020 (Unaudited)	As at 31 December 2019
Policy loans	3,295	3,246
Mortgage loans on residential real estate	577	606
Mortgage loans on commercial real estate	48	49
Other loans	1,238	776
Allowance for loan losses	(16)	(13)
<b>Loans</b>	<b>5,142</b>	4,664
Term deposits	3,147	3,696
Promissory notes <sup>(1)</sup>	1,668	1,726
<b>Total</b>	<b>9,957</b>	10,086

Note:

(1) The promissory notes are issued by a government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US\$1,902m (31 December 2019: US\$1,951m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 30 June 2020, the carrying value of such receivables is US\$719m (31 December 2019: US\$265m).

## 15. Derivative financial instruments

The Group's derivative exposure is as follows:

US\$m	Notional amount	Fair value	
		Assets	Liabilities
<b>30 June 2020 – Unaudited</b>			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	9,054	196	(434)
Forwards	3,954	116	(19)
Foreign exchange futures	84	–	–
<b>Total foreign exchange contracts</b>	<b>13,092</b>	<b>312</b>	<b>(453)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	9,197	686	(442)
<b>Other</b>			
Warrants and options	121	2	–
Forward contracts	1,876	50	(11)
Swaps	870	1	(9)
<b>Netting</b>	<b>(84)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>25,072</b>	<b>1,051</b>	<b>(915)</b>
<b>31 December 2019</b>			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	8,338	396	(204)
Forwards	4,973	62	(24)
Foreign exchange futures	98	–	–
Currency options	3	–	–
<b>Total foreign exchange contracts</b>	<b>13,412</b>	<b>458</b>	<b>(228)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	8,740	487	(161)
<b>Other</b>			
Warrants and options	147	3	–
Forward contracts	1,843	14	(17)
Swaps	1,333	9	(6)
<b>Netting</b>	<b>(98)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>25,377</b>	<b>971</b>	<b>(412)</b>

The column “notional amount” in the above table represents the pay leg of derivative transactions other than equity index option. For certain equity-index call and put options with the same notional amount that are purchased to hedge the downside risk of the underlying equities by means of a collar strategy, the notional amount represents the exposure of the hedged equities.

Of the total derivatives, US\$16m (31 December 2019: US\$12m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the interim 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 interim 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.

## **15. Derivative financial instruments (continued)**

### **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 30 June 2020, the Group had posted cash collateral of US\$201m (31 December 2019: US\$37m) and pledged debt securities with carrying value of US\$415m (31 December 2019: US\$266m) for liabilities and held cash collateral of US\$534m (31 December 2019: US\$581m), debt securities collateral with carrying value of US\$7m (31 December 2019: US\$7m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

## 16. Fair value measurement of financial instruments

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost, except for investment contracts with discretionary participation features (DPF) which are accounted for under IFRS 4.

The following tables present the fair values of the Group's financial assets and financial liabilities:

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
<b>30 June 2020 – Unaudited</b>						
Financial investments	14					
Loans and deposits		–	–	9,957	9,957	9,967
Debt securities		34,023	147,129	–	181,152	181,152
Equity securities		46,791	–	–	46,791	46,791
Derivative financial instruments	15	1,051	–	–	1,051	1,051
Reinsurance receivables		–	–	595	595	595
Other receivables		–	–	3,104	3,104	3,104
Accrued investment income		–	–	1,762	1,762	1,762
Cash and cash equivalents	17	–	–	5,950	5,950	5,950
<b>Financial assets</b>		<b>81,865</b>	<b>147,129</b>	<b>21,368</b>	<b>250,362</b>	<b>250,372</b>
	Notes	Fair value through profit or loss		Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities	18	10,494		503	10,997	10,997
Borrowings	19	–		6,886	6,886	7,529
Obligations under repurchase agreements	20	–		1,484	1,484	1,484
Derivative financial instruments	15	915		–	915	915
Other liabilities		1,052		6,686	7,738	7,738
<b>Financial liabilities</b>		<b>12,461</b>		<b>15,559</b>	<b>28,020</b>	<b>28,663</b>



## 16. Fair value measurement of financial instruments (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A RECURRING BASIS

A summary of financial 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	
<b>30 June 2020 – Unaudited</b>				
<b>Recurring fair value measurement</b>				
<b>Financial assets</b>				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	41,289	170	41,459
Other policyholder and shareholder	–	104,742	928	105,670
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	25,225	701	25,926
Unit-linked contracts and consolidated investment funds	–	5,895	6	5,901
Other policyholder and shareholder	1	1,942	253	2,196
Equity securities				
Participating funds and other participating business with distinct portfolios	14,770	1,025	1,921	17,716
Unit-linked contracts and consolidated investment funds	22,074	259	269	22,602
Other policyholder and shareholder	5,284	733	456	6,473
Derivative financial instruments				
Foreign exchange contracts	–	312	–	312
Interest rate contracts	–	686	–	686
Other contracts	7	46	–	53
<b>Total financial assets on a recurring fair value measurement basis</b>	<b>42,136</b>	<b>182,154</b>	<b>4,704</b>	<b>228,994</b>
<i>% of Total</i>	<i>18.4</i>	<i>79.5</i>	<i>2.1</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities				
	–	–	10,494	10,494
Derivative financial instruments				
Foreign exchange contracts	–	453	–	453
Interest rate contracts	–	442	–	442
Other contracts	9	11	–	20
Other liabilities				
	–	1,052	–	1,052
<b>Total financial liabilities on a recurring fair value measurement basis</b>	<b>9</b>	<b>1,958</b>	<b>10,494</b>	<b>12,461</b>
<i>% of Total</i>	<i>0.1</i>	<i>15.7</i>	<i>84.2</i>	<i>100.0</i>

## 16. Fair value measurement of financial instruments (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A RECURRING BASIS (continued)

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
<b>31 December 2019</b>				
<b>Recurring fair value measurement</b>				
<b>Financial assets</b>				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	72	33,153	230	33,455
Other policyholder and shareholder	133	104,220	1,044	105,397
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	8	24,529	575	25,112
Unit-linked contracts and consolidated investment funds	–	5,848	18	5,866
Other policyholder and shareholder	1	1,886	267	2,154
Equity securities				
Participating funds and other participating business with distinct portfolios	16,108	896	1,735	18,739
Unit-linked contracts and consolidated investment funds	23,559	244	298	24,101
Other policyholder and shareholder	6,348	755	379	7,482
Derivative financial instruments				
Foreign exchange contracts	–	458	–	458
Interest rate contracts	–	487	–	487
Other contracts	14	12	–	26
<b>Total financial assets on a recurring fair value measurement basis</b>				
	46,243	172,488	4,546	223,277
<i>% of Total</i>	20.7	77.3	2.0	100.0
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	11,391	11,391
Derivative financial instruments				
Foreign exchange contracts	–	228	–	228
Interest rate contracts	–	161	–	161
Other contracts	12	11	–	23
Other liabilities	–	1,116	–	1,116
<b>Total financial liabilities on a recurring fair value measurement basis</b>				
	12	1,516	11,391	12,919
<i>% of Total</i>	0.1	11.7	88.2	100.0

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 six months ended 30 June 2020, the Group transferred US\$121m (year ended 31 December 2019: US\$379m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$1m (year ended 31 December 2019: US\$36m) of assets from Level 2 to Level 1 during the six months ended 30 June 2020.

The Group's Level 2 financial instruments include debt securities, equity securities, derivative instruments and other liabilities. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from third-party pricing services and brokers are not available, internal valuation techniques and inputs will be used to derive the fair value for the financial instruments.

## 16. Fair value measurement of financial instruments (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A RECURRING BASIS (continued)

The table below sets out a summary of changes in the Group's Level 3 financial assets and liabilities measured at fair value on a recurring basis for the six months ended 30 June 2020. The table reflects losses, including losses on financial assets and liabilities categorised as Level 3 as at 30 June 2020.

#### Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
<b>At 1 January 2020</b>	<b>2,134</b>	<b>2,412</b>	<b>-</b>	<b>(11,391)</b>
Net movement on investment contract liabilities	-	-	-	897
Total losses				
Reported under investment return in the interim consolidated income statement	(58)	(92)	-	-
Reported under fair value reserve and foreign currency translation reserve in the interim consolidated statement of comprehensive income	(21)	(41)	-	-
Purchases	266	358	-	-
Sales	(111)	(91)	-	-
Settlements	(152)	-	-	-
Transfer into Level 3	-	100	-	-
<b>At 30 June 2020 – Unaudited</b>	<b>2,058</b>	<b>2,646</b>	<b>-</b>	<b>(10,494)</b>
<b>Change in unrealised losses included in the interim consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return</b>	<b>(5)</b>	<b>(61)</b>	<b>-</b>	<b>-</b>

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets.

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.

## 16. Fair value measurement of financial instruments (continued)

### SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 FAIR VALUE MEASUREMENTS

As at 30 June 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 30 June 2020 (Unaudited) (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	833	Discounted cash flows	Risk adjusted discount rate	2.97% – 10.35%

### 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 third-party 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 third-party 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 fixed income 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.

## 17. Cash and cash equivalents

US\$m	As at 30 June 2020 (Unaudited)	As at 31 December 2019
Cash	4,953	3,158
Cash equivalents	997	783
<b>Total<sup>(1)</sup></b>	<b>5,950</b>	<b>3,941</b>

Note:

(1) Of cash and cash equivalents, US\$803m (31 December 2019: US\$703m) are held to back unit-linked contracts and US\$120m (31 December 2019: US\$49m) are held by consolidated investment funds.

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments with maturities at acquisition of three months or less and money market funds. Accordingly, all such amounts are expected to be realised within 12 months after the end of the reporting period.

## 18. Insurance and investment contract liabilities

### INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can be analysed as follows:

US\$m	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (As adjusted)
Deferred profit	22,295	20,500
Unearned revenue	1,863	2,091
Policyholders' share of participating surplus	25,091	21,870
Liabilities for future policyholder benefits	149,557	147,720
<b>Total</b>	<b>198,806</b>	<b>192,181</b>

### INVESTMENT CONTRACT LIABILITIES

Investment contract liabilities include deferred fee income of US\$337m (31 December 2019: US\$367m).

