AIA Group Limited

友邦保險控股有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 1299

(the "Issuer")

US$750,000,000 2.70 per cent. Resettable Subordinated Perpetual Securities (Stock code: 40639)

under the US$12,000,000,000 Global Medium Term Note and Securities Programme

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 16 March 2021 (the "**Offering Circular**") in relation to the US$12,000,000,000 Global Medium Term Note and Securities Programme (the "**Programme**") and the pricing supplement dated 30 March 2021 (the "**Pricing Supplement**") appended hereto in relation to the US$750,000,000 2.70 per cent. Resettable Subordinated Perpetual Securities (the "**Securities**") to be issued under the Programme of the Issuer. As disclosed in the Offering Circular and the Pricing Supplement, the Securities to be issued under the Programme will be intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular and the Pricing Supplement do not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor are they an invitation to the public to make offers to subscribe for or purchase any securities, nor are they circulated to invite offers by the public to subscribe for or purchase any securities.

Hong Kong, 8 April 2021

As at the date of this announcement, the Independent Non-executive Chairman and Independent Non-executive Director of the Issuer is Mr. Edmund Sze-Wing TSE, the Executive Director, Group Chief Executive and President of the Issuer is Mr. LEE Yuan Siong and the Independent Non-executive Directors of the Issuer are Mr. Jack Chak-Kwong SO, Mr. Chung-Kong CHOW, Mr. John Barrie HARRISON, Mr. George Yong-Boon YEO, Professor Lawrence Juen-Yee LAU, Ms. Swee-Lian TEO, Dr. Narongchai AKRASANEE and Mr. Cesar Velasquez PURISIMA.

Appendix I – Offering Circular dated 16 March 2021

IMPORTANT NOTICE

THIS OFFERING CIRCULAR IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A PROMULGATED UNDER THE SECURITIES ACT (AS DEFINED BELOW) ("**RULE 144A**"), OR (2) NON-U.S. PERSONS (AS DEFINED IN REGULATION S PROMULGATED UNDER THE SECURITIES ACT (AS DEFINED BELOW) ("**REGULATION S**")) PURCHASING THE INSTRUMENTS OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S.

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following applies to the offering circular (the "**Offering Circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. As used herein, the terms "United States", "U.S. person", "directed selling efforts" and "offshore transaction" shall have the meanings attributed to such terms in Rule 902 of Regulation S.

Instruments (as described in the Offering Circular) may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are both accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions ("**NI 45-106**") or subsection 73.3(1) of the Securities Act (Ontario), and permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of Instruments must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser. Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("**NI 33-105**"), the Dealers (as described in the Offering Circular) are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Upon receipt of the Offering Circular, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Instruments described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF INSTRUMENTS FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE INSTRUMENTS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE INSTRUMENTS MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING OFFERING CIRCULAR MAY NOT BE DISCLOSED TO, DELIVERED, FORWARDED OR DISTRIBUTED TO ANY PERSON OTHER THAN THE INTENDED RECIPIENT AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE INSTRUMENTS AND THE INFORMATION CONTAINED IN THE OFFERING CIRCULAR (AS AMENDED AND RESTATED) THAT WILL BE DISTRIBUTED TO YOU PRIOR TO THE PRICING DATE AND NOT ON THE BASIS OF THE ATTACHED DOCUMENTS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE INSTRUMENTS DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the following Offering Circular or make an investment decision with respect to the Instruments, investors must be either (I) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A) or (II) non-U.S. persons eligible to purchase the Instruments outside the United States in an offshore transaction in reliance on Regulation S. By accepting this e-mail and accessing the following Offering Circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons eligible to purchase the Instruments outside the United States in an offshore transaction in reliance on Regulation S and that the electronic e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to the delivery of such Offering Circular by electronic transmission.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Dealer (as described in the Offering Circular) or any affiliate of a Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the issuer in such jurisdiction.

The Instruments, this Offering Circular, and any other information made available to prospective investors have not been reviewed, recommended, approved or disapproved by the U.S. Securities and Exchange Commission, any independent person or regulatory authority.

The following Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Issuer, the Arranger (as described in the Offering Circular) nor any Dealer nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard-copy version available to you on request from the Arranger.

You should not reply by e-mail to this notice, and you may not purchase any Instruments by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. You are responsible for protecting this e-mail against viruses and other destructive items. Your use of this e-mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

HEALTHIER, LONGER, BETTER LIVES

AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1299)

US$12,000,000,000

Global Medium Term Note and Securities Programme

Under the US$12,000,000,000 Global Medium Term Note and Securities Programme described in this Offering Circular (the "**Programme**"), AIA Group Limited (the "**Issuer**")**,** subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**") and dated and perpetual securities (the "**Securities**"). References herein to the "**Instruments**" are to the Notes and/or the Securities, as the context so requires. Instruments may be issued in bearer or registered form. The aggregate nominal amount of Instruments outstanding will not at any time exceed US$12,000,000,000 (or its equivalent in other currencies). The Instruments may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer we may appoint under the Programme from time to time (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Instruments being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Instruments.

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) ("**Professional Investors**") only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: the Issuer confirms that each Tranche (as defined under "*Terms and Conditions of the Notes*" or *"Terms and Conditions of the Securities",* as applicable) of Instruments issued under the Programme is intended for purchase by Professional Investors only and, with respect to Instruments to be listed on the Hong Kong Stock Exchange, will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Instruments are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The HKSE has not reviewed the contents of this 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 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 Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this 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 Offering Circular.

Notice of the aggregate nominal amount of Instruments, interest or distribution (if any) payable in respect of Instruments, the issue price of Instruments and any other terms and conditions not contained herein which are applicable to each Tranche of Instruments will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Instruments to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the date of issue of the Instruments of such Tranche.

The relevant Pricing Supplement in respect of the issue of any Instruments will specify whether or not such Instruments will be listed on the Hong Kong Stock Exchange or any other stock exchange.

Each Series (as defined in "*Summary of the Programme*") of Instruments in bearer form ("**Bearer Instruments**") will be represented on issue by a temporary global instrument (each a "**temporary Global Instrument**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") promulgated under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Interests in temporary Global Instruments generally will be exchangeable for interests in permanent global instruments (each a "**permanent Global Instrument**" and, together with the temporary Global Instruments, the "**Global Instruments**"), or if so stated in the relevant Pricing Supplement, definitive Instruments ("**Definitive Instruments**"), on or after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Tranche (as defined in "*Summary of the Programme*")*,* upon certification as to non-U.S. beneficial ownership. Interests in permanent Global Instruments will be exchangeable for Definitive Instruments in whole but not in part as described under "*Summary of Provisions Relating to the Instruments while in Global Form"*.

The Instruments of each Series to be issued in registered form ("**Registered Instruments**") and which are sold to non-U.S. persons in an "offshore transaction" within the meaning of Regulation S ("**Unrestricted Instruments**") will initially be represented by a permanent registered global certificate (each an "**Unrestricted Global Certificate**") without interest or distribution coupons, which may be deposited on the relevant issue date (i) in the case of a Series intended to be cleared through Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), with a common depositary on behalf of Euroclear and Clearstream, Luxembourg, (ii) in the case of a Series intended to be cleared through the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**CMU Service**" or "**CMU**"), with a sub-custodian for the CMU, (iii) in the case of a Series intended to be cleared through The Depository Trust Company ("**DTC**"), registered in the name of Cede & Co. as nominee for DTC (a "**DTC Unrestricted Global Certificate**") and (iv) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, the CMU and/or DTC, or delivered outside a clearing system, as agreed between us and the relevant Dealer. Registered Instruments which are sold in the United States to "qualified institutional buyers" (each, a "**QIB**") within the meaning of Rule 144A ("**Rule 144A**") promulgated under the Securities Act ("**Restricted Instruments**") will initially be represented by a permanent registered global certificate (each a "**Restricted Global Certificate**" and, together with the relevant Unrestricted Global Certificate, the "**Global Certificates**"), without interest or distribution coupons, which may be deposited on the relevant issue date with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, DTC. The provisions governing the exchange of interests in Global Instruments for other Global Instruments and Definitive Instruments are described in "*Summary of Provisions Relating to the Instruments while in Global Form".*

Investing in Instruments issued under the Programme involves certain risks. See "*Risk Factors*" beginning on page 30 of this Offering Circular.

The Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Instruments may include Bearer Instruments that are subject to U.S. tax law requirements. Accordingly, the Instruments are being offered and sold only (i) in the United States to QIBs as defined in Rule 144A, and (ii) outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S. Subject to certain exceptions, the Instruments may not be offered, sold, or, in the case of Bearer Instruments, delivered within the United States or to, or for the account or benefit of, U.S. persons. Registered Instruments are subject to certain restrictions on transfer. See "*Subscription and Sale*" and "*Transfer Restrictions*".

We may agree with any Dealer that Instruments may be issued in a form not contemplated by the Terms and Conditions of the Notes or Terms and Conditions of the Securities herein, as applicable, in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Instruments.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKSE Rules**" or "**Listing Rules**") for the purpose of giving information with regard to us. We accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Arranger

Citigroup

Dealers

ANZ **BNP PARIBAS** **Citigroup** **Crédit Agricole CIB** **Deutsche Bank** **Goldman Sachs**

HSBC **Morgan Stanley** **MUFG** **Standard Chartered Bank** **Wells Fargo Securities**

The date of this Offering Circular is 16 March 2021.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this 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 Offering Circular.