## 19. Borrowings

US\$m	As at 30 June 2020 (Unaudited)	As at 31 December 2019
Other loans	70	–
Medium-term notes	6,816	5,757
<b>Total</b>	<b>6,886</b>	<b>5,757</b>

The following table summarises the Company's outstanding medium-term notes placed to the market at 30 June 2020:

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
12 April 2018	HK\$3,900m	2.760%	3 years	12 April 2021
20 September 2018 <sup>(1)</sup>	US\$500m	3M LIBOR + 0.52%	3 years	20 September 2021
16 January 2019	HK\$1,300m	2.950%	3.5 years	16 July 2022
16 January 2019	HK\$1,100m	3.680%	12 years	16 January 2031
9 April 2019 <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

Notes:

- (1) These medium-term notes 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.

The net proceeds from issuance during the six months ended 30 June 2020 are used for general corporate purposes.

The Group has access to an aggregate of US\$2,438m unsecured committed credit facilities, which includes a US\$248m credit facility expiring in 2020, and a US\$2,190m credit facility expiring in 2024. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 30 June 2020 and 31 December 2019.

## 20. Obligations under repurchase agreements

The Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not de-recognised from the Group's interim consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each period end:

US\$m	As at 30 June 2020 (Unaudited)	As at 31 December 2019
Debt securities – AFS		
Repurchase agreements	1,364	1,947
Debt securities – FVTPL		
Repurchase agreements	133	41
<b>Total</b>	<b>1,497</b>	<b>1,988</b>

### COLLATERAL

At 30 June 2020 and 31 December 2019, the Group had no pledged debt securities. Cash collateral of US\$5m (31 December 2019: US\$1m) 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 and they are not recognised in the interim consolidated statement of financial position.

At 30 June 2020, the obligations under repurchase agreements were US\$1,484m (31 December 2019: US\$1,826m).

## 21. Share capital and reserves

### SHARE CAPITAL

	As at 30 June 2020		As at 31 December 2019	
	Million shares (Unaudited)	US\$m (Unaudited)	Million shares	US\$m
<b>Ordinary shares<sup>(1)</sup>, issued and fully paid</b>				
<b>At beginning of the financial period</b>	<b>12,089</b>	<b>14,129</b>	12,077	14,073
Shares issued under share option scheme and agency share purchase plan	<b>2</b>	<b>6</b>	12	56
<b>At end of the financial period</b>	<b>12,091</b>	<b>14,135</b>	<b>12,089</b>	<b>14,129</b>

Note:

(1) Ordinary shares have no nominal value.

The Company issued 1,021,227 shares under share option scheme (year ended 31 December 2019: 10,552,614 shares) and 1,185,442 shares under agency share purchase plan (year ended 31 December 2019: 1,260,386 shares) during the six months ended 30 June 2020.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2020 with the exception of 787,733 shares (year ended 31 December 2019: 3,127,664 shares) of the Company purchased by and nil share (year ended 31 December 2019: 911,718 shares) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the six months ended 30 June 2020, 11,233,639 shares (six months ended 30 June 2019: 13,348,747 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 30 June 2020, 29,416,533 shares (31 December 2019: 39,862,439 shares) of the Company were held by the employee share-based trusts.

## **21. Share capital and reserves (continued)**

### **RESERVES**

#### **Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

#### **Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

#### **Employee share-based trusts**

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

#### **Property revaluation reserve**

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

#### **Other reserves**

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

## 22. Group capital structure

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulator at the AIA Company Limited (AIA Co.) and AIA International Limited (AIA International) levels is the Hong Kong Insurance Authority (HKIA), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, AIA is reporting under HKIO the capital position of its Mainland China branches under the HKIO based on the Mainland China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

AIA has given an undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in each of AIA Co. and AIA International.

The capital positions of the Group's two principal operating companies as of 30 June 2020 and 31 December 2019 are as follows:

US\$m	30 June 2020 (Unaudited)			31 December 2019		
	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	12,342	3,762	328%	11,856	3,272	362%
AIA International	8,400	2,819	298%	9,280	2,443	380%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKIA of their solvency margin position based on their annual audited financial statements.

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends or other distributions and 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.

## **23. Risk management**

The risks that the Group is exposed to include, but are not limited to, credit risk, interest rate risk, equity price risk, foreign exchange rate risk and liquidity risk.

### **CREDIT RISK**

Credit risk is the risk that third parties fail to meet their obligations to the Group when they fall due. Although the primary source of credit risk is the Group's investment portfolio, such risk can also arise through reinsurance, procurement, and treasury activities.

The Group's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of defence. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Group's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating determined by the investment teams. The Group's Risk Management function manages the Group's internal ratings framework and conducts periodic rating reviews. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

### **INTEREST RATE RISK**

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Group's insurance liabilities.

AIA manages interest rate risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

### **EQUITY PRICE RISK**

Equity price risk arises from changes in the market value of equity securities. Investments in equity securities on a long-term basis are expected to align policyholders expectations, provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group's strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

## 23. Risk management (continued)

### SENSITIVITY ANALYSIS

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. 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 policyholders' participation ratios.

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.

US\$m	30 June 2020 (Unaudited)			31 December 2019 (As adjusted)		
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
<b>Equity price risk</b>						
10 per cent increase in equity prices	984	984	984	1,050	1,050	1,050
10 per cent decrease in equity prices	(984)	(984)	(984)	(1,050)	(1,050)	(1,050)
<b>Interest rate risk</b>						
+ 50 basis points shift in yield curves	(295)	(7,219)	(295)	(289)	(7,026)	(289)
- 50 basis points shift in yield curves	335	8,042	335	312	7,869	312

### FOREIGN EXCHANGE RATE RISK

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in the Asia-Pacific region and the translation of multiple currencies to US dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

However, assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

## 23. Risk management (continued)

### FOREIGN EXCHANGE RATE RISK (continued)

#### Foreign exchange rate net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
<b>30 June 2020 – Unaudited</b>						
Equity analysed by original currency	32,458	3,476	5,687	(3,172)	2,339	5,630
Net positions of currency derivatives	(9,256)	659	3,618	4,037	(14)	(622)
<b>Currency exposure</b>	<b>23,202</b>	<b>4,135</b>	<b>9,305</b>	<b>865</b>	<b>2,325</b>	<b>5,008</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	151	10	(21)	27	(1)	(9)
Impact on other comprehensive income	(176)	143	485	17	118	259
<b>Impact on total equity</b>	<b>(25)</b>	<b>153</b>	<b>464</b>	<b>44</b>	<b>117</b>	<b>250</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	151	41	23	(13)	1	13
Impact on other comprehensive income	(176)	(194)	(487)	(31)	(118)	(263)
<b>Impact on total equity</b>	<b>(25)</b>	<b>(153)</b>	<b>(464)</b>	<b>(44)</b>	<b>(117)</b>	<b>(250)</b>
US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
<b>31 December 2019 – As adjusted</b>						
Equity analysed by original currency	29,978	3,483	6,703	(2,604)	2,312	4,612
Net positions of currency derivatives	(8,371)	592	3,349	3,274	(123)	(629)
<b>Currency exposure</b>	<b>21,607</b>	<b>4,075</b>	<b>10,052</b>	<b>670</b>	<b>2,189</b>	<b>3,983</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	152	(2)	(17)	11	(8)	(25)
Impact on other comprehensive income	(180)	151	519	23	118	224
<b>Impact on total equity</b>	<b>(28)</b>	<b>149</b>	<b>502</b>	<b>34</b>	<b>110</b>	<b>199</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	152	46	20	4	9	26
Impact on other comprehensive income	(180)	(195)	(522)	(38)	(119)	(225)
<b>Impact on total equity</b>	<b>(28)</b>	<b>(149)</b>	<b>(502)</b>	<b>(34)</b>	<b>(110)</b>	<b>(199)</b>

## 23. Risk management (continued)

### LIQUIDITY RISK

AIA identifies liquidity risk as occurring in two ways, financial liquidity risk and investment liquidity risk. Financial liquidity risk is the risk that insufficient cash is available to meet payment obligations to counterparties as they fall due. One area of particular focus in the management of financial liquidity is collateral. AIA manages this exposure by determining limits for its activities in the derivatives and repurchase agreement markets based on the collateral available within the relevant fund or subsidiary to withstand extreme market events. More broadly AIA supports its liquidity through committed bank facilities, use of the bond repurchase markets and maintaining access to debt markets via the Company's Global Medium-term Note and Securities programme.

Investment liquidity risk occurs in relation to the Group's ability to buy and sell investments. This is a function of the size of the Group's holdings relative to the availability of counterparties willing to buy or sell these holdings at any given time. In times of stress, market losses will generally be compounded by forced sellers seeking unwilling buyers.

While life insurance companies are characterised by a relatively low need for liquidity to cover those of their liabilities which are directly linked to mortality and morbidity, this risk is nevertheless carefully managed by continuously assessing the relative liquidity of the Group's assets and managing the size of individual holdings through limits.

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>
<b>30 June 2020 – Unaudited</b>						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	9,394	2,777	1,018	526	1,762	3,311
Other receivables	2,681	2,563	73	14	-	31
Debt securities	175,251	3,168	19,484	30,794	121,805	-
Equity securities	24,189	-	-	-	-	24,189
Reinsurance receivables	595	595	-	-	-	-
Accrued investment income	1,694	1,687	-	-	-	7
Cash and cash equivalents	5,027	5,027	-	-	-	-
Derivative financial instruments	1,013	206	109	187	511	-
Subtotal	219,844	16,023	20,684	31,521	124,078	27,538
Financial assets (Unit-linked contracts and consolidated investment funds)	30,208	-	-	-	-	30,208 <sup>(3)</sup>
<b>Total</b>	<b>250,052</b>	<b>16,023</b>	<b>20,684</b>	<b>31,521</b>	<b>124,078</b>	<b>57,746</b>
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	151,957	3,915	14,344	15,624	118,074	-
Borrowings	6,886	573	1,912 <sup>(1)</sup>	2,541	1,860	-
Obligations under repurchase agreements	1,484	1,484	-	-	-	-
Other liabilities excluding lease liabilities	6,198	4,319	232	152	176	1,319
Lease liabilities	582	180	353	48	1	-
Derivative financial instruments	905	37	318	235	315	-
Subtotal	168,012	10,508	17,159	18,600	120,426	1,319
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	29,486	-	-	-	-	29,486
<b>Total</b>	<b>197,498</b>	<b>10,508</b>	<b>17,159</b>	<b>18,600</b>	<b>120,426</b>	<b>30,805</b>

Note:

(1) Including US\$1,413m which fall due after 2 years through 5 years.

## 23. Risk management (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>
<b>31 December 2019 – As adjusted</b>						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	9,383	2,657	1,048	594	1,828	3,256
Other receivables	2,598	2,488	75	7	–	28
Debt securities	166,118	2,849	19,404	31,219	112,646	–
Equity securities	26,221	–	–	–	–	26,221
Reinsurance receivables	683	683	–	–	–	–
Accrued investment income	1,644	1,635	–	–	–	9
Cash and cash equivalents	3,189	3,189	–	–	–	–
Derivative financial instruments	937	167	189	196	385	–
Subtotal	210,773	13,668	20,716	32,016	114,859	29,514
Financial assets (Unit-linked contracts and consolidated investment funds)						
	31,604	–	–	–	–	31,604 <sup>(3)</sup>
<b>Total</b>	<b>242,377</b>	<b>13,668</b>	<b>20,716</b>	<b>32,016</b>	<b>114,859</b>	<b>61,118</b>
Financial and insurance contract liabilities						
(Policyholder and shareholder investments)						
Insurance and investment contract liabilities						
(net of deferred acquisition and origination costs, and reinsurance)						
	144,801	3,297	12,025	13,676	115,803	–
Borrowings	5,757	–	1,665 <sup>(4)</sup>	2,233	1,859	–
Obligations under repurchase agreements	1,826	1,826	–	–	–	–
Other liabilities excluding lease liabilities	7,716	5,868	234	162	229	1,223
Lease liabilities	605	178	368	55	4	–
Derivative financial instruments	397	40	165	79	113	–
Subtotal	161,102	11,209	14,457	16,205	118,008	1,223
Financial and insurance contract liabilities						
(Unit-linked contracts and consolidated investment funds)						
	31,098	–	–	–	–	31,098
<b>Total</b>	<b>192,200</b>	<b>11,209</b>	<b>14,457</b>	<b>16,205</b>	<b>118,008</b>	<b>32,321</b>

#### Notes:

- (2) Financial assets with no fixed maturity are receivables on demand which the Group has the choice to call or equities. Similarly, financial liabilities with no fixed maturity are payables on demand as the counterparty has a choice of when the amount is paid.
- (3) Total value of amounts within financial assets (Unit-linked contracts and consolidated investment funds) are 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\$523m (31 December 2019: US\$668m) due in one year or less, US\$2,588m (31 December 2019: US\$2,392m) due after 1 year through 5 years, US\$1,674m (31 December 2019: US\$1,792m) due after 5 years through 10 years and US\$1,116m (31 December 2019: US\$1,014m) due after 10 years, in accordance with the contractual terms of the financial investments.
- (4) Including US\$665m which fall due after 2 years through 5 years.

## 24. Share-based compensation

### SHARE-BASED COMPENSATION PLANS

During the six months ended 30 June 2020, the Group made further awards of share options, restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the 2010 Share Option Scheme (2010 SO Scheme), the 2010 Restricted Share Unit Scheme (2010 RSU Scheme) and the 2011 Employee Share Purchase Plan (2011 ESPP). In addition, the Group made further awards of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

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

Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme, no further share options can be granted under the 2010 SO Scheme. However, the 2010 SO Scheme shall remain in full force and effect to any 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.

### VALUATION METHODOLOGY

The Group utilises a binomial lattice model to calculate the fair value of the share option awards, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, ESPP and ASPP awards, taking into account the terms and conditions upon which the awards were made. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange. The expected life of the share options 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 awards.

The fair value calculated for share options is inherently subjective due to the assumptions made and the limitations of the model utilised.

	Share option awards	
	Six months ended 30 June 2020 (Unaudited)	Year ended 31 December 2019
<b>Assumptions</b>		
Risk-free interest rate	0.85%	1.44% – 1.59%
Volatility	24%	20%
Dividend yield	1.60%	1.50%
Exercise price (HK\$)	68.10	76.38 – 78.70
Share option life (in years)	10	10
Expected life (in years)	7.84	7.97
Weighted average fair value per option/unit at measurement date (HK\$)	15.51	15.55

The weighted average share price for share option valuation for awards made during the six months ended 30 June 2020 is HK\$68.10 (year ended 31 December 2019: HK\$76.37). The total fair value of share options awarded during the six months ended 30 June 2020 is US\$12m (six months ended 30 June 2019: US\$9m).

## 24. Share-based compensation (continued)

### RECOGNISED COMPENSATION COST

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the 2010 RSU Scheme, 2010 SO Scheme, 2011 ESPP and ASPP by the Group for the six months ended 30 June 2020 is US\$52m (six months ended 30 June 2019: US\$45m).

## 25. Remuneration of key management personnel

Key management personnel have been identified as the members of the Group's Executive Committee.

US\$	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
<b>Key management compensation and other expenses</b>		
Salaries and other short-term employee benefits	14,490,699	14,325,664
Post-employment benefits	802,167	1,404,935
Termination benefits	1,708,678	–
Share-based payments	16,371,764	8,767,011
<b>Total</b>	<b>33,373,308</b>	<b>24,497,610</b>

The emoluments of the key management personnel are within the following bands:

US\$	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Below 1,000,000	4	2
1,000,001 to 2,000,000	7	11
2,000,001 to 3,000,000	1	–
5,000,001 to 6,000,000	–	1
6,000,001 to 7,000,000	1	–
7,000,001 and above	1	–

## 26. Commitments and contingencies

### INVESTMENT AND CAPITAL COMMITMENTS

US\$m	As at 30 June 2020 (Unaudited)	As at 31 December 2019
Not later than one year	2,561	1,911
Later than one and not later than five years	102	8
<b>Total</b>	<b>2,663</b>	<b>1,919</b>

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 the Asia-Pacific region 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 anticipated outcome of these disputes and differences of interpretation, where the outcomes are probable and where a reliable estimate can be made. While the final outcomes are subject to uncertainties, the Group believes that these matters have been adequately provided for in these financial statements.

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\$439m at 30 June 2020 (31 December 2019: US\$462m). The liabilities and related reinsurance assets, which totalled US\$2m (31 December 2019: US\$6m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

## **27. Events after the reporting period**

On 19 June 2020, AIA Co. has received approval from the China Banking and Insurance Regulatory Commission (CBIRC) to convert its existing Shanghai branch to a 100 per cent wholly-owned subsidiary. On 9 July 2020, the subsidiary was incorporated in Shanghai to operate AIA's life insurance business in Mainland China once the conversion process is completed. Upon the completion of the conversion process, any future remittances to the Group from this subsidiary will be subject to withholding tax at the applicable tax rate in Mainland China (currently at 5%). Although the conversion is not expected to have any immediate material financial impact on the Group's consolidated financial statements, operating profit after tax and net profit from AIA China will be subject to 5% withholding tax from the date of conversion.

On 20 August 2020, a Committee appointed by the Board of Directors declared an interim dividend of 35.00 Hong Kong cents per share (six months ended 30 June 2019: 33.30 Hong Kong cents per share).

## **28. Effect of adoption of revised accounting policy**

For the period ended 30 June 2020, the Group has revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios. Other participating business with distinct portfolios refer to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. Prior to this change in accounting policy, the Group recognised and measured the insurance contract liabilities for this business based on the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. With effect from 1 January 2020, and applied retrospectively, the Group now recognises and measures the insurance contract liabilities for this business based on the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance contract liability is recorded for the proportion of the net assets of this other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation. This approach is consistent with the existing accounting for insurance contract liabilities arising from participating business. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time, the current policyholder participation in declared dividends for Hong Kong ranged from 70% to 90%.

The Group believes that the new accounting policy is more relevant and no less reliable to the economic decision-making needs of users. It brings more consistency between assets and liabilities of the other participating business with distinct portfolios and more closely reflects its economic substance, thereby enhancing the understandability of the Group's performance.

## 28. Effect of adoption of revised accounting policy (continued)

The tables below show the quantitative effect of the adoption of the revised accounting policy on the consolidated financial statements.

### (A) CONSOLIDATED INCOME STATEMENT

US\$m	Six months ended 30 June 2020 (Before change in accounting policy)	Impact of change in accounting policy	Six months ended 30 June 2020 (Unaudited and as reported)
<b>Revenue</b>			
Premiums and fee income	17,268	–	17,268
Premiums ceded to reinsurers	(1,135)	–	(1,135)
Net premiums and fee income	16,133	–	16,133
Investment return	3,381	–	3,381
Other operating revenue	150	–	150
<b>Total revenue</b>	<b>19,664</b>	<b>–</b>	<b>19,664</b>
<b>Expenses</b>			
Insurance and investment contract benefits	13,667	263	13,930
Insurance and investment contract benefits ceded	(899)	–	(899)
<b>Net insurance and investment contract benefits</b>	<b>12,768</b>	<b>263</b>	<b>13,031</b>
Commission and other acquisition expenses	2,157	–	2,157
Operating expenses	1,242	–	1,242
Finance costs	143	–	143
Other expenses	519	–	519
<b>Total expenses</b>	<b>16,829</b>	<b>263</b>	<b>17,092</b>
<b>Profit/(losses) before share of profit from associates and joint ventures</b>	<b>2,835</b>	<b>(263)</b>	<b>2,572</b>
Share of profit from associates and joint ventures	2	–	2
<b>Profit/(losses) before tax</b>	<b>2,837</b>	<b>(263)</b>	<b>2,574</b>
Income tax expense attributable to policyholders' returns	(23)	–	(23)
<b>Profit/(losses) before tax attributable to shareholders' profits</b>	<b>2,814</b>	<b>(263)</b>	<b>2,551</b>
Tax expense	(390)	(1)	(391)
Tax attributable to policyholders' returns	23	–	23
Tax expense attributable to shareholders' profits	(367)	(1)	(368)
<b>Net profit/(losses)</b>	<b>2,447</b>	<b>(264)</b>	<b>2,183</b>
<i>Net profit/(losses) attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	<b>2,461</b>	<b>(264)</b>	<b>2,197</b>
Non-controlling interests	(14)	–	(14)
<b>Earnings per share (US\$)</b>			
Basic	0.20	(0.02)	0.18
Diluted	0.20	(0.02)	0.18