This Offering Circular contains all information with respect to us and our subsidiaries taken as a whole (the "**Group**") and the Instruments, which is material in the context of the issue and offering of the Instruments; the statements contained herein relating to us and the Group are in every material respect true and accurate and not misleading; the opinions and intentions expressed in this Offering Circular with regard to us and the Group are honestly held, have been reached after due and careful consideration and are based on reasonable assumptions; and all reasonable enquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Notes Conditions**") and each Tranche of Securities will be issued on the terms set out herein under "*Terms and Conditions of the Securities*" (the "**Securities Conditions**") as amended and/or supplemented by the Pricing Supplement specific to such Tranche. References herein to the "**Conditions**" are to the Notes Conditions and/or the Securities Conditions, as the context so requires. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Instruments, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. We, the Arranger and the Dealers, require persons into whose possession this Offering Circular comes to inform themselves about and to observe any such restrictions. None of the Issuer, the Arranger or the Dealers represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Instruments may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, we, the Arranger and the Dealers, have not taken any action which would permit a public offering of any Instruments or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Instruments may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Important – EEA Retail Investors: If the Pricing Supplement in respect of any Instruments includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Instruments or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Important – UK Retail Investors – If the Pricing Supplement in respect of any Instruments includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Instruments are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Instruments or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Instruments or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MIFID II product governance / target market: The Pricing Supplement in respect of any Instruments may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any person subsequently offering, selling or recommending the Instruments (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

UK MiFIR product governance / target market – The Pricing Supplement in respect of any Instruments may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Instruments and which channels for distribution of the Instruments are appropriate. Any person subsequently offering, selling or recommending the Instruments (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Instruments (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Instruments is a manufacturer in respect of such Instruments, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

Product Classification Pursuant to Section 309B of the Securities and Futures Act (Chapter 289 of Singapore) – The Pricing Supplement in respect of any Instruments may include a legend entitled "Singapore Securities and Futures Act Product Classification" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"). We will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

There are restrictions on the offer and sale of the Instruments and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States, the European Economic Area, the United Kingdom, China, Hong Kong, Japan, Taiwan (China), Singapore, the Netherlands and Canada, and to persons connected therewith. The Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may include Bearer Instruments that are subject to U.S. tax law requirements. Accordingly, the Instruments are being offered and sold only (i) in the United States to QIBs as defined in Rule 144A, and (ii) outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S. For a description of certain restrictions on offers, sales and transfers of Instruments and on the distribution of this Offering Circular, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Listing of the Instruments on the Hong Kong Stock Exchange is not to be taken as an indication of our merits or the merits of the Group or the Instruments. In making an investment decision, investors must rely on their own examination of us, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Instruments.

We have not authorised any person to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of Instruments and, if given or made, such information or representation should not be relied upon as having been authorised by us, any Dealer or the Arranger.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Instruments shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in our prospects or financial or trading position since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by us, the Arranger, the Dealers, or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Instruments. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of our condition (financial or otherwise).

The maximum aggregate principal amount of Instruments outstanding at any one time under the Programme will not exceed US$12,000,000,000 (and for this purpose, any Instruments denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Instruments calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Instruments which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

In connection with the issue of any Tranche of Instruments, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager") in the applicable Pricing Supplement may over-allot Instruments or effect transactions with a view to supporting the price of the Instruments at a level higher than that which might otherwise prevail for a limited period after the applicable issue date. However, there is no obligation on such Stabilising Manager to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

The Arranger and the Dealers have not separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arranger or Dealers, nor any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arranger or Dealers, nor any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Arranger, a Dealer, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with us, the Group or the issue and offering of the Instruments. Each of the Arranger and Dealers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Instruments of a particular issue. Each potential purchaser of Instruments should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Instruments, which may describe additional risks and investment considerations associated with such Instruments. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of Instruments and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by us, the Arranger or the Dealers, or any director, officer, employee, agent or affiliate of any such person that any recipient of this Offering Circular or of any such information should purchase the Instruments. Each potential purchaser of Instruments should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of us and the Group. Each potential purchaser of Instruments should determine for itself the relevance of the information contained in this Offering Circular, and its purchase of Instruments should be based upon such investigation as it deems necessary. None of the Arranger or Dealers, or agent or affiliate of any such person, undertakes to review the financial condition or affairs of us or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Instruments of any information coming to the attention of any of the Arranger or the Dealers or any of them.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**we**", "**us**", "**our**", and the "**Issuer**" are to AIA Group Limited and all references to the "**Group**" and "**AIA**" are to us and our subsidiaries taken as a whole.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**US$**" and to "**U.S. dollars**" are to United States dollars; all references to "**HK$**" and "**Hong Kong dollars**" are to Hong Kong dollars. As used herein, the terms "United States", "U.S. person", "directed selling efforts" and "offshore transaction" shall have the meanings attributed to such terms in Rule 902 of Regulation S.

See "*Exchange Rate Information*". No representation is made that the Hong Kong dollar and other currency amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate.

AVAILABLE INFORMATION

For so long as any Series of the Instruments remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) promulgated under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder for delivery to such holder or prospective purchaser, in each case upon the request of such holder or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

EXCHANGE RATE INFORMATION

Our principal overseas operations during the reporting period were located within the Asia Pacific region. Items included in the financial statements of each of our Group's entities are measured in the currency of the primary economic environment in which that entity operates, which is their functional currency. Unless otherwise stated, our consolidated financial statements are presented in millions of U.S. dollars, which is our functional currency, and our and the Group's presentation currency. The functional currency of each entity within the Group is converted into U.S. dollars utilising period-end exchange rates for assets and liabilities and corresponding period weighted average exchange rates for the consolidated statement of income accounts.

The following table shows, for the periods indicated, the exchange rate at the end of each period between functional currencies of certain markets within the Group and the U.S. dollar. The table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers payable in these functional currencies as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

U.S. dollar Period-End Exchange Rates[(1)]

	March 2021 (through 12 March 2021)	February 2021	January 2021	Twelve months ended 31 December 2020	2019	2018
Mainland China ..	6.51	6.47	6.43	6.53	6.96	6.88
Hong Kong	7.77	7.76	7.75	7.75	7.79	7.83
Thailand...............	30.71	30.46	29.89	30.02	29.75	32.31
Singapore............	1.34	1.33	1.33	1.32	1.35	1.36
Malaysia..............	4.12	4.05	4.04	4.02	4.09	4.13

Source: H.10 statistical release of the Federal Reserve Board.

(1) Exchange rates are expressed in units of local currency per US$1.00

No representation is made that amounts presented in a particular currency in this Offering Circular could have been converted into such currency at any particular rate or at all.

Hong Kong Dollar Exchange Rates

The Hong Kong dollar is freely convertible into the U.S. dollar. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. In 2005, the Hong Kong Monetary Authority (the "**HKMA**") broadened the link from the original rate of HK$7.80 per US$1.00 to a rate range of HK$7.75 to HK$7.85 per US$1.00. The Basic Law of Hong Kong (the "**Basic Law**"), which came into effect on 1 July 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. The Hong Kong SAR government has indicated its intention to maintain the link at that rate. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong SAR government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we cannot assure you that the Hong Kong SAR government will maintain the link at HK$7.80 to US$1.00 or at all.

FORWARD LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Business*" and elsewhere in this Offering Circular constitute "*forward-looking statements*". The words including "*anticipate*", "*believe*", "*could*", "*estimate*", "*expect*", "*going forward*", "*intend*", "*may*", "*ought*", "*plan*", "*schedule*", "*will*", "*aim*" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding our financial position, business strategy, prospects, capital expenditure and investment plans and the plans and objectives of our management for its future operations (including development plans and objectives relating to our operations), are forward-looking statements. These forward-looking statements reflect our views with respect to future events and are not a guarantee of future performance or developments. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. We expressly disclaim any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from our expectations. All subsequent written and forward-looking statements attributable to us or persons acting on our behalf expressly qualified in their entirety by such cautionary statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are a company incorporated in Hong Kong under the Companies Ordinance. All of our directors and executive officers and all or a substantial portion of our assets and the assets of such persons reside or are located outside the United States. As a result, purchasers of the Instruments might not be able to effect service of process within the United States upon us or such persons, or to enforce against them United States court judgements predicated upon the civil liability provisions of the federal securities laws of the United States. In practice, judgements of U.S. courts are often difficult or impossible to enforce in Hong Kong. While U.S. court civil judgements for a monetary sum in respect of private law liabilities are, in principle, enforceable in Hong Kong if certain criteria are satisfied (relating to matters including jurisdiction, finality, due process and the absence of fraud), those criteria are often not satisfied and even where they are, arguably, satisfied, the procedure for demonstrating this often proves costly, time-consuming and uncertain. Where the U.S. court judgement is based on the civil liability provisions of the U.S. federal securities laws, the defendant will often have scope for raising a further objection to the effect that such liabilities are, in substance, public or penal in nature and, as such, unenforceable in Hong Kong.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, our most recently published audited consolidated financial statements and any unaudited interim condensed consolidated financial statements published subsequently to such consolidated financial statements from time to time (if any) and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available for inspection upon prior written notice and satisfactory proof of holding free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified office of the Fiscal Agent (as defined under "*Summary of the Programme*") set out at the end of this Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

We have prepared audited consolidated financial statements as of and for the year ended 31 December 2020. See "*Index to the 2020 Financial Statements and Supplementary Embedded Value Information*". Our consolidated financial statements were prepared in conformity with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board and Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants. IFRS and HKFRS differ in certain respects from generally accepted accounting principles in other countries, including generally accepted accounting principles in the United States ("**U.S. GAAP**"). These differences might be material to the financial information presented in this Offering Circular, and we have made no attempt to quantify the impact of those differences. In particular, we have not attempted to reconcile our consolidated financial statements to U.S. GAAP, but had we done so it may have had a material impact on the financial information contained in this Offering Circular. Potential investors should consult their own professional advisers for an understanding of the difference between IFRS/HKFRS, U.S. GAAP and certain other jurisdictions, and how those differences might affect the financial information presented in this Offering Circular. In making an investment decision, investors must rely upon their own independent examination of us, the terms of this offering and our recent financial information, including the risks involved. Unless specified or the context otherwise requires, all financial information in this Offering Circular is presented on a consolidated basis. See "*General Information*" for a description of the consolidated financial statements currently published by us. PricewaterhouseCoopers, our independent auditor, audited our consolidated financial statements as of and for the year ended 31 December 2020, the year ended 31 December 2019 and the thirteen months ended 31 December 2018. Our audited consolidated financial statements as of and for the year ended 31 December 2020 and the year ended 31 December 2019, including the notes thereto, appear elsewhere in this Offering Circular.

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 are for the thirteen months ended 31 December 2018. To facilitate a meaningful comparison of our performance in 2020, 2019 and 2018, we are also reporting supplementary financial information on a calendar year basis covering the twelve months ended 31 December 2018, which is set out in note 48 to our 2019 audited consolidated financial statements included elsewhere in this Offering Circular. Unless otherwise specified herein, information provided for 2020 is as of and for the year ended 31 December 2020, with comparative information provided as of and for the twelve months ended 31 December 2019 and 2018, respectively. Embedded value information is provided as of and for the year ended 31 December 2020, with comparative information as of and for the years ended 31 December 2019 and 2018. For additional information, see the notes to our audited consolidated financial statements as of and for the year ended 31 December 2019 included elsewhere in this Offering Circular and "*Risk Factors – Certain amounts presented in this Offering Circular are for the thirteen months ended 31 December 2018, and such period may not be directly comparable to the years ended 31 December 2020 and 2019*".

During the year ended 31 December 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 revised accounting policy in relation to the Hong Kong participating business was effective from 1 January 2020 and has been applied retrospectively. The effects of the adoption of the revised accounting policy have been restated in the consolidated income statement for the year ended 31 December 2019, and in the statement of financial position as of 31 December 2019 and 2018, in each case, as set forth in the 2020 audited consolidated financial statements included elsewhere in this Offering Circular. Unless otherwise specified herein, the comparative information as of and for the twelve months ended 31 December 2019 and 2018 set out in this Offering Circular has not been adjusted and may not be directly comparable. This accounting policy change impacts OPAT and IFRS metrics, including IFRS profit, insurance contract liabilities and total equity, for the Group and for our Hong Kong reporting segment, but has no impact on VONB and EV Equity. For additional information, see note 2 and note 48 to our audited consolidated financial statements as of and for the year ended 31 December 2020 included elsewhere in this Offering Circular.

There are also certain new amendments to IFRS adopted for the first time beginning 1 January 2020 and these have no material impact to the Group. Details of these new amendments are disclosed in note 2 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

We have implemented IFRS 16, Leases, which took effect from 1 January 2019. The impact of the initial application of IFRS 16 is disclosed in Note 2 in our 2019 audited consolidated financial statements included elsewhere in this Offering Circular. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. We elected to apply IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Comparative financial information for the previous corresponding periods has not been restated.

This Offering Circular contains non-U.S.GAAP financial measures that are not required by, or presented in accordance with, IFRS or HKFRS. We present non-U.S.GAAP financial measures for management decision-making and internal performance management purposes. For example, value of new business ("**VONB**") is an estimate of the economic value of one year's sales. We measure new business activity using a performance measure referred to as annualised new premiums ("**ANP**"), and business volumes during the year using a performance measure referred to as total weighted premium income ("**TWPI**"). We also measure our business with operating profit after tax attributable to shareholders of the Issuer ("**OPAT**"). For a description of how we calculate these and other measures, such as equity attributable to shareholders of the Issuer on the embedded value basis ("**EV Equity**"), see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview"*. Non-GAAP financial measures are not measures of our performance under IFRS or HKFRS and may not be comparable to similarly titled measures presented by other companies. They should be considered together with any performance measures derived in accordance with IFRS or other generally accepted accounting principles.

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SUMMARY

This summary highlights, and is qualified in its entirety by, information contained elsewhere or incorporated by reference in this Offering Circular. This summary does not contain all the information that may be important to prospective investors. Prospective investors should read this entire Offering Circular carefully, including "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", and our audited consolidated financial statements included elsewhere in this Offering Circular.

OVERVIEW

We are the holding company of the largest independent publicly listed pan-Asian life insurance group in the world. We trace our roots to 1919 when C.V. Starr, a young American entrepreneur, established a fire and marine insurance agency in Shanghai. From this beginning, we have built a long and established record that provides us with significant experience and expertise, enabling us to offer products and services across all classes of consumers, from the mass market to high net worth individuals and corporate clients, across our geographical markets. We are a market leader in the Asia Pacific region based on life insurance premiums and we hold leading positions across the majority of geographical markets in which we operate.[1] Our brand is widely known and highly respected in the markets we serve, and we believe our reputation is that of an industry leader in quality and service excellence.

We believe that our capital strength and robust balance sheet give us a significant advantage. As of 31 December 2020, the solvency ratio for AIA Company Limited ("**AIA Co.**") on the Hong Kong Insurance Ordinance ("**HKIO**") basis remained strong at 489%, and the Group Local Capital Summation Method cover ratio ("**Group LCSM Cover Ratio**") under the new Group-Wide Supervision ("**GWS**") framework was 374%.[2] As of 31 December 2020, we had total assets of US$326,121 million and total equity attributable to shareholders of the Issuer of US$63,200 million.

We meet the long-term savings and protection needs of individuals by offering a range of products and services, including life insurance, accident and health insurance and savings plans. We also provide employee benefits, credit life and pension services to corporate clients. As of 31 December 2020, our employees, partners and proprietary agency force served the holders of more than 36 million individual policies and over 16 million participating members of group insurance schemes.

We measure the scale and profitability of our business using various key performance indicators, including value of new business ("**VONB**"), annualised new premiums ("**ANP**"), total weighted premium income ("**TWPI**"), operating profit after tax attributable to shareholders of the Issuer ("**OPAT**") and equity attributable to shareholders of the Issuer on the embedded value basis ("**EV Equity**"). For the year ended 31 December 2020, VONB was US$2,765 million and OPAT was US$5,942 million. We have maintained a stable persistency rate of 95%, 95% and 96% for the twelve months ended 31 December 2020, 2019 and 2018, respectively. We had ANP of US$5,219 million and TWPI of US$35,408 million for the year ended 31 December 2020, with 86% of our TWPI consisting of renewal premiums. As of 31 December 2020, we had EV Equity of US$67,185 million. For an explanation and further discussion of our key performance indicators, see *"– Summary Selected Consolidated Financial and Other Data – Other Data"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Key Performance Indicators"*.

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1 Based on gross premiums written. Market rankings are based on latest available data published by relevant regulatory and industry sources, as well as our own internal estimates where reasonable. In Mainland China, we are among the leading foreign life insurance companies based on gross premiums written.

2 The Hong Kong Insurance Authority is introducing the GWS framework for monitoring insurance groups under its supervision. In this Offering Circular, all references to the Group LCSM Cover Ratio are based on our current understanding of the GWS framework as it applies to the Group.

We have a presence in 18 markets across the Asia Pacific region. Our business is geographically diversified. We operate wholly-owned subsidiaries or branches in 17 markets in Asia Pacific – Mainland China, Hong Kong (which includes Macau), Thailand, Singapore (which includes Brunei) and Malaysia (collectively, our "**Key Segments**"), Australia (including New Zealand), Cambodia, Indonesia, South Korea, Sri Lanka, the Philippines, Taiwan (China), Vietnam and Myanmar (which began operations as a wholly owned foreign life insurer in November 2019). In addition, we have a 49% shareholding in a joint venture in India with the Tata Group. Hong Kong, Mainland China and Thailand constitute our three largest markets in terms of OPAT, representing 35%, 21% and 17%, respectively, of our total OPAT for the year ended 31 December 2020. As of 31 December 2020, we had over 23,000 permanent employees and fixed term employees.

Our proprietary agency channel is our core distribution platform. In addition, through our partnership team, "**Partnership Distribution**", we market products through bancassurance, direct marketing and other intermediated channels. We also continue to utilise and invest in other partnership channels, including private banks, independent financial advisers ("**IFAs**"), brokers and specialist advisers.

Our common shares are traded on the Main Board of the Hong Kong Stock Exchange under the stock code "1299" and are a constituent stock of the Hang Seng Index. We also have American Depositary Receipts (Level 1) traded on the over-the-counter market (ticker symbol: "AAGIY").

OUR COMPETITIVE STRENGTHS

Profitability and financial strength derived from geographical diversity, scale of operations

We have a track record of stable and profitable growth, which we consider to be evidence of the success of our business model and market leadership. As of 31 December 2020, AIA Co., our principal operating subsidiary, had a strong solvency position with a solvency ratio of 489% on the HKIO basis, and our Group LCSM Cover Ratio under the new GWS framework was 374%.[3] Internally generated cash flows from our extensive book of in-force business have created a stable revenue base with a high volume of renewal premiums. We derive earnings from across our markets, which we believe underscores our financial strength and profitability. We believe that the scale and efficiency of our operations across our markets give us a competitive advantage in pricing products and in funding growth.

Strong capital position

The strength of our financial position is one of our key points of differentiation and a competitive advantage. Our prudent, sustainable and progressive dividend policy allows for future growth opportunities and the financial flexibility of the Group. Internally generated cash flows from our extensive book of in-force business provide us with a stable revenue base that supports our ongoing efforts to capture the significant growth opportunities available by investing in new business at high internal rates of return.

Deep and historic roots in the Asia Pacific region

We were an early entrant to a number of our Key Segments and are distinguished in many markets by our consistent presence operating through wholly-owned subsidiaries and branches, which allows us to exert control over operations and strategy and ensure that value created is for the benefit of our shareholders. We play an important and continuing role in the development of the life insurance industry in these markets. In Hong Kong, Thailand and

[3] The Hong Kong Insurance Authority is introducing the GWS framework for monitoring insurance groups under its supervision. In this Offering Circular, all references to the Group LCSM Cover Ratio are based on our current understanding of the GWS framework as it applies to the Group.