## 28. Effect of adoption of revised accounting policy (continued)

### (A) CONSOLIDATED INCOME STATEMENT (continued)

US\$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
<b>Revenue</b>			
Premiums and fee income	34,777	–	34,777
Premiums ceded to reinsurers	(2,166)	–	(2,166)
Net premiums and fee income	32,611	–	32,611
Investment return	14,350	–	14,350
Other operating revenue	281	–	281
<b>Total revenue</b>	<b>47,242</b>	<b>–</b>	<b>47,242</b>
<b>Expenses</b>			
Insurance and investment contract benefits	33,400	668	34,068
Insurance and investment contract benefits ceded	(1,940)	–	(1,940)
<b>Net insurance and investment contract benefits</b>	<b>31,460</b>	<b>668</b>	<b>32,128</b>
Commission and other acquisition expenses	4,283	–	4,283
Operating expenses	2,468	–	2,468
Finance costs	283	–	283
Other expenses	845	–	845
<b>Total expenses</b>	<b>39,339</b>	<b>668</b>	<b>40,007</b>
<b>Profit/(losses) before share of losses from associates and joint ventures</b>	<b>7,903</b>	<b>(668)</b>	<b>7,235</b>
Share of losses from associates and joint ventures	(8)	–	(8)
<b>Profit/(losses) before tax</b>	<b>7,895</b>	<b>(668)</b>	<b>7,227</b>
Income tax expense attributable to policyholders' returns	(179)	–	(179)
<b>Profit/(losses) before tax attributable to shareholders' profits</b>	<b>7,716</b>	<b>(668)</b>	<b>7,048</b>
Tax expense	(1,208)	(1)	(1,209)
Tax attributable to policyholders' returns	179	–	179
Tax expense attributable to shareholders' profits	(1,029)	(1)	(1,030)
<b>Net profit/(losses)</b>	<b>6,687</b>	<b>(669)</b>	<b>6,018</b>
<i>Net profit/(losses) attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	6,648	(669)	5,979
Non-controlling interests	39	–	39
<b>Earnings per share (US\$)</b>			
Basic	0.55	(0.05)	0.50
Diluted	0.55	(0.05)	0.50

## 28. Effect of adoption of revised accounting policy (continued)

### (A) CONSOLIDATED INCOME STATEMENT (continued)

US\$m	Six months ended 30 June 2019 (Unaudited and as previously reported)	Retrospective adjustments for change in accounting policy	Six months ended 30 June 2019 (Unaudited and as adjusted)
<b>Revenue</b>			
Premiums and fee income	16,687	–	16,687
Premiums ceded to reinsurers	(1,069)	–	(1,069)
Net premiums and fee income	15,618	–	15,618
Investment return	8,510	–	8,510
Other operating revenue	148	–	148
<b>Total revenue</b>	<b>24,276</b>	<b>–</b>	<b>24,276</b>
<b>Expenses</b>			
Insurance and investment contract benefits	16,841	505	17,346
Insurance and investment contract benefits ceded	(951)	–	(951)
<b>Net insurance and investment contract benefits</b>	<b>15,890</b>	<b>505</b>	<b>16,395</b>
Commission and other acquisition expenses	2,037	–	2,037
Operating expenses	1,168	–	1,168
Finance costs	136	–	136
Other expenses	444	–	444
<b>Total expenses</b>	<b>19,675</b>	<b>505</b>	<b>20,180</b>
<b>Profit/(losses) before share of profit from associates and joint ventures</b>	<b>4,601</b>	<b>(505)</b>	<b>4,096</b>
Share of profit from associates and joint ventures	–	–	–
<b>Profit/(losses) before tax</b>	<b>4,601</b>	<b>(505)</b>	<b>4,096</b>
Income tax expense attributable to policyholders' returns	(115)	–	(115)
<b>Profit/(losses) before tax attributable to shareholders' profits</b>	<b>4,486</b>	<b>(505)</b>	<b>3,981</b>
Tax expense	(719)	–	(719)
Tax attributable to policyholders' returns	115	–	115
Tax expense attributable to shareholders' profits	(604)	–	(604)
<b>Net profit/(losses)</b>	<b>3,882</b>	<b>(505)</b>	<b>3,377</b>
<i>Net profit/(losses) attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	3,864	(505)	3,359
Non-controlling interests	18	–	18
<b>Earnings per share (US\$)</b>			
Basic	0.32	(0.04)	0.28
Diluted	0.32	(0.04)	0.28

## 28. Effect of adoption of revised accounting policy (continued)

### (B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	As at 30 June 2020 (Before change in accounting policy)	Impact of change in accounting policy	As at 30 June 2020 (Unaudited and as reported)
<b>Assets</b>			
Intangible assets	2,429	-	2,429
Investments in associates and joint ventures	558	-	558
Property, plant and equipment	2,698	-	2,698
Investment property	4,556	-	4,556
Reinsurance assets	3,826	-	3,826
Deferred acquisition and origination costs	26,205	-	26,205
<b>Financial investments:</b>			
Loans and deposits	9,957	-	9,957
Available for sale			
Debt securities	147,129	-	147,129
At fair value through profit or loss			
Debt securities	34,023	-	34,023
Equity securities	46,791	-	46,791
Derivative financial instruments	1,051	-	1,051
	<u>238,951</u>	<u>-</u>	<u>238,951</u>
Deferred tax assets	20	-	20
Current tax recoverable	217	-	217
Other assets	5,794	-	5,794
Cash and cash equivalents	5,950	-	5,950
<b>Total assets</b>	<b><u>291,204</u></b>	<b><u>-</u></b>	<b><u>291,204</u></b>
<b>Liabilities</b>			
Insurance contract liabilities	194,087	4,719	198,806
Investment contract liabilities	11,334	-	11,334
Borrowings	6,886	-	6,886
Obligations under repurchase agreements	1,484	-	1,484
Derivative financial instruments	915	-	915
Provisions	232	-	232
Deferred tax liabilities	6,247	(35)	6,212
Current tax liabilities	342	-	342
Other liabilities	7,738	-	7,738
<b>Total liabilities</b>	<b><u>229,265</u></b>	<b><u>4,684</u></b>	<b><u>233,949</u></b>
<b>Equity</b>			
Share capital	14,135	-	14,135
Employee share-based trusts	(155)	-	(155)
Other reserves	(11,911)	-	(11,911)
Retained earnings	41,381	286	41,667
Fair value reserve	18,324	(4,829)	13,495
Foreign currency translation reserve	(1,408)	-	(1,408)
Property revaluation reserve	1,074	(66)	1,008
Others	48	(75)	(27)
Amounts reflected in other comprehensive income	18,038	(4,970)	13,068
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited	61,488	(4,684)	56,804
Non-controlling interests	451	-	451
<b>Total equity</b>	<b><u>61,939</u></b>	<b><u>(4,684)</u></b>	<b><u>57,255</u></b>
<b>Total liabilities and equity</b>	<b><u>291,204</u></b>	<b><u>-</u></b>	<b><u>291,204</u></b>

## 28. Effect of adoption of revised accounting policy (continued)

### (B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	As at 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2019 (As adjusted)
<b>Assets</b>			
Intangible assets	2,520	–	2,520
Investments in associates and joint ventures	615	–	615
Property, plant and equipment	2,865	–	2,865
Investment property	4,834	–	4,834
Reinsurance assets	3,833	–	3,833
Deferred acquisition and origination costs	26,328	–	26,328
<b>Financial investments:</b>			
Loans and deposits Available for sale	10,086	–	10,086
Debt securities At fair value through profit or loss	138,852	–	138,852
Debt securities	33,132	–	33,132
Equity securities	50,322	–	50,322
Derivative financial instruments	971	–	971
	<u>233,363</u>	<u>–</u>	<u>233,363</u>
Deferred tax assets	23	–	23
Current tax recoverable	205	–	205
Other assets	5,605	–	5,605
Cash and cash equivalents	3,941	–	3,941
<b>Total assets</b>	<b><u>284,132</u></b>	<b><u>–</u></b>	<b><u>284,132</u></b>
<b>Liabilities</b>			
Insurance contract liabilities	189,597	2,584	192,181
Investment contract liabilities	12,273	–	12,273
Borrowings	5,757	–	5,757
Obligations under repurchase agreements	1,826	–	1,826
Derivative financial instruments	412	–	412
Provisions	225	–	225
Deferred tax liabilities	6,237	(23)	6,214
Current tax liabilities	432	–	432
Other liabilities	9,417	–	9,417
<b>Total liabilities</b>	<b><u>226,176</u></b>	<b><u>2,561</u></b>	<b><u>228,737</u></b>
<b>Equity</b>			
Share capital	14,129	–	14,129
Employee share-based trusts	(220)	–	(220)
Other reserves	(11,887)	–	(11,887)
Retained earnings	40,372	550	40,922
Fair value reserve	14,663	(2,994)	11,669
Foreign currency translation reserve	(698)	–	(698)
Property revaluation reserve	1,163	(90)	1,073
Others	(14)	(27)	(41)
Amounts reflected in other comprehensive income	15,114	(3,111)	12,003
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited	57,508	(2,561)	54,947
Non-controlling interests	448	–	448
<b>Total equity</b>	<b><u>57,956</u></b>	<b><u>(2,561)</u></b>	<b><u>55,395</u></b>
<b>Total liabilities and equity</b>	<b><u>284,132</u></b>	<b><u>–</u></b>	<b><u>284,132</u></b>

## 28. Effect of adoption of revised accounting policy (continued)

### (B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	As at 31 December 2018 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2018 (As adjusted)
<b>Assets</b>			
Intangible assets	1,970	–	1,970
Investments in associates and joint ventures	610	–	610
Property, plant and equipment	1,233	–	1,233
Investment property	4,794	–	4,794
Reinsurance assets	2,887	–	2,887
Deferred acquisition and origination costs	24,626	–	24,626
<b>Financial investments:</b>			
Loans and deposits Available for sale	7,392	–	7,392
Debt securities At fair value through profit or loss	112,485	–	112,485
Debt securities	27,736	–	27,736
Equity securities	38,099	–	38,099
Derivative financial instruments	430	–	430
	<u>186,142</u>	<u>–</u>	<u>186,142</u>
Deferred tax assets	26	–	26
Current tax recoverable	164	–	164
Other assets	4,903	–	4,903
Cash and cash equivalents	2,451	–	2,451
<b>Total assets</b>	<u><u>229,806</u></u>	<u><u>–</u></u>	<u><u>229,806</u></u>
<b>Liabilities</b>			
Insurance contract liabilities	164,764	(1,456)	163,308
Investment contract liabilities	7,885	–	7,885
Borrowings	4,954	–	4,954
Obligations under repurchase and securities lending agreements	1,683	–	1,683
Derivative financial instruments	243	–	243
Provisions	168	–	168
Deferred tax liabilities	4,187	6	4,193
Current tax liabilities	532	–	532
Other liabilities	5,984	–	5,984
<b>Total liabilities</b>	<u><u>190,400</u></u>	<u><u>(1,450)</u></u>	<u><u>188,950</u></u>
<b>Equity</b>			
Share capital	14,073	–	14,073
Employee share-based trusts	(258)	–	(258)
Other reserves	(11,910)	–	(11,910)
Retained earnings	35,661	1,219	36,880
Fair value reserve	2,211	247	2,458
Foreign currency translation reserve	(1,301)	–	(1,301)
Property revaluation reserve	538	(4)	534
Others	(8)	(12)	(20)
Amounts reflected in other comprehensive income	1,440	231	1,671
<i>Total equity attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	39,006	1,450	40,456
Non-controlling interests	400	–	400
<b>Total equity</b>	<u><u>39,406</u></u>	<u><u>1,450</u></u>	<u><u>40,856</u></u>
<b>Total liabilities and equity</b>	<u><u>229,806</u></u>	<u><u>–</u></u>	<u><u>229,806</u></u>

## 28. Effect of adoption of revised accounting policy (continued)

The tables below set out the impacts of the adoption of the revised accounting policy on operating profit/(losses).

### (C) OPERATING PROFIT

US\$m	Six months ended 30 June 2020 (Before change in accounting policy)	Impact of change in accounting policy	Six months ended 30 June 2020 (Unaudited and as reported)
<b>Operating profit before tax</b>	<b>3,403</b>	<b>14</b>	<b>3,417</b>
Tax on operating profit before tax	(458)	(1)	(459)
<b>Operating profit after tax</b>	<b>2,945</b>	<b>13</b>	<b>2,958</b>
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	<b>2,920</b>	<b>13</b>	<b>2,933</b>
Non-controlling interests	25	–	25
<b>Operating profit after tax per share (US cents)</b>			
Basic	<b>24.22</b>	<b>0.11</b>	<b>24.33</b>
Diluted	<b>24.18</b>	<b>0.11</b>	<b>24.29</b>
	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
US\$m			
<b>Operating profit/(losses) before tax</b>	6,816	(51)	6,765
Tax on operating profit/(losses) before tax	(1,030)	(1)	(1,031)
<b>Operating profit/(losses) after tax</b>	<b>5,786</b>	<b>(52)</b>	<b>5,734</b>
<i>Operating profit/(losses) after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	5,741	(52)	5,689
Non-controlling interests	45	–	45
<b>Operating profit/(losses) after tax per share (US cents)</b>			
Basic	47.67	(0.43)	47.24
Diluted	47.56	(0.43)	47.13

## 28. Effect of adoption of revised accounting policy (continued)

### (C) OPERATING PROFIT (continued)

US\$m	Six months ended 30 June 2019 (Unaudited and as previously reported)	Retrospective adjustments for change in accounting policy	Six months ended 30 June 2019 (Unaudited and as adjusted)
<b>Operating profit/(losses) before tax</b>	3,483	(62)	3,421
Tax on operating profit/(losses) before tax	(565)	–	(565)
<b>Operating profit/(losses) after tax</b>	<u>2,918</u>	<u>(62)</u>	<u>2,856</u>
<i>Operating profit/(losses) after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	2,898	(62)	2,836
Non-controlling interests	20	–	20
<b>Operating profit/(losses) after tax per share (US cents)</b>			
Basic	24.08	(0.52)	23.56
Diluted	24.02	(0.51)	23.51

## 28. Effect of adoption of revised accounting policy (continued)

### (C) OPERATING PROFIT (continued)

Operating profit/(losses) after tax may be reconciled to net profit/(losses) as follows:

US\$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
<b>Operating profit/(losses) after tax</b>	5,786	(52)	5,734
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Short-term fluctuations in investment return related to equities and real estate (net of tax of: as previously reported: US\$(43)m; as adjusted: US\$(38)m)	937	(632)	305
Reclassification of revaluation gain for property held for own use (net of tax of: as previously reported and as adjusted: US\$10m)	(170)	17	(153)
Corporate transaction related costs (net of tax of: as previously reported and as adjusted: US\$33m)	(85)	–	(85)
Implementation costs for new accounting standards (net of tax of: as previously reported and as adjusted: US\$13m)	(39)	–	(39)
Other non-operating investment return and other items (net of tax of: as previously reported: US\$(12)m; as adjusted: US\$(18)m)	258	(2)	256
<b>Net profit/(losses)</b>	<u>6,687</u>	<u>(669)</u>	<u>6,018</u>
<i>Operating profit/(losses) after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	5,741	(52)	5,689
Non-controlling interests	45	–	45
<i>Net profit/(losses) attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	6,648	(669)	5,979
Non-controlling interests	39	–	39

## 28. Effect of adoption of revised accounting policy (continued)

### (C) OPERATING PROFIT (continued)

US\$m	Six months ended 30 June 2019 (Unaudited and as previously reported)	Retrospective adjustments for change in accounting policy	Six months ended 30 June 2019 (Unaudited and as adjusted)
<b>Operating profit/(losses) after tax</b>	2,918	(62)	2,856
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Short-term fluctuations in investment return related to equities and real estate (net of tax of: as previously reported: US\$(115)m; as adjusted: US\$(120)m)	1,173	(477)	696
Reclassification of revaluation gain for property held for own use (net of tax of: as previously reported and as adjusted: nil)	(125)	11	(114)
Corporate transaction related costs (net of tax of: as previously reported and as adjusted: US\$12m)	(30)	–	(30)
Implementation costs for new accounting standards (net of tax of: as previously reported and as adjusted: US\$2m)	(24)	–	(24)
Other non-operating investment return and other items (net of tax of: as previously reported: US\$62m; as adjusted: US\$67m)	(30)	23	(7)
<b>Net profit/(losses)</b>	<u>3,882</u>	<u>(505)</u>	<u>3,377</u>
<i>Operating profit/(losses) after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	2,898	(62)	2,836
Non-controlling interests	20	–	20
<i>Net profit/(losses) attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	3,864	(505)	3,359
Non-controlling interests	18	–	18

## 28. Effect of adoption of revised accounting policy (continued)

### (D) SEGMENT INFORMATION

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

## 28. Effect of adoption of revised accounting policy (continued)

### (D) SEGMENT INFORMATION (continued)

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

Total assets include:

Investments in associates and joint ventures	3	-	-	4	-	608	-	615
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Segment information may be reconciled to the consolidated income statement as shown below:

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

Note:

(1) Include unit-linked contracts.

# REPORT ON REVIEW OF SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)



羅兵咸永道

## Introduction

We have reviewed the Supplementary Embedded Value Information (“the EV Information”) set out on pages 124 to 146, which comprises the EV consolidated results of AIA Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at and for the six-month period ended 30 June 2020, sensitivity analysis and a summary of significant methodology and assumptions and other explanatory notes. 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. Our responsibility is to express a conclusion on this EV Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the EV Information, including the summary of significant methodology and assumptions, consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the EV Information of the Group is not 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 of Preparation

Without modifying our conclusion, we draw attention to Sections 4 and 5 of the EV Information, which describes the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. This report does not extend to any financial statements of the Company.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 20 August 2020

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

## **SUPPLEMENTARY EMBEDDED VALUE INFORMATION**

### **Cautionary Statements Concerning Supplementary Embedded Value Information**

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of the changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

The Supplementary Embedded Value Information is unaudited, but has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 123.

## 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. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB) for all entities other than Tata AIA Life Insurance Company Limited (Tata AIA Life). This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. For Tata AIA Life, the Group uses the Indian Embedded Value (IEV) methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India.

The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. More details on the EV results, methodology and assumptions are covered in later sections of this report.

The EV of the Group is calculated after deducting any expected remittance taxes payable on the anticipated distribution of the ANW and VIF as described under Section 5.4. Prior to 2020, the Group reflected the impact of the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises from. The comparative information has been adjusted to conform to current period presentation.

The Supplementary Embedded Value Information in this report should be read in conjunction with the Supplementary Embedded Value Information of the Group in the Company's Annual Report 2019.

## 1. HIGHLIGHTS (continued)

### Summary of Key Metrics<sup>(1)</sup> (US\$ millions)

	<b>As at 30 June 2020 (Unaudited)</b>	As at 31 December 2019	Change CER	Change AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	<b>61,420</b>	63,905	(3)%	(4)%
Embedded value (EV)	<b>59,574</b>	61,985	(3)%	(4)%
Adjusted net worth (ANW)	<b>26,622</b>	28,241	(5)%	(6)%
Value of in-force business (VIF)	<b>32,952</b>	33,744	0%	(2)%
	<b>Six months ended 30 June 2020 (Unaudited)</b>	Six months ended 30 June 2019 (Unaudited)	YoY CER	YoY AER
Value of new business (VONB)	<b>1,410</b>	2,275	(37)%	(38)%
Annualised new premiums (ANP)	<b>2,579</b>	3,443	(24)%	(25)%
VONB margin	<b>54.4%</b>	65.6%	(11.1) pps	(11.2) pps
EV operating profit	<b>3,878</b>	4,523	(13)%	(14)%
Operating return on EV (Operating ROEV) <sup>(2)</sup>	<b>12.9%</b>	17.3%	(3.9) pps	(4.4) pps
Underlying free surplus generation (UFSG)	<b>3,049</b>	2,804	11%	9%

Notes:

(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) On an annualised basis.

## 2. EMBEDDED VALUE RESULTS

### 2.1 Embedded Value by Business Unit

The EV as at 30 June 2020 is presented consistently with the segment information in the IFRS consolidated financial statements.

The EV of the Group is calculated after deducting any expected remittance taxes payable on the anticipated distribution of the ANW and VIF as described under Section 5.4. Prior to 2020, the Group reflected the impact of the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises from. The comparative information has been adjusted to conform to current period presentation.