Singapore, we have sold life insurance products since the 1930s, and we were the first licensed non-Mainland life insurer to establish operations in Mainland China in 1992.

A broad footprint and market leadership in the Asia Pacific region

We are currently the only publicly-listed life insurance group that is headquartered in, established throughout and exclusively focused on the Asia Pacific region. We have a presence in 18 markets, which give us a broad geographical footprint in the Asia Pacific region. We are a market leader in the Asia Pacific region based on life insurance premiums and we hold leading positions across the majority of geographical markets in which we operate.[4]

Mainland China opportunity

We are the first company with a wholly foreign owned life insurance subsidiary in Mainland China. During the year ended 31 December 2020, we received regulatory approvals and subsequently converted our Shanghai Branch into a wholly owned subsidiary. We also received approval from the CBIRC to begin preparations to establish a new branch in Sichuan, the fourth largest province in China by population. The branch would be our first since subsidiarisation and our first in Western China.

An extensive proprietary agency channel and an expanding multi-channel distribution platform

Developed over decades of operation, our proprietary agency channel is our core distribution platform, providing us with continuity of access to customers and the important opportunity to service their ongoing needs. Throughout our history, our agents have provided significant reach and consistent personal customer contact, enabling us to build and maintain long-term relationships with customers. We have a large number of top-tier agents ("**Premier Agents**") who have been a catalyst for our success. See "*Business – Distribution – Agency*". In addition, we have also established other distribution channels that meet our profitability criteria.

A diversified suite of products and innovative product capabilities

We have a broad and diversified suite of products, including life insurance, accident and health insurance, savings plans, employee benefits, credit life and pension products, as well as our wellness programme, AIA Vitality, that are designed to meet customers' needs at different stages of their lives. We believe that our diversified product suite positions us well to capture evolving customer demand under a variety of market conditions. We are also able to transfer product knowledge and service expertise from our more developed markets to those markets at earlier stages of development.

Market-leading brand across the Asia Pacific region

We have offered customers financial security and the comfort of a constant presence throughout various economic, social and political changes in the Asia Pacific region. As a result, we believe that AIA is one of the strongest and most respected insurance brands in the industry.

Experienced management driving a comprehensive business growth strategy

Our management team has extensive experience and a track record for success in the Asia Pacific life insurance market. The group of individuals that make up our Group Executive Committee have on average over 22 years of experience in the insurance industry and over 25 years in the financial services industry. This experience gives our management a broad

[4] Based on gross premiums written. Market rankings are based on latest available data published by relevant regulatory and industry sources, as well as our own internal estimates where reasonable. In Mainland China, we are among the leading foreign life insurance companies based on gross premiums written.

perspective on the industry that drives our business strategies and which we believe will enable us to respond quickly to changes in the life insurance markets in which we operate.

OUR STRATEGY

During the year ended 31 December 2020, we undertook a comprehensive strategic review by senior management, and adopted our new strategy which centres on AIA's purpose to help people live Healthier, Longer, Better Lives.

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

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

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

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

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

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

Our strategic priorities are aligned with these structural growth drivers and build on our strong track record and substantial competitive advantages. AIA is 100% focused on Asia with 100% ownership of 17 of our 18 operations, including our business in Mainland China, where we are the first foreign company with a wholly-owned life insurance subsidiary.

We believe we have the right platform to capture the many opportunities that each of our markets offers. The specific fundamental areas of our sustainable growth model include:

Unrivalled Distribution – Scale capacity and productivity through digitalisation and advice-centric models

A key competitive strength for AIA is our unrivalled distribution platform, which we have built and developed over decades. This platform allows us to reach millions of individuals and companies across our markets with personalised advice and innovative solutions, helping them live Healthier, Longer, Better Lives. Our strategic priority is to further expand our distribution reach while focusing on increasing productivity of our distribution force.

Continue to extend leadership position in proprietary agency distribution

The core of our distribution is an unparalleled, proprietary Premier Agency platform which focuses on agent quality to deliver professional and personalised advice and to develop long-term relationships with our customers. AIA has been the number one MDRT company globally for the last six years, demonstrating the effectiveness of our Premier Agency strategy.

Our strategic priorities are market-dependent. In our developed markets, such as Hong Kong and Singapore, we continue to grow our Premier Agency through quality recruitment, training and development initiatives. In Mainland China, we have a unique growth opportunity for our agency as we expand our geographical presence. To meet the significant opportunities we see in South-East Asia and India, we will grow our active agents in our developing and emerging markets. In all of our markets, our agency strategy is built on quality and we increasingly use technology to support our agents and our next-generation agency leaders who are critical to our sustainable development.

Expand and broaden profitable next-generation partnerships

Complementing our agency is our partnership business, where we work with strategic partners including banks and other financial institutions, as well as non-traditional and digital partners across many of our markets. We have developed a panel of high-quality partners that provide us with access to hundreds of millions of potential customers, many without an existing insurance agent relationship.

Our strategic priority includes a digitally-led approach to better target in-branch customers with customised solutions and provide broader access to previously untapped online banking and credit card customers. Our omni-channel enables customers to choose how to purchase: fully online through to face-to-face advice with a specialist. We have also been testing different solutions and learning from the experience as we work with non-traditional and digital partners to access customers outside the reach of our other distribution channels and our usual demographics.

Compelling Propositions – be the leading provider of personalised advice and innovative solutions

Our aim is to be a market leader with innovative and profitable products that meet the changing needs of our customers for financial protection and efficient long-term regular savings as they go through their lives. We offer a comprehensive range of protection products to address the life, accident and health protection needs of our customers through their changing life stages, as well as comprehensive long-term savings products to provide for our customers' savings needs for education, retirement and different life goals. During the year ended 31 December 2020, our brand promise of helping people live Healthier, Longer, Better Lives was officially adopted as our purpose and our propositions lead the way in making that a reality for our customers.

Our proposition strategy is anchored around helping our customers meet their protection and long-term savings needs. For protection, our focus is on next-generation life and health products, fully integrated with AIA's health and wellness ecosystem of value-added services. For long-term savings, we leverage AIA's Regional Funds platform to deliver sustainable and superior long-term savings outcomes for customers.

Health and wellness ecosystem

Our unique health and wellness ecosystem provides AIA customers with affordable access to personalised value-added services curated through best-in-class service providers exclusive to AIA. These services range across the consumer wellness journeys from prediction and prevention through to diagnosis, treatment and recovery (our "PPDTR" framework) and help deliver improved health outcomes for our customers. We have anchored this ecosystem on four fundamental and exclusive components: AIA Vitality and wellness; our local network of telemedicine and healthcare providers; the AIA Regional Health Passport; and expert personal medical case management through our regional partnership with Medix.

AIA Vitality and wellness

The AIA Vitality and wellness ecosystem is the core engine for engaging with our customers by motivating them to adopt healthier lifestyles and drive long-term behavioural change. Total membership in our wellness programmes is now more than 1.8 million. We believe that our health improvement studies, based on the health assessments provided by AIA Vitality members, validate the effectiveness of our wellness programmes.

AIA Telemedicine

We are continuing to advance our diagnosis and healthcare provider services, including through provision of telemedicine services which are now available in a number of our markets. Deepening integration with providers has facilitated higher utilisation rates across both our corporate and individual customers recently, allowing individuals to receive health advice and monitoring remotely.

AIA Regional Health Passport

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

Personal Medical Case Management

Our expert personal medical case management centres on our exclusive regional partnership with Medix. This aims to provide AIA customers with the best possible diagnostic and treatment validation in the event of a particularly acute diagnosis.

Regional Funds Platform

Asia has the world's fastest-growing retirement population and our objective is to help them save more effectively through our long-term savings propositions. Our Regional Funds Platform helps us deliver innovative savings and retirement propositions, addressing the needs of our customers as they move through their life stages.

The Regional Funds Platform leverages our scale and distribution power to build relationships with leading external fund managers across the world and provide retail customers with tailored investment strategies exclusive to AIA. Through AIA's long-term professional stewardship, we aim to deliver long-term outperformance for our customers.

Leading Customer Experience – Seamless omni-channel customer experience with best-in-class engagement

Our ambition is for AIA's customers to have a best-in-class experience with personalised engagement delivering on three key principles: simplicity, timeliness and reliability. Using analytics, our aim is to deliver a distinctive, personalised and more meaningful experience for our customers, recommending the most suitable products with delivery through their preferred channels, underpinned by seamless processes and fast turnaround times.

We believe that the focus on further enhancing user experience and improving customer satisfaction will help us extend our leading Net Promoter Score ("**NPS**") positions we enjoy in many of our markets. Priorities include further simplification of policy materials and new business processes, enhancing ongoing policyholder communications and improving the overall claims experience.

Our new customer experience design principles are benchmarked to global best practice and are anchored in digitalisation and personalisation. Our benchmarking also indicates that these improvements can deliver significant improvements to customer satisfaction and NPS, increased sales leads, conversions, cross-sell and retention as well as delivering productivity gains through efficiency improvements.

Our large base of long-term existing customers offers significant cross-selling opportunities. Our existing customer marketing initiatives provide a growing source of VONB for the Group, and we intend to continue capitalising on these opportunities through our use of customer analytics and a broad range of complementary products. Servicing the needs of existing customers and the development of new customer relationships are complementary and critical drivers of success.

Therefore, our marketing efforts are directed at both acquiring new customers, which is an important source of growth as Asian economies expand and develop, and at servicing the expanding insurance needs of existing policyholders. We believe that our customer initiatives will continue to generate sustainable revenue growth through more new business referrals and additional sales to existing policyholders.

Technology, Digital and Analytics

A step change in technology, digital and analytics is at the heart of our strategy, enabling transformed experiences for our customers, distributors, partners and employees, while supporting growth and efficiency.

Technology

The foundation of this transformation is upgrading our technology to world-class modern architecture and systems to support the efficient scaling of our strategic initiatives. Our plans are to deliver scalable systems through migration to Cloud and modular architecture ensuring our technology needs are met in real-time.

Our aim is to increase automation throughout our business process which we measure through straight through processing rates across core customer journeys. Through the deployment of agile platforms, big data and artificial intelligence in our processes, we are deepening the understanding of our customers' needs and supporting better and faster decision making.

Digital enablement

Increasing the digital enablement of our customer, agent and partner channels is a key priority for the Group. Our targeted investments in digital enablement support our businesses in meeting the increasing expectations of customers, agents and partners for efficient and seamless experiences, driving increased engagement.

Across our agency, we continue to introduce enhancements to our recruitment, learning, activity management and sales and servicing tools.

Our partners benefit from integrated experiences for their customers, enabling us to access previously untapped customer segments, including credit card and online customers.

For our customers, digital enablement allows them to interact with us anytime, anywhere, through multiple channels across their learn, buy, service and claim journeys.

Analytics

Analytics help power our business decisions, providing deep and actionable insights across distribution, operations and other functions. With an increased use of analytics, we can deliver greater personalisation, improved customer experience, better decision making and increased operational efficiency. We do this by identifying and testing high-impact use cases in one of our markets and then industrialising across our other markets to quickly replicate success.

As we make a step change in our technology, digital and analytics, we have uplifted our data governance standards. We also continue to invest in a variety of cybersecurity measures to safeguard our data.

Organisation of the Future – Simpler, faster, more connected

Transforming our organisation

During the year ended 31 December 2020, we embarked on a long-term strategic initiative, known as Organisation of the Future, to support our strategic ambitions under our strategy and shape a Simpler, Faster and More Connected AIA.

Organisation of the Future

The core components of our Organisation of the Future initiative are to strengthen and simplify our organisational structures in support of our priorities under our strategy, the introduction of agile ways of working into parts of our business and the strengthening of our people and capabilities frameworks.

Through the Organisation of the Future initiative, we will support our people as they develop the careers they want, thereby enhancing AIA's status as an employer of choice.

In support of Organisation of the Future, new capability building programmes have been designed and rolled out in our pilot markets to further equip our people to lead change. Programmes include modules on organisation transformation, execution excellence, agile ways of working and Technology, Digital and Analytics.

Our plan is to test and learn within our pilot business units before scaling the Organisation of the Future programme to other business units throughout 2021 and beyond.

Modernising the way we work

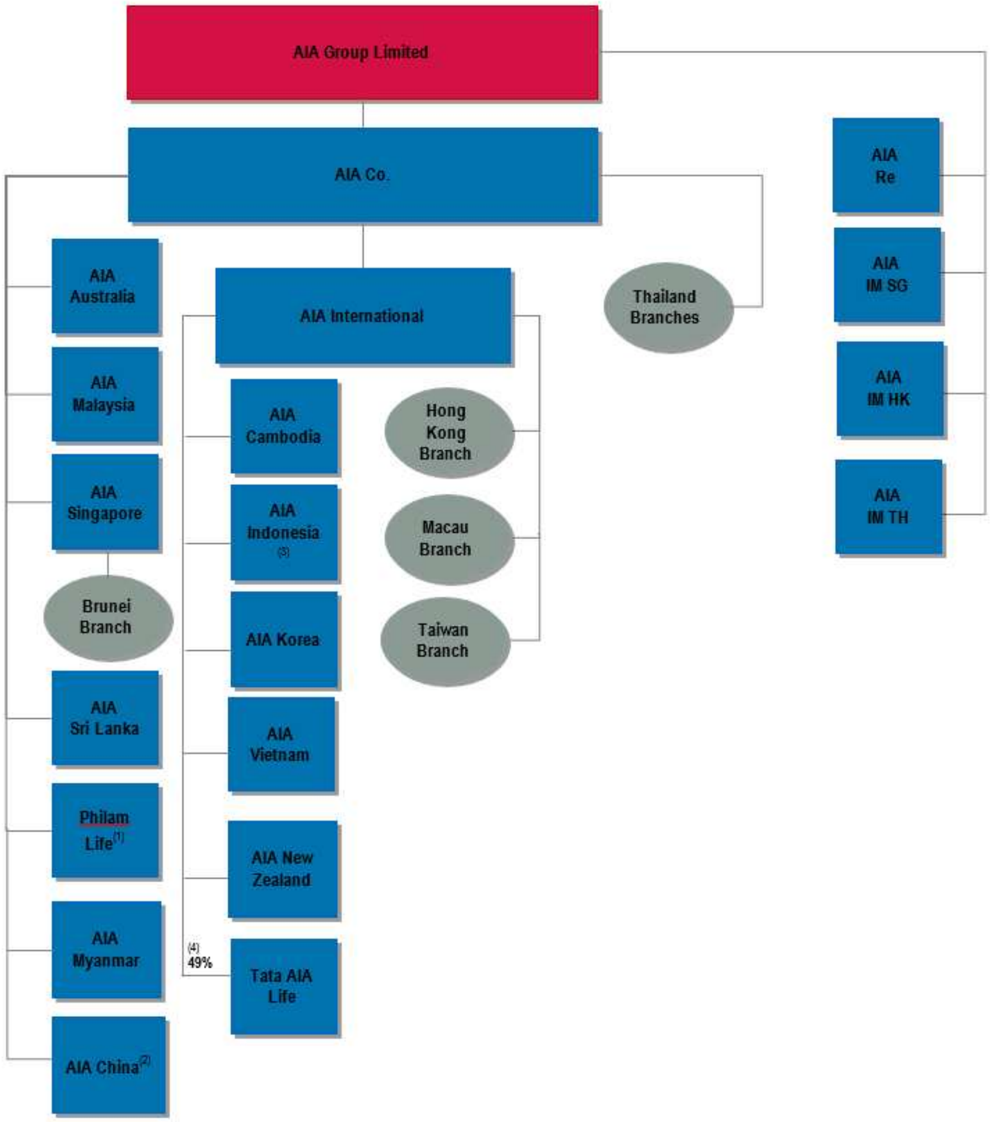
We are continuously adapting the way we work by leveraging digital and technology. As well as improving operational efficiencies, these initiatives empower our managers with greater insights about their team and allow managers and employees to take control of their needs with "anytime anywhere" self-service transactions.

Employees have embraced new ways of working, such as providing more regular feedback and recognition to promote better performance and engagement. They can also explore and complete more self-paced online courses when it is appropriate for them.

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

OUR STRUCTURE

The following is a simplified presentation of our structure as at the date of this Offering Circular, which includes our key operating business units:



(1) We hold a 99.99% equity interest.
(2) The business and operation of the branches in Mainland China under AIA Co. were transferred to AIA China with effect from 1 October 2020.
(3) We hold an equity interest in excess of 90%.
(4) The remaining interests in Tata AIA Life are held by Tata Sons Limited.

SUMMARY SELECTED 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 twelve months ended 31 December 2020, 2019 and 2018, set forth below, has been derived from our 2020 audited consolidated financial statements, and our 2019 audited consolidated financial statements (including note 48), respectively, included elsewhere in this Offering Circular. The information on VONB and EV Equity as of and for the twelve months ended 31 December 2020, 2019 and 2018, set forth below, has been derived from *"Supplementary Embedded Value Information"* included elsewhere in this 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 audited consolidated financial statements and the information in *"Supplementary Embedded Value Information"* included elsewhere in this Offering Circular.

The consolidated income statement and 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.

During the year ended 31 December 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 revised accounting policy in relation to the Hong Kong participating business was effective from 1 January 2020 and has been applied retrospectively. The effects of the adoption of the revised accounting policy have been restated in the consolidated income statement for the year ended 31 December 2019, and in the statement of financial position as of 31 December 2019 and 2018, in each case, as set forth in the 2020 audited consolidated financial statements included elsewhere in this Offering Circular. Unless otherwise specified herein, the comparative information as of and for the twelve months ended 31 December 2019 and 2018 set out in this Offering Circular has not been adjusted and may not be directly comparable. This accounting policy change impacts OPAT and IFRS metrics, including IFRS profit, insurance contract liabilities and total equity, for the Group and for our Hong Kong reporting segment, but has no impact on VONB and EV Equity. For additional information, see note 2 and note 48 to our audited consolidated financial statements as of and for the year ended 31 December 2020 included elsewhere in this Offering Circular.

There are also certain new amendments to IFRS adopted for the first time beginning 1 January 2020 and these have no material impact to the Group. Details of the new amendments are disclosed in note 2 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

We have adopted IFRS 16, Leases, since 1 January 2019, pursuant to which we are required to reclassify and adjust certain financial line items in our consolidated financial statements. Please refer to Note 2 to our 2019 audited consolidated financial statements for a discussion on the impact of the adoption of IFRS 16. As permitted by IFRS 16, we elected to initially measure the right-of-use assets in relation to each lease at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. This approach does not require any restatement of the corresponding figures for the prior periods before 1 January 2019. Our financial information as of and for the thirteen months ended 31 December 2018 may not be directly comparable to the financial information after 1 January 2019.