#### Summary of EV by Business Unit (US\$ millions)

Business Unit	As at 30 June 2020 (Unaudited)				EV
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	
AIA Hong Kong	6,678	16,069	2,212	13,857	<b>20,535</b>
AIA Thailand	3,512	5,671	1,390	4,281	<b>7,793</b>
AIA Singapore	2,309	4,223	648	3,575	<b>5,884</b>
AIA Malaysia	1,195	1,920	219	1,701	<b>2,896</b>
AIA China	3,775	7,248	2	7,246	<b>11,021</b>
Other Markets	5,905	4,704	1,326	3,378	<b>9,283</b>
Group Corporate Centre	9,840	–	–	–	<b>9,840</b>
<b>Subtotal</b>	<b>33,214</b>	<b>39,835</b>	<b>5,797</b>	<b>34,038</b>	<b>67,252</b>
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(6,255)	2,841	2,774	67	<b>(6,188)</b>
After-tax value of unallocated Group Office expenses	–	(997)	–	(997)	<b>(997)</b>
<b>Total (before non-controlling interests)</b>	<b>26,959</b>	<b>41,679</b>	<b>8,571</b>	<b>33,108</b>	<b>60,067</b>
<b>Non-controlling interests</b>	<b>(337)</b>	<b>(166)</b>	<b>(10)</b>	<b>(156)</b>	<b>(493)</b>
<b>Total</b>	<b>26,622</b>	<b>41,513</b>	<b>8,561</b>	<b>32,952</b>	<b>59,574</b>

## 2. EMBEDDED VALUE RESULTS (continued)

### 2.1 Embedded Value by Business Unit (continued)

Business Unit	As at 31 December 2019 (as adjusted)				EV
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	
AIA Hong Kong	8,372	15,059	1,534	13,525	21,897
AIA Thailand	4,802	5,583	1,365	4,218	9,020
AIA Singapore	2,805	4,360	831	3,529	6,334
AIA Malaysia	1,211	1,946	215	1,731	2,942
AIA China	3,074	6,968	–	6,968	10,042
Other Markets	5,949	4,708	1,309	3,399	9,348
Group Corporate Centre	9,291	–	–	–	9,291
Subtotal	35,504	38,624	5,254	33,370	68,874
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(6,905)	3,180	1,583	1,597	(5,308)
After-tax value of unallocated Group Office expenses	–	(1,067)	–	(1,067)	(1,067)
Total (before non-controlling interests)	28,599	40,737	6,837	33,900	62,499
Non-controlling interests	(358)	(164)	(8)	(156)	(514)
<b>Total</b>	<b>28,241</b>	<b>40,573</b>	<b>6,829</b>	<b>33,744</b>	<b>61,985</b>

Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS consolidated financial statements.
- (2) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2019 and Section 4.1 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 30 June 2020 (Unaudited)	As at 31 December 2019 (as adjusted)
<b>IFRS equity attributable to shareholders of the Company</b>	<b>56,804</b>	54,947
Elimination of IFRS deferred acquisition and origination costs assets	<b>(26,205)</b>	(26,328)
Difference between IFRS policy liabilities and local statutory policy liabilities	<b>1,261</b>	5,949
Difference between net IFRS policy liabilities and local statutory policy liabilities	<b>(24,944)</b>	(20,379)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	<b>10</b>	–
Elimination of intangible assets	<b>(2,429)</b>	(2,520)
Recognition of deferred tax impacts of the above adjustments	<b>3,321</b>	3,008
Recognition of non-controlling interests impacts of the above adjustments	<b>115</b>	90
<b>ANW (Business Unit)</b>	<b>32,877</b>	35,146
Adjustment to reflect consolidated reserving requirements, net of tax	<b>(6,255)</b>	(6,905)
<b>ANW (Consolidated)</b>	<b>26,622</b>	28,241

IFRS equity attributable to shareholders of the Company as at 31 December 2019 has been adjusted to reflect the change in accounting policy as per note 28 under the IFRS consolidated financial statements.

## 2. EMBEDDED VALUE RESULTS (continued)

### 2.3 Breakdown of ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.1 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

#### Free Surplus and Required Capital for the Group (US\$ millions)

	As at 30 June 2020 (Unaudited)		As at 31 December 2019	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	22,483	11,771	24,523	14,917
Required capital	10,394	14,851	10,623	13,324
<b>ANW</b>	<b>32,877</b>	<b>26,622</b>	<b>35,146</b>	<b>28,241</b>

The Company's subsidiaries, AIA Company Limited (AIA Co.) and AIA International Limited (AIA International), are both subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements. These regulatory reserving and capital requirements, and other consolidated reserving and capital requirements, as determined by the Group, apply in addition to the relevant local requirements applicable to our Business Units.

## 2. EMBEDDED VALUE RESULTS (continued)

### 2.4 Earnings Profile

The tables below show how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the consolidated reserving and capital requirements.

#### Profile of Projected After-Tax Distributable Earnings for the Group's In-force Business (US\$ millions)

Expected period of emergence	As at 30 June 2020 (Unaudited)	
	Undiscounted	Discounted
1 – 5 years	19,424	16,176
6 – 10 years	17,202	9,719
11 – 15 years	19,256	7,460
16 – 20 years	19,650	5,306
21 years and thereafter	141,819	9,142
<b>Total</b>	<b>217,351</b>	<b>47,803</b>

  

Expected period of emergence	As at 31 December 2019	
	Undiscounted	Discounted
1 – 5 years	20,000	16,641
6 – 10 years	16,759	9,383
11 – 15 years	18,398	7,029
16 – 20 years	18,724	4,963
21 years and thereafter	166,423	9,052
<b>Total</b>	<b>240,304</b>	<b>47,068</b>

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$47,803 million (31 December 2019: US\$47,068 million) plus the free surplus of US\$11,771 million (31 December 2019: US\$14,917 million) shown in Section 2.3 of this report is equal to the EV of US\$59,574 million (31 December 2019: US\$61,985 million) shown in Section 2.1 of this report.

## 2. EMBEDDED VALUE RESULTS (continued)

### 2.5 Value of New Business

The VONB for the Group for the six months ended 30 June 2020 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS consolidated financial statements.

The Group VONB for the six months ended 30 June 2020 was US\$1,410 million, a decrease of US\$865 million, or 38 per cent on actual exchange rates (AER), from US\$2,275 million for the six months ended 30 June 2019.

#### Summary of VONB by Business Unit (US\$ millions)

Business Unit	Six months ended 30 June 2020 (Unaudited)			Six months ended 30 June 2019 (Unaudited)		
	VONB before CoC	CoC	VONB after CoC	VONB before CoC	CoC	VONB after CoC
AIA Hong Kong	359	53	<b>306</b>	1,003	58	945
AIA Thailand	222	23	<b>199</b>	248	33	215
AIA Singapore	134	7	<b>127</b>	189	16	173
AIA Malaysia	88	7	<b>81</b>	139	9	130
AIA China	629	35	<b>594</b>	754	52	702
Other Markets <sup>(1)</sup>	295	55	<b>240</b>	270	46	224
<b>Total before unallocated Group Office expenses (Business Unit)</b>	<b>1,727</b>	<b>180</b>	<b>1,547</b>	<b>2,603</b>	<b>214</b>	<b>2,389</b>
Adjustment to reflect consolidated reserving and capital requirements	(20)	30	<b>(50)</b>	(44)	(5)	(39)
<b>Total before unallocated Group Office expenses (Consolidated)</b>	<b>1,707</b>	<b>210</b>	<b>1,497</b>	<b>2,559</b>	<b>209</b>	<b>2,350</b>
After-tax value of unallocated Group Office expenses	(77)	–	<b>(77)</b>	(75)	–	(75)
<b>Total before non-controlling interests (Consolidated)</b>	<b>1,630</b>	<b>210</b>	<b>1,420</b>	<b>2,484</b>	<b>209</b>	<b>2,275</b>
Non-controlling interests <sup>(2)</sup>	(11)	(1)	<b>(10)</b>	n/a	n/a	n/a
<b>Total<sup>(1), (2)</sup></b>	<b>1,619</b>	<b>209</b>	<b>1,410</b>	<b>2,484</b>	<b>209</b>	<b>2,275</b>

#### Notes:

(1) The reported VONB for Other Markets in the six months ended 30 June 2020 includes the Group's share of VONB from Tata AIA Life, which amount to US\$34 million. VONB for the six months ended 30 June 2019 has not been restated and is reported before any contribution from Tata AIA Life.

(2) The reported VONB for the Group in the six months ended 30 June 2020 excludes the VONB attributable to non-controlling interests of US\$10 million. VONB for the six months ended 30 June 2019 has not been restated and is reported before deducting the amount attributable to non-controlling interests of US\$15 million, as previously disclosed in the Company's Interim Report 2019.

## 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 six months ended 30 June 2020.

The VONB margin and PVNBP margin are defined as VONB, gross of non-controlling interests and excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB used in the margin calculation is gross of non-controlling interests and excludes pension business to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the six months ended 30 June 2020 was 54.4 per cent compared with 65.6 per cent for the six months ended 30 June 2019. The Group PVNBP margin for the six months ended 30 June 2020 was 9 per cent compared with 11 per cent for the six months ended 30 June 2019.

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

	VONB after CoC	ANP	VONB Margin	PVNBP Margin
<b>Half Year</b>				
<b>Values for 2020</b>				
Six months ended 30 June 2020 (Unaudited) <sup>(1)</sup>	1,410	2,579	54.4%	9%
<b>Values for 2019</b>				
Six months ended 30 June 2019 (Unaudited) <sup>(1)</sup>	2,275	3,443	65.6%	11%
<b>Quarter</b>				
<b>Values for 2020</b>				
Three months ended 31 March 2020 (Unaudited) <sup>(1)</sup>	841	1,483	56.6%	10%
Three months ended 30 June 2020 (Unaudited) <sup>(1)</sup>	569	1,096	51.4%	9%
<b>Values for 2019</b>				
Three months ended 31 March 2019 <sup>(1), (2)</sup>	1,169	1,827	63.6%	11%
Three months ended 30 June 2019 <sup>(1), (2)</sup>	1,106	1,616	67.9%	11%

Notes:

- (1) The Group includes its share of Tata AIA Life and deducts the amount attributable to non-controlling interests in the VONB starting from the fourth quarter of 2019. The VONB for the six months ended 30 June 2019 are not restated as the impact to the Group is not material.
- (2) As previously disclosed in the Company's Interim Report 2019, in the second quarter of 2019, the Ministry of Finance and State Administration of Taxation of the People's Republic of China announced a tax rule change that increased the tax deductibility of commissions in China retroactively from 2018 tax year onwards. The effect of the tax rule change on policies issued in the three months ended 31 March 2019, which amounted to US\$36 million, was reported in the VONB for the three months ended 30 June 2019.

## 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	Six months ended 30 June 2020 (Unaudited)			Six months ended 30 June 2019 (Unaudited)		
	VONB excluding pension	ANP	VONB margin	VONB excluding pension	ANP	VONB margin
AIA Hong Kong	289	565	51.0%	929	1,367	68.0%
AIA Thailand	199	312	63.9%	215	321	66.8%
AIA Singapore	127	214	59.3%	173	267	64.8%
AIA Malaysia	80	159	50.5%	130	198	65.4%
AIA China	594	726	81.8%	702	753	93.2%
Other Markets	240	603	39.7%	224	537	41.8%
<b>Total before unallocated Group Office expenses (Business Unit)</b>	<b>1,529</b>	<b>2,579</b>	<b>59.3%</b>	<b>2,373</b>	<b>3,443</b>	<b>68.9%</b>
Adjustment to reflect consolidated reserving and capital requirements	(50)	–		(39)	–	
<b>Total before unallocated Group Office expenses (Consolidated)</b>	<b>1,479</b>	<b>2,579</b>	<b>57.3%</b>	<b>2,334</b>	<b>3,443</b>	<b>67.8%</b>
After-tax value of unallocated Group Office expenses	(77)	–		(75)	–	
<b>Total</b>	<b>1,402</b>	<b>2,579</b>	<b>54.4%</b>	<b>2,259</b>	<b>3,443</b>	<b>65.6%</b>

## 2. EMBEDDED VALUE RESULTS (continued)

### 2.6 Analysis of EV Movement

#### Analysis of Movement in EV (US\$ millions)

	Six months ended 30 June 2020 (Unaudited)			Six months ended 30 June 2019 (Unaudited)			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
<b>Opening EV</b>	28,241	33,744	<b>61,985</b>	24,637	29,880	54,517	14%
Value of new business	(363)	1,773	<b>1,410</b>	(339)	2,614	2,275	(38)%
Expected return on EV	2,844	(654)	<b>2,190</b>	2,506	(498)	2,008	9%
Operating experience variances	494	(69)	<b>425</b>	245	84	329	n/m <sup>(1)</sup>
Operating assumption changes	(152)	116	<b>(36)</b>	(7)	21	14	n/m
Finance costs	(111)	–	<b>(111)</b>	(103)	–	(103)	8%
<b>EV operating profit</b>	2,712	1,166	<b>3,878</b>	2,302	2,221	4,523	(14)%
Investment return variances	(3,076)	(302)	<b>(3,378)</b>	1,484	92	1,576	n/m
Effect of changes in economic assumptions	33	(968)	<b>(935)</b>	–	–	–	n/m
Other non-operating variances	426	(91)	<b>335</b>	83	(63)	20	n/m
<b>Total EV profit</b>	95	(195)	<b>(100)</b>	3,869	2,250	6,119	n/m
Dividends	(1,452)	–	<b>(1,452)</b>	(1,448)	–	(1,448)	0%
Other capital movements	61	–	<b>61</b>	90	–	90	(32)%
Effect of changes in exchange rates	(323)	(597)	<b>(920)</b>	(10)	478	468	n/m
<b>Closing EV</b>	<b>26,622</b>	<b>32,952</b>	<b>59,574</b>	<b>27,138</b>	<b>32,608</b>	<b>59,746</b>	<b>(0)%</b>

Note:

(1) Not meaningful (n/m).

## 2. EMBEDDED VALUE RESULTS (continued)

### 2.6 Analysis of EV Movement (continued)

EV operating profit dropped by 14 per cent on AER to US\$3,878 million (2019: US\$4,523 million) compared with 2019. The drop reflected a lower VONB to US\$1,410 million (2019: US\$2,275 million), offset by a higher expected return on EV to US\$2,190 million (2019: US\$2,008 million). Overall operating experience variances and operating assumption changes were again positive at US\$389 million (2019: US\$343 million). Finance costs were US\$111 million (2019: US\$103 million).

The VONB is calculated at the point of sale for business written during the period. The expected return on EV is the expected change in the EV over the period plus the expected return on the VONB up to 30 June 2020. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the period and that expected based on the operating assumptions.

The main operating experience variances, net of tax, increased EV by US\$425 million (2019: US\$329 million), driven by:

- Expense variances of US\$68 million (2019: US\$18 million), partly offset by development costs of US\$3 million (2019: US\$16 million);
- Mortality and morbidity claims variances of US\$273 million (2019: US\$158 million); and
- Persistency and other variances of US\$87 million (2019: US\$169 million) which included persistency variances of US\$(82) million (2019: US\$51 million) and other variances arising from management actions of US\$169 million (2019: US\$118 million).

The effect of changes in operating assumptions during the period was a decrease in EV of US\$36 million (2019: increase in EV of US\$14 million).

The EV profit of US\$(100) million (2019: US\$6,119 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 arise from the impact of differences between the actual investment returns in the period and the expected investment returns reflecting short-term fluctuations in investment returns. This amounted to a decrease in EV of US\$3,378 million (2019: increase in EV of US\$1,576 million) from the effect of short-term fluctuations in current interest rate, equity market and other capital market movements on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns.

The effect of changes in economic assumptions was a decrease in EV by US\$935 million (2019: nil).

Other non-operating variances increased EV by US\$335 million (2019: US\$20 million) which comprised positive impacts from the subsidiarisation of New Zealand, the implementation of Risk-Based Capital 2 in Singapore, adjustments to capital requirements on consolidation, and other items including modelling-related enhancements. This was partly offset by a negative impact from certain non-operating project costs.

The final dividends paid in the first half of 2020 totalled US\$1,452 million (2019: US\$1,448 million). Other capital movements increased EV by US\$61 million (2019: US\$90 million).

Foreign exchange movements decreased EV by US\$920 million (2019: increase in EV by US\$468 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 12.9 per cent (2019: 17.3 per cent) for the six months ended 30 June 2020.

	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)	YoY CER	YoY AER
EV operating profit	3,878	4,523	(13)%	(14)%
Opening EV	61,985	54,517	12%	14%
<b>Operating ROEV<sup>(1)</sup></b>	<b>12.9%</b>	<b>17.3%</b>	<b>(3.9) pps</b>	<b>(4.4) pps</b>

Note:

(1) On an annualised basis.

### 2.7 EV Equity

The EV Equity dropped to US\$61,420 million at 30 June 2020, a decrease of 4 per cent on AER from US\$63,905 million as at 31 December 2019.

#### Derivation of EV Equity from EV (US\$ millions)

	As at 30 June 2020 (Unaudited)	As at 31 December 2019	Change CER	Change AER
EV	59,574	61,985	(3)%	(4)%
Goodwill and other intangible assets <sup>(1)</sup>	1,846	1,920	(2)%	(4)%
<b>EV Equity</b>	<b>61,420</b>	<b>63,905</b>	<b>(3)%</b>	<b>(4)%</b>

Note:

(1) Based on 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)

	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)	YoY CER (Unaudited)	YoY AER (Unaudited)
<b>Opening free surplus</b>	<b>14,917</b>	14,751	1%	1%
Underlying free surplus generation	<b>3,049</b>	2,804	11%	9%
Free surplus used to fund new business	<b>(703)</b>	(750)	(4)%	(6)%
Investment return variances and other items	<b>(3,899)</b>	848	n/m <sup>(1)</sup>	n/m
Unallocated Group Office expenses	<b>(91)</b>	(115)	(21)%	(21)%
Dividends	<b>(1,452)</b>	(1,448)	0%	0%
Finance costs and other capital movements	<b>(50)</b>	(13)	n/m	n/m
<b>Closing free surplus</b>	<b>11,771</b>	16,077	(27)%	(27)%

Free surplus decreased by US\$3,146 million to US\$11,771 million (31 December 2019: US\$14,917 million<sup>(2)</sup>) as of 30 June 2020.

Underlying free surplus generation, as defined in Section 4.8 in the Company's Annual Report 2019, increased by 11 per cent<sup>(2)</sup> on constant exchange rates (CER) to US\$3,049 million (2019: US\$2,804 million<sup>(2)</sup>). Investment in writing new business reduced free surplus by US\$703 million (2019: US\$750 million<sup>(2)</sup>).

Investment return variances and other items amounted to US\$(3,899) million (2019: US\$848 million<sup>(2)</sup>), reflecting the effect of short-term fluctuations in current interest rate, equity market and other capital market movements on the Group's investment portfolio and statutory reserves 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\$91 million (2019: US\$115 million<sup>(2)</sup>).

#### Notes:

(1) Not meaningful (n/m).

(2) All the 2019 numbers and growth rates quoted in this section are unaudited.

### 3. SENSITIVITY ANALYSIS

The EV as at 30 June 2020 and the VONB for the six months ended 30 June 2020 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 30 June 2020 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 30 June 2020); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 June 2020).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 30 June 2020 and the values of debt instruments held at 30 June 2020 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets in the Asia-Pacific region, 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 30 June 2020 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

### 3. SENSITIVITY ANALYSIS (continued)

For each of the remaining sensitivity analyses, the statutory reserving bases as at 30 June 2020 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

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 30 June 2020 (Unaudited)		As at 31 December 2019	
	EV	Ratio	EV	Ratio
<b>Central value</b>	<b>59,574</b>		61,985	
<i>Impact of:</i>				
200 bps increase in risk discount rates	(8,672)	(14.6)%	(8,500)	(13.7)%
200 bps decrease in risk discount rates	13,968	23.4%	13,696	22.1%
10% increase in equity prices	919	1.5%	968	1.6%
10% decrease in equity prices	(914)	(1.5)%	(967)	(1.6)%
50 bps increase in interest rates	1,589	2.7%	719	1.2%
50 bps decrease in interest rates	(1,905)	(3.2)%	(797)	(1.3)%
5% appreciation in the presentation currency	(1,851)	(3.1)%	(1,837)	(3.0)%
5% depreciation in the presentation currency	1,851	3.1%	1,837	3.0%
10% increase in lapse/discontinuance rates	(879)	(1.5)%	(999)	(1.6)%
10% decrease in lapse/discontinuance rates	992	1.7%	1,087	1.8%
10% increase in mortality/morbidity rates	(4,262)	(7.2)%	(4,627)	(7.5)%
10% decrease in mortality/morbidity rates	4,292	7.2%	4,540	7.3%
10% decrease in maintenance expenses	748	1.3%	699	1.1%
Expense inflation set to 0%	847	1.4%	868	1.4%