CONSOLIDATED INCOME STATEMENT

	Twelve months ended 31 December			
	2020	2019 (as adjusted)	2019 (as previously reported)	2018 (as previously reported)
	(in US$ millions)			
Revenue				
Premiums and fee income	35,780	34,777	34,777	31,271
Premiums ceded to reinsurers	(2,452)	(2,166)	(2,166)	(1,842)
Net premiums and fee income	33,328	32,611	32,611	29,429
Investment return	16,707	14,350	14,350	2,655
Other operating revenue	324	281	281	285
Total revenue	**50,359**	**47,242**	**47,242**	**32,369**
Expenses				
Insurance and investment contract benefits	36,865	34,068	33,400	23,633
Insurance and investment contract benefits ceded	(2,126)	(1,940)	(1,940)	(1,675)
Net insurance and investment contract benefits	34,739	32,128	31,460	21,958
Commission and other acquisition expenses	4,402	4,283	4,283	3,781
Operating expenses	2,695	2,468	2,468	2,171
Finance costs	292	283	283	212
Other expenses	944	845	845	739
Total expenses	**43,072**	**40,007**	**39,339**	**28,861**
Profit before share of losses from associates and joint ventures	7,287	7,235	7,903	3,508
Share of losses from associates and joint ventures	(17)	(8)	(8)	-
Profit before tax	**7,270**	**7,227**	**7,895**	**3,508**
Income tax (expense) / credit attributable to policyholders' returns	(171)	(179)	(179)	65
Profit before tax attributable to shareholders' profits	**7,099**	**7,048**	**7,716**	**3,573**
Tax expense	**(1,491)**	**(1,209)**	**(1,208)**	**(849)**
Tax attributable to policyholders' returns	171	179	179	(65)
Tax expense attributable to shareholders' profits	(1,320)	(1,030)	(1,029)	(914)
Net profit	**5,779**	**6,018**	**6,687**	**2,659**
Less: amounts attributable to non-controlling interests	-	39	39	62
Net profit attributable to shareholders of the Issuer	**5,779**	**5,979**	**6,648**	**2,597**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 31 December			
	2020	2019 (as adjusted)	2019 (as previously reported)	2018 (as previously reported)
	(in US$ millions)			
Assets				
Intangible assets	2,634	2,520	2,520	1,970
Investments in associates and joint ventures	606	615	615	610
Property, plant and equipment	2,722	2,865	2,865	1,233
Investment property	4,639	4,834	4,834	4,794
Reinsurance assets	4,560	3,833	3,833	2,887
Deferred acquisition and origination costs	27,915	26,328	26,328	24,626
Financial investments:				
Loans and deposits	9,335	10,086	10,086	7,392
Available for sale				
Debt securities	165,106	138,852	138,852	112,485
At fair value through profit or loss				
Debt securities	36,775	33,132	33,132	27,736
Equity securities	59,182	50,322	50,322	38,099
Derivative financial instruments	1,069	971	971	430
Total financial investments	271,467	233,363	233,363	186,142
Deferred tax assets	23	23	23	26
Current tax recoverable	103	205	205	164
Other assets	5,833	5,605	5,605	4,903
Cash and cash equivalents	5,619	3,941	3,941	2,451
Total assets	**326,121**	**284,132**	**284,132**	**229,806**
Liabilities				
Insurance contract liabilities	223,071	192,181	189,597	164,764
Investment contract liabilities	12,881	12,273	12,273	7,885
Borrowings	8,559	5,757	5,757	4,954
Obligations under repurchase and securities lending agreements	1,664	1,826	1,826	1,683
Derivative financial instruments	1,003	412	412	243
Provisions	230	225	225	168
Deferred tax liabilities	6,902	6,214	6,237	4,187
Current tax liabilities	346	432	432	532
Other liabilities	7,797	9,417	9,417	5,984
Total liabilities	**262,453**	**228,737**	**226,176**	**190,400**
Equity				
Share capital	14,155	14,129	14,129	14,073
Employee share-based trusts	(155)	(220)	(220)	(258)
Other reserves	(11,891)	(11,887)	(11,887)	(11,910)
Retained earnings	44,704	40,922	40,372	35,661
Fair value reserve	15,170	11,669	14,663	2,211
Foreign currency translation reserve	233	(698)	(698)	(1,301)
Property revaluation reserve	1,027	1,073	1,163	538
Others	(43)	(41)	(14)	(8)
Amounts reflected in other comprehensive income	16,387	12,003	15,114	1,440
Total equity attributable to shareholders of the Issuer	**63,200**	**54,947**	**57,508**	**39,006**
Non-controlling interests	468	448	448	400
Total equity	**63,668**	**55,395**	**57,956**	**39,406**
Total liabilities and equity	**326,121**	**284,132**	**284,132**	**229,806**

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"*.

	As of and for the Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions, except ratios)		
VONB(1)(2)	**2,765**	**4,154**	**3,955**
ANP(1)(2)	**5,219**	**6,585**	**6,510**
TWPI(1)(3)	**35,408**	**34,002**	**30,543**
OPAT(1)(4)(5)(6)	**5,942**	**5,689**	**5,298**
EV Equity(1)(5)	**67,185**	**63,905**	**56,203**
HKIO Solvency Ratio(7)	**489%**	**362%**	**421%**
Group LCSM Cover Ratio(1)(8)(9)	**374%**	**366%**	**n/a**
Leverage Ratio(6)(10)	**11.9%**	**9.4%**	**11.2%**

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

(2) For the years ended 31 December 2020 and 2019, ANP and VONB included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

(3) TWPI excludes the contribution from Tata AIA Life.

(4) For a reconciliation of OPAT to net profit, see note 7 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular. OPAT is before non-operating investment returns and other items, net of tax.

(5) OPAT and EV Equity include the contribution from Tata AIA Life.

(6) For the twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

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

(8) This ratio applies to the Group and is based on our current understanding of the new GWS framework. For more information see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Group Solvency Position*" and "*Regulation – Regulatory Framework – Hong Kong – Hong Kong Insurance Regulatory Regime Developments*".

(9) Includes US$1,735 million of subordinated securities issued in September 2020 that we expect will be eligible Tier 2 debt capital.

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

The following table shows a breakdown of VONB by geographical segment for the periods indicated.

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions)		
Mainland China	968	1,167	965
Hong Kong	550	1,621	1,712
Thailand	469	494	447
Singapore	330	352	357
Malaysia	222	258	247
Other Markets[1]	514	535	435
Subtotal	**3,053**	**4,427**	**4,163**
Adjustment to reflect consolidated reserving and capital requirements	(103)	(87)	(56)
After-tax value of unallocated Group Office expenses	(161)	(154)	(152)
Total before non-controlling interests	**2,789**	**4,186**	**3,955**
Non-controlling interests[2]	(24)	(32)	-
Total VONB[2]	**2,765**	**4,154**	**3,955**

(1) For the years ended 31 December 2020 and 2019, VONB for Other Markets included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

(2) The total VONB for the Group for the years ended 31 December 2020 and 2019 excluded the VONB attributable to non-controlling interests of US$24 million and US$32 million, respectively. Prior comparatives have not been restated and include the VONB attributable to non-controlling interests of US$27 million for the twelve months ended 31 December 2018.

The following table shows a breakdown of ANP by geographical segment for the periods indicated.

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions)		
Mainland China	1,197	1,248	1,067
Hong Kong	1,138	2,393	2,697
Thailand	661	729	611
Singapore	520	538	547
Malaysia	369	406	382
Other Markets[1]	1,334	1,271	1,206
Total	**5,219**	**6,585**	**6,510**

(1) For the years ended 31 December 2020 and 2019, ANP for Other Markets included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

The following table shows a breakdown of TWPI by geographical segment for the periods indicated.

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions)		
Mainland China	5,622	4,804	4,006
Hong Kong	13,042	13,107	11,444
Thailand	4,462	4,352	3,895
Singapore	3,088	2,916	2,738
Malaysia	2,216	2,142	2,083
Other Markets[1]	6,978	6,681	6,377
Total	**35,408**	**34,002**	**30,543**

(1) Excludes Tata AIA Life.

The following table shows a breakdown of OPAT by geographical segment for the periods indicated.

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions)		
Mainland China	1,220	1,061	870
Hong Kong[1]	2,059	1,879	1,814
Thailand	987	1,064	995
Singapore	621	583	558
Malaysia	326	333	320
Other Markets[2][3]	687	772	826
Group Corporate Centre[3]	42	(3)	(85)
Total	**5,942**	**5,689**	**5,298**

(1) For the twelve months ended 31 December 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. OPAT for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

(2) Includes Tata AIA Life.

(3) Prior to 1 January 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 1 January 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. While the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation, the comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular, and any decision to invest in the Instruments should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Notes" or the "Terms and Conditions of the Securities" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer:	AIA Group Limited, the holding company of the Group.
Legal Entity Identifier Code	ZP5ILWVSYE4LJGMMVD57
Programme Size:	Up to US$12,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. We may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors:	Investing in Instruments issued under the Programme involves certain risks. The principal risk factors that may affect our ability to fulfil our obligations in respect of the Instruments are discussed under the section *"Risk Factors"* below.
Arranger:	Citigroup Global Markets Inc.
Dealers:	Australia and New Zealand Banking Group Limited, BNP Paribas, Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, Singapore Branch, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, Standard Chartered Bank, Wells Fargo Securities, LLC and any other Dealer we may appoint from time to time either generally in respect of the Programme or in relation to a particular Tranche of Instruments.
Fiscal Agent:	The Bank of New York Mellon, London Branch.
Registrars:	The Bank of New York Mellon SA/NV, Luxembourg Branch (in respect of Unrestricted Instruments other than Unrestricted Instruments cleared through DTC ("**DTC Unrestricted Instruments**") or the CMU Service), The Bank of New York Mellon (in respect of Restricted Instruments and DTC Unrestricted Instruments) and The Bank of New York Mellon, Hong Kong Branch (in respect of Unrestricted Instruments cleared through the CMU Service).
Transfer Agents:	The Bank of New York Mellon SA/NV, Luxembourg Branch (in respect of Unrestricted Instruments other than DTC Unrestricted Instruments or Instruments cleared through the CMU Service), The Bank of New York Mellon, Hong Kong Branch (in respect of Unrestricted Instruments cleared through the CMU Service) and The Bank of New York Mellon (in

	respect of Restricted Instruments and DTC Unrestricted Instruments).
Paying Agents:.....................................	The Bank of New York Mellon, London Branch (in respect of Unrestricted Instruments) and The Bank of New York Mellon (in respect of Restricted Instruments).
CMU Lodging Agent:	The Bank of New York Mellon, Hong Kong Branch.
Exchange Agent:	The Bank of New York Mellon.
Method of Issue:	The Instruments will be issued on a syndicated or non-syndicated basis. The Instruments will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest (in the case of Notes) or distribution (in the case of Securities)), the Instruments of each Series being intended to be interchangeable with all other Instruments of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest (in the case of Notes) or distribution (in the case of Securities)) and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Issue Price:	Instruments may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Clearing Systems:................................	Clearstream, Luxembourg, Euroclear, DTC and/or the CMU Service and, in relation to any Tranche, such other clearing system as we may agree with the Fiscal Agent (or the CMU Lodging Agent, as the case may be) and the relevant Dealer.
Form of Instruments:	Instruments may be issued in bearer form or in registered form. Registered Instruments will not be exchangeable for Bearer Instruments and *vice versa*. Each Tranche of Bearer Instruments will initially be in the form of either a temporary Global Instrument (which shall be a "**temporary Global Note**" (in the case of Notes) or a "**temporary Global Security**" (in the case of Securities)) or a permanent Global Instrument (which shall be a "**permanent Global Note"** (in the case of Notes) or a "**permanent Global Security**" (in the case of Securities), in each case as specified in the relevant Pricing Supplement. Each Global Instrument will be deposited on or around the relevant issue date with a common

	depositary or sub-custodian for Clearstream, Luxembourg, Euroclear, DTC and/or as the case may be, the CMU Service and/or any other relevant clearing system. Each temporary Global Instrument will be exchangeable for a permanent Global Instrument or, if so specified in the relevant Pricing Supplement, for Definitive Instruments (which shall be a "**Definitive Note**" (in the case of Notes) or a "**Definitive Security**" (in the case of Securities)). If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a temporary Global Instrument or receipt of any payment of interest (in the case of Notes) or distribution (in the case of Securities) in respect of a temporary Global Instrument. Each permanent Global Instrument will be exchangeable for Definitive Instruments in accordance with its terms. Definitive Instruments will, if interest-bearing (in the case of Notes) or distribution-bearing (in the case of Securities), have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Instruments sold in an "offshore transaction" to non-U.S. persons within the meaning of Regulation S will initially be represented by an Unrestricted Global Certificate. Registered Instruments sold in the United States to QIBs within the meaning of Rule 144A will initially be represented by a Restricted Global Certificate.
Currencies:	Instruments may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Instruments may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Instruments are denominated.
Denominations:..................................	Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Listing and Trading:	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme, under which Instruments will be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. However, unlisted Instruments and Instruments to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Instruments will specify whether or not such Instruments will be listed on the Hong Kong Stock

	Exchange (or listed, traded or quoted on or by any other competent authority, exchange or quotation system). Instruments listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).
Enforcement of Instruments in Global Form:	In the case of Global Instruments, individual investors' rights against us will be governed by a Deed of Covenant dated 1 March 2017 (as amended or further supplemented from time to time), a copy of which will be available for inspection upon prior written notice and satisfactory proof of holding at the specified office of the Fiscal Agent.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, China, Hong Kong, Japan, Taiwan (China), Singapore, the Netherlands and Canada, see "*Subscription and Sale*". For the purposes of Regulation S, Category 2 selling restrictions will apply unless otherwise indicated in the relevant Pricing Supplement. Instruments in bearer form will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (a) the relevant Pricing Supplement states that such Instruments are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**C Rules**") or (b) such Instruments are issued other than in compliance with the D Rules or the C Rules but in circumstances in which such Instruments will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable. The following legend may appear on the Instruments in bearer form, the inclusion of which will be provided in the relevant Pricing Supplement: "ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE UNITED STATES INTERNAL REVENUE CODE."
Transfer Restrictions:	There are restrictions on the transfer of Instruments sold pursuant to Category 2 of Regulation S prior to the expiration of the relevant distribution compliance period and on the transfer of Registered Instruments sold pursuant to Rule 144A promulgated under the Securities Act. See "*Transfer Restrictions*".

ERISA Considerations:	The Instruments may not be acquired by an "employee benefit plan" (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) that is subject to Title I of ERISA, a "plan" subject to Section 4975 of the Code or any entity whose assets are treated as assets of any such plan unless such purchase and holding of the Instruments will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code. Each purchaser or holder of Instruments and each transferee thereof will be deemed to have made certain representations as to its status under ERISA and the Code. Potential investors should read the sections entitled "*Certain ERISA Considerations*" *and* "*Transfer Restrictions*".
Initial Delivery of Instruments:	On or before the issue date for each Tranche, the Global Instrument representing Bearer Instruments or the Global Certificate representing Registered Instruments may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the CMU Service or registered in the name of Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) or nominee for DTC and deposited on or about the issue date with the Custodian or deposited with any other clearing system or may be delivered outside any clearing system (such delivery in all events to be outside the United States in the case of Bearer Instruments) provided that we, the Fiscal Agent and the relevant Dealers have agreed in advance to the method of such delivery. Registered Instruments that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee or a sub-custodian for, such clearing systems.

THE NOTES

Status and Ranking of the Notes:	The Notes constitute our direct, unconditional, unsubordinated, and (subject to the provisions of Notes Condition 4 (*Negative Pledge*)) unsecured obligations and shall at all times rank *pari passu* in right of payment and without any preference among themselves. Our payment obligations under the Notes shall, save for such exceptions as may be provided by applicable law and subject to Notes Condition 4 (*Negative Pledge*), at all times rank at least equally with our payment obligations in respect of all our other unsecured and unsubordinated indebtedness, present and future as described in Notes Condition 3 (*Status*).
Maturities:	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or

otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement. Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which we will accept the issue proceeds in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

Optional Redemption:	If Call Option is specified in the relevant Pricing Supplement, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the Notes Conditions) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption.
Optional Redemption (Make Whole Redemption):	If Call Option (Make Whole Redemption) is specified in the relevant Pricing Supplement, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, in whole or in part, the Notes on any Make Whole Optional Redemption Date. Any such redemption of Notes shall be at their Make Whole Redemption Amount together with interest accrued to the date fixed for redemption.
Tax Redemption:	Except as described in "Optional Redemption" above, early redemption will only be permitted for taxation reasons as described in Notes Condition 6(c) (*Redemption, Purchase and Options – Redemption for Taxation Reasons*), including without limitation if we are no longer entitled to a claim or deduction for any payments in respect of the Notes in computing our Hong Kong (or any authority therein or thereof having power to tax) taxation liabilities or the amount of such deduction is materially reduced.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked, and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Negative Pledge:	The Notes will contain a negative pledge provision as further described in Notes Condition 4 (*Negative Pledge*).

Cross-Acceleration:	The Notes will contain a cross-acceleration provision as further described in Notes Condition 10(c) (*Events of Default – Cross-Acceleration*).
Withholding Tax:	All payments in respect of Notes will be made without deduction or withholding for Hong Kong taxes unless the deduction or withholding is required by law. In that event, we will (subject to certain customary exceptions as described in Notes Condition 8 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such deduction or withholding been required.
Governing Law:..................................	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law.

THE SECURITIES

Types of Securities:	The Securities may be undated ("**Perpetual Securities**") or dated ("**Dated Securities**"). Perpetual Securities may be issued as senior obligations ("**Senior Perpetual Securities**") or on a subordinated basis and Dated Securities may be issued on a subordinated basis. Perpetual Securities issued on a subordinated basis may be designated in the relevant Pricing Supplement as (1) Subordinated Perpetual Securities; or (2) Deeply Subordinated Perpetual Securities. Dated Securities issued on a subordinated basis may be designated in the relevant Pricing Supplement as (1) Subordinated Dated Securities (together with Subordinated Perpetual Securities, "**Subordinated Securities**"); or (2) Deeply Subordinated Dated Securities (together with Deeply Subordinated Perpetual Securities, "**Deeply Subordinated Securities**"). The relevant Pricing Supplement may specify any such additional terms as may be required from time to time to meet the applicable regulatory criteria, including the minimum maturity for Dated Securities and redemptions, conditions (including without limitation conditions relating to our solvency or the solvency of any of our subsidiaries) for redemption and payment of principal and Distribution, provisions for the redemption of the Securities if qualification of the Securities under applicable law or regulation changes, and requirements for deferral and/or cancellation of Distribution.
Status and Ranking of the Senior Perpetual Securities:	The Senior Perpetual Securities will constitute our direct, unconditional, unsubordinated and unsecured obligations and shall at all times rank *pari passu* in right of payment and without any preference among themselves. Our payment obligations under the

Senior Perpetual Securities shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with our payment obligations in respect of all our other unsecured and unsubordinated indebtedness, present and future.

Status and Ranking of the Subordinated Securities:	The Subordinated Securities will constitute our direct, unconditional, subordinated and unsecured obligations and shall at all times rank *pari passu* in right of payment and without any preference among themselves and with our Parity Obligations (as defined in "*Terms and Conditions of the Securities*") and in priority in right of payment to payments to holders of present or future outstanding Junior Obligations (as defined in "*Terms and Conditions of the Securities*"). The rights and claims of the Securityholders in respect of the Subordinated Securities will be subordinated in right of payment to the claims of all Senior Creditors (as defined in "*Terms and Conditions of the Securities*"), including, for the avoidance of doubt, the holders of Senior Perpetual Securities and the Notes.
Status and Ranking of the Deeply Subordinated Securities:	The Deeply Subordinated Securities will constitute our direct, unconditional, subordinated and unsecured obligations and shall at all times rank *pari passu* in right of payment and without any preference among themselves and with our payment obligations in respect of our Parity Obligations and in priority in right of payment to payments to holders of present or future outstanding Junior Obligations (as defined in "*Terms and Conditions of the Securities*"). The rights and claims of the Securityholders in respect of the Deeply Subordinated Securities will be subordinated in right of payment to the claims of all Senior Creditors, including, for the avoidance of doubt, the holders of Senior Perpetual Securities, the Subordinated Securities and the Notes.
Distribution Basis:	Subject to "*Optional Distribution Deferral*" and "*Optional Distribution Cancellation*" below, the Securities confer a right to receive distributions (each a "**Distribution**") from the Distribution Commencement Date at the Rate of Distribution (as specified in the relevant Pricing Supplement) in accordance with the Securities Conditions.
Distribution Rate Reset:	If the relevant Pricing Supplement specifies that the Rate of Distribution is subject to reset, the Calculation Agent will, on the Calculation Business Day prior to each Reset Date, calculate the applicable Reset Distribution Rate payable in respect of the Securities. The methodology for calculating the reset of the Rate of Distribution shall be specified in the relevant Pricing Supplement.