#### Sensitivity of VONB (US\$ millions)

Scenario	Six months ended 30 June 2020 (Unaudited)		Six months ended 30 June 2019 (Unaudited)	
	VONB	Ratio	VONB	Ratio
<b>Central value</b>	<b>1,410</b>		2,275	
<i>Impact of:</i>				
200 bps increase in risk discount rates	(324)	(23.0)%	(522)	(22.9)%
200 bps decrease in risk discount rates	492	34.9%	849	37.3%
50 bps increase in interest rates	102	7.2%	79	3.5%
50 bps decrease in interest rates	(159)	(11.3)%	(107)	(4.7)%
5% appreciation in the presentation currency	(53)	(3.8)%	(68)	(3.0)%
5% depreciation in the presentation currency	53	3.8%	68	3.0%
10% increase in lapse/discontinuance rates	(81)	(5.7)%	(108)	(4.7)%
10% decrease in lapse/discontinuance rates	85	6.0%	116	5.1%
10% increase in mortality/morbidity rates	(159)	(11.3)%	(183)	(8.0)%
10% decrease in mortality/morbidity rates	153	10.9%	175	7.7%
10% decrease in maintenance expenses	41	2.9%	51	2.2%
Expense inflation set to 0%	23	1.6%	30	1.3%

## 4. METHODOLOGY

The methodology used by the Group for determining the EV results for the period is consistent with that described in Section 4 of the Supplementary Embedded Value Information in the Company's Annual Report 2019 taking into account the regulatory capital requirements as set out in Section 4.1.

### 4.1 Capital Requirements

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of local capital requirement for each Business Unit are set out in the table below:

Business Unit	Capital requirements
AIA Australia	
• Australia	100% of regulatory capital adequacy requirement
• New Zealand	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	Higher of 135% of capital adequacy requirement and 80% of Tier 1 capital requirement under the regulatory Risk-Based Capital framework <sup>(1)</sup>
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>(2)</sup>
AIA Vietnam	100% of required minimum solvency margin
Tata AIA Life	175% of required minimum solvency margin

Notes:

- (1) The Monetary Authority of Singapore (MAS) announced that the new Risk-Based Capital 2 (Singapore RBC 2) requirement for insurers takes effect from 31 March 2020. This new Singapore RBC 2 requirement has been applied to the EV as of 30 June 2020.
- (2) The Required Capital ratio assumed in the EV calculation is 120% up to year-end of 2021, and 140% thereafter, in line with the regulatory requirement under Thailand RBC 2.

### Capital Requirements on Consolidation

The Group has an undertaking to the Hong Kong Insurance Authority (HKIA) to maintain required capital not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of AIA Hong Kong and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong.

AIA International and its subsidiaries hold required capital of no less than 120% of the BMA regulatory capital requirements.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission (formerly the China Insurance Regulatory Commission) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, the Group reports under the Hong Kong Insurance Ordinance the capital position of its China branches based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

In addition to the above, the reserving and capital requirements for the purpose of consolidation allow for the local regulatory requirements outlined above and other reserving and capital requirements as determined by the Group.

## **5. ASSUMPTIONS**

### **5.1 Introduction**

This section summarises the assumptions used by the Group to determine the EV as at 30 June 2020 and the VONB for the period ended 30 June 2020.

Long-term economic assumptions used in the EV basis for the interim results has been updated from those shown in Section 5.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2019 to reflect the Group's latest view of economic outlook. Note that VONB results were calculated based on start-of-period economic assumptions consistent with measurement at the point of sale.

The non-economic assumptions used are based on those at 31 December 2019, updated to reflect the Group's latest view of expected future experience. A more detailed description of the assumptions can be found in Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2019.

### **5.2 Economic Assumptions**

#### **Investment Returns**

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

For Tata AIA Life the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve.

## 5. ASSUMPTIONS (continued)

### 5.2 Economic Assumptions (continued)

#### Risk Discount Rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk.

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 30 June 2020 (Unaudited)	As at 31 December 2019	As at 30 June 2019 (Unaudited)
AIA Australia			
• Australia	<b>0.87</b>	1.37	1.32
• New Zealand	<b>0.93</b>	1.65	1.57
AIA China	<b>2.85</b>	3.14	3.24
AIA Hong Kong <sup>(1)</sup>	<b>0.66</b>	1.92	2.01
AIA Indonesia	<b>7.21</b>	7.06	7.37
AIA Korea	<b>1.39</b>	1.67	1.60
AIA Malaysia	<b>2.87</b>	3.31	3.64
AIA Philippines	<b>2.80</b>	4.46	5.07
AIA Singapore	<b>0.90</b>	1.74	2.00
AIA Sri Lanka	<b>7.20</b>	10.07	10.33
AIA Taiwan	<b>0.45</b>	0.67	0.68
AIA Thailand	<b>1.28</b>	1.49	2.16
AIA Vietnam	<b>2.99</b>	3.56	4.70

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

## 5. ASSUMPTIONS (continued)

### 5.2 Economic Assumptions (continued)

#### Risk Discount Rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that the VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

Business Unit	Risk discount rates assumed in EV calculations (%)			Long-term investment returns assumed in EV calculations (%)					
				10-year government bonds			Local equities		
	As at 30 Jun 2020 (Unaudited)	As at 31 Dec 2019	As at 30 Jun 2019 (Unaudited)	As at 30 Jun 2020 (Unaudited)	As at 31 Dec 2019	As at 30 Jun 2019 (Unaudited)	As at 30 Jun 2020 (Unaudited)	As at 31 Dec 2019	As at 30 Jun 2019 (Unaudited)
AIA Australia									
• Australia	<b>6.45</b>	6.45	7.35	<b>2.30</b>	2.30	3.00	<b>6.60</b>	6.60	7.50
• New Zealand	<b>6.85</b>	6.85	7.75	<b>2.60</b>	2.60	3.50	<b>7.10</b>	7.10	8.00
AIA China	<b>9.75</b>	9.75	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>7.00</b>	7.20	7.50	<b>2.20</b>	2.70	3.00	<b>7.00</b>	7.50	7.80
AIA Indonesia	<b>13.00</b>	13.00	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	8.60	<b>2.20</b>	2.20	2.70	<b>6.50</b>	6.50	7.20
AIA Malaysia	<b>8.55</b>	8.55	8.75	<b>4.00</b>	4.00	4.20	<b>8.60</b>	8.60	8.80
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>6.60</b>	6.90	7.10	<b>2.20</b>	2.50	2.70	<b>6.70</b>	7.00	7.20
AIA Sri Lanka	<b>15.70</b>	15.70	15.70	<b>10.00</b>	10.00	10.00	<b>12.00</b>	12.00	12.00
AIA Taiwan	<b>7.55</b>	7.55	7.85	<b>1.30</b>	1.30	1.60	<b>5.90</b>	5.90	6.60
AIA Thailand	<b>7.90</b>	7.90	8.60	<b>2.70</b>	2.70	3.20	<b>7.70</b>	7.70	9.00
AIA Vietnam	<b>9.80</b>	10.80	11.80	<b>4.00</b>	5.00	6.00	<b>9.30</b>	10.30	11.30

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.

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. The above disclosure information is therefore not provided for Tata AIA Life.

## 5. ASSUMPTIONS (continued)

### 5.3 Expense Inflation

The expected long-term expense inflation rates used by Business Unit are set out below:

#### Expense Inflation Assumptions by Business Unit (%)

Business Unit	As at 30 June 2020 (Unaudited)	As at 31 December 2019
AIA Australia		
• Australia	2.05	2.05
• New Zealand	2.00	2.00
AIA China	2.00	2.00
AIA Hong Kong	2.00	2.00
AIA Indonesia	3.50	3.50
AIA Korea	3.50	3.50
AIA Malaysia	3.00	3.00
AIA Philippines	3.50	3.50
AIA Singapore	2.00	2.00
AIA Sri Lanka	6.50	6.50
AIA Taiwan	1.20	1.20
AIA Thailand	2.00	2.00
AIA Vietnam	4.00	4.00
Tata AIA Life	7.25	7.25

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

## 5. ASSUMPTIONS (continued)

### 5.4 Taxation

The projections of distributable earnings underlying the values presented in this report are net of corporate income tax, based on current taxation legislation and corporate income tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

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 30 June 2020 (Unaudited)	As at 31 December 2019
AIA Australia		
• Australia	30.0	30.0
• New Zealand	28.0	28.0
AIA China	25.0	25.0
AIA Hong Kong	16.5	16.5
AIA Indonesia <sup>(1)</sup>	22.0	25.0
AIA Korea <sup>(2)</sup>	27.5	27.5
AIA Malaysia	24.0	24.0
AIA Philippines	30.0	30.0
AIA Singapore	17.0	17.0
AIA Sri Lanka	28.0	28.0
AIA Taiwan	20.0	20.0
AIA Thailand	20.0	20.0
AIA Vietnam	20.0	20.0
Tata AIA Life	14.6	14.6

Notes:

- (1) During the reporting period, Indonesia enacted a change in corporate income tax rate from 25% to 22% for fiscal years 2020 and 2021 and 20% from fiscal year 2022 onwards.
- (2) From fiscal years 2018 to 2020, AIA Korea is subject to an assumed corporate income tax of 27.5%, 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% from fiscal year 2021.

The tax assumptions used in the valuation reflect the local corporate income tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

The EV of the Group as at 30 June 2020 is calculated after deducting any expected remittance taxes payable on the anticipated distribution of both the ANW and VIF.

## 6. EVENTS AFTER THE REPORTING PERIOD

On 19 June 2020, AIA Co. has received approval from the China Banking and Insurance Regulatory Commission (CBIRC) to convert its existing Shanghai branch to a wholly-owned subsidiary. On 9 July 2020, the subsidiary was incorporated in Shanghai to operate AIA's life insurance business in Mainland China once the conversion process is completed. Upon the completion of the conversion process, any future remittances to the Group from this subsidiary will be subject to withholding tax at the applicable tax rate in Mainland China (currently at 5%). EV and VONB from AIA China have been subject to 5% withholding tax from 9 July 2020 onwards.

On 20 August 2020, a Committee appointed by the Board of Directors declared an interim dividend of 35.00 Hong Kong cents per share (six months ended 30 June 2019: 33.30 Hong Kong cents per share).