Optional Distribution Deferral: ....

If Optional Distribution Deferral is specified as applicable in the relevant Pricing Supplement, we may, at our sole discretion, elect to defer, in whole or in part, any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the Securityholders unless, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, during the Dividend Pusher Lookback Period ending on the day before that scheduled Distribution Payment Date, a Compulsory Distribution Payment Event has occurred.

We shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if we validly elect not to do so or are required not to do so in accordance with the Securities Conditions.

"**Dividend Pusher Lookback Period**" if applicable, shall be the period specified in the relevant Pricing Supplement.

Compulsory Distribution Payment Event:...

A "**Compulsory Distribution Payment Event**" occurs:

(a) if Payment Event (Pusher) is specified in the relevant Pricing Supplement, if a discretionary dividend, distribution or other payment is declared, paid or made on any Relevant Obligations (Pusher) (other than a payment declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants); or

(b) if Redemption Event (Pusher) is specified in the relevant Pricing Supplement, if we make any discretionary redemption, reduction, cancellation, buy-back or acquisition for any consideration any of our Relevant Obligations (Pusher) (except for (i) an exchange of any of its Parity Obligations in whole for Junior Obligations, or (ii) a repurchase or other acquisition of any Relevant Obligations (Pusher) in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants, or (iii) any repurchase or other acquisition which occurs in connection with a merger, amalgamation, consolidation, sale or other corporate reorganisation or which is required under the Hong Kong Companies Ordinance).

The relevant Pricing Supplement may also provide that a Compulsory Distribution Payment Event may not occur if Distributions are not permitted to be paid for regulatory or other reasons specified in the Pricing Supplement.

Cumulative Deferral:	Any Distribution deferred pursuant to "*Optional Distribution Deferral*" above shall constitute "**Arrears of Distribution**". We may, at our sole discretion, elect to defer further any Arrears of Distribution by complying with the relevant notice requirements applicable to any deferral of an accrued Distribution. We are not subject to any limit as to the number of times Distributions and Arrears of Distribution may or shall be deferred except that certain restrictions shall apply in the event that the Dividend Stopper is specified in the Pricing Supplement as applicable. See "*Restrictions in the case of an optional deferral*" below. If Distributions are specified to be compounding in the relevant Pricing Supplement, each amount of Arrears of Distribution shall accrue additional distribution amounts at the Distribution Rate as if it constituted the principal of the Securities and the amount of such additional distributions accrued (the "**Additional Distribution Amount**") with respect to Arrears of Distribution shall be due and payable pursuant to the Securities Conditions and shall be calculated by applying the Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the Securities Conditions. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added, for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.
Satisfaction of Arrears of Distribution by Payment:	We (A) may satisfy any Arrears of Distribution and any Additional Distribution Amount (in whole or in part) at any time by giving notice of such election to the Securityholders and the Fiscal Agent not more than 20 nor less than 10 business days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige us to pay the relevant Arrears of Distribution on the payment date specified in such notice) and (B) in any event shall satisfy any outstanding Arrears of Distribution deferred in accordance with the Securities Conditions (in whole but not in part) upon the earliest to occur of certain events, including our Winding-Up or a Special Event Redemption Date (see "*Redemption*" below).
Optional Distribution Cancellation:	If Optional Distribution Cancellation is specified as applicable in the relevant Pricing Supplement, we may, at our sole discretion, elect to cancel, in whole or in part, any Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the Securityholders unless, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, during the Dividend Pusher Lookback Period ending on the day before that scheduled Distribution Payment Date, a

	Compulsory Distribution Payment Event has occurred. We shall have no obligation to pay any Distribution on any Distribution Payment Date if we validly elect not to do so in accordance with Securities Condition 5(b) and any failure to pay any Distribution shall not constitute a default on our part in respect of the Securities. 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.
Mandatory Deferral or Cancellation of Distribution:..	The relevant Pricing Supplement may specify provisions for the mandatory deferral or cancellation of Distribution in respect of any Securities.
Restrictions in Case of an Optional Deferral or Cancellation:	We may be subject to certain restrictions if the Dividend Stopper is specified in the Pricing Supplement. See Securities Conditions 5(a) and 5(b).
Redemption:	The Securities may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall also specify which Special Events apply to a particular Series or Tranche. A "**Special Event**" means a Tax Event, a Rating Event, an Accounting Event, any other event designated as a Special Event (which may include a "Regulatory Event") in the relevant Pricing Supplement, or any combination of the foregoing.
Issuer's Call Option:	If Issuer's Call Option is specified as applicable in the relevant Pricing Supplement, the Securities may be redeemed at our option (either in whole or in part to the extent specified in the relevant Pricing Supplement) on any Optional Redemption Date at the relevant Optional Redemption Amount on us giving not less than 30 nor more than 60 days' notice to the Securityholders, or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable and shall oblige us to redeem the Securities or, as the case may be, the Securities specified in such notice on the relevant Optional Redemption Date at the Optional Redemption Amount plus Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)). The Optional Redemption Date and Optional Redemption Amount, if applicable, shall be specified in the relevant Pricing Supplement. The Optional Redemption Date specified in the relevant Pricing Supplement may include any or each Distribution Payment Date or Reset Date, subject to applicable rating or regulatory criteria.
Issuer's Call Option (Make Whole	If Issuer's Call Option (Make Whole Redemption) is

Redemption):	specified as applicable in the relevant Pricing Supplement in relation to Subordinated Dated Securities or Deeply Subordinated Dated Securities, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Securityholders (or such other notice period as may be specified in the Securities Conditions) redeem, all or, if so provided, some, of the Securities on any Make Whole Optional Redemption Date. Any such redemption of Securities shall be at their Make Whole Redemption Amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount). The Make Whole Optional Redemption Date and Make Whole Redemption Amount, if applicable, shall be specified in the relevant Pricing Supplement.
Tax Event Redemption:	If the Tax Event Redemption is specified in the relevant Pricing Supplement as being applicable, the Securities will be redeemable at our option for taxation reasons as described in the Securities Conditions, including without limitation in relation to Dated Securities only, if we are no longer entitled to claim a reduction for any payments in respect of the Dated Securities in computing our Hong Kong (or any authority therein or thereof having power to tax) taxation liabilities or the amount of such reduction is materially reduced.
Rating Event Redemption:	If the Rating Event Redemption is specified in the relevant Pricing Supplement as being applicable, the Securities may be redeemed at our option in whole, but not in part, as described in the Securities Conditions, if, immediately before giving such notice, an amendment, clarification or change has occurred in the rules, criteria, guidelines or methodologies of relevant Rating Agencies or any of their respective successors to the rating business thereof, which amendment, clarification or change (x) results in or will result in, a lower equity credit for the Securities than the equity credit assigned on the date agreement is reached to issue of the Securities or results in or will result in no equity credit for the Securities, or (y) results in or will result in the shortening of the length of time the Securities are assigned a particular level of equity credit by such rating agency as compared to the length of time the Securities would have been assigned that level of equity credit by such rating agency on the date agreement is reached to issue the Securities. "**Rating Agencies**" shall be such rating agency or agencies as specified in the relevant Pricing Supplement, or if one or more of the rating agencies specified in the relevant Pricing Supplement shall not make a rating of the Securities publicly available, another recognised securities rating agency or agencies, as the case may be, selected by us, which

shall be substituted for such rating agency.

Accounting Event Redemption: ....

Accounting Event Redemption may only apply to Securities that are either Subordinated Perpetual Securities or Deeply Subordinated Perpetual Securities, and if specified as applicable in the relevant Pricing Supplement. The Securities may be redeemed at our option in whole, but not in part, if, immediately before giving such notice, as a result of any changes or amendments to IFRS or any other accounting standards that may replace IFRS for the purposes of our consolidated financial statements (the "**Relevant Accounting Standard**"), the Securities, in our reasonable opinion, must not or must no longer be recorded as our "equity" pursuant to the Relevant Accounting Standard (an "**Accounting Event**").

Redemption in the Case of Minimal Outstanding Amount: ....

If the Minimal Outstanding Amount Redemption is specified in the relevant Pricing Supplement as being applicable, the Securities may be redeemed at our option in whole, but not in part, at any time, on our giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable) at the Early Redemption Amount (Minimal Outstanding Amount), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount originally issued (including any further securities issued in accordance with the Securities Conditions).

Limited Rights to Institute Proceedings: ....

The right of any Securityholder to institute Winding-Up proceedings is limited to certain circumstances where payment has become due and is unpaid. In the case of any Distribution, such Distribution will not be due if we have, as the case may be, elected to defer or cancel that Distribution in accordance with the Securities Conditions or been mandatorily required to defer or cancel that Distribution in accordance with the Securities Conditions or as otherwise provided in the applicable Pricing Supplement.

Right of Securityholders: ....

No remedy against us, other than as referred to in "*Proceedings for Winding-Up*" below, shall be available to the Securityholders, whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by us of any of our other obligations under or in respect of the Securities.

Proceedings for Winding-Up: ....

Upon (i) an order being made or an effective resolution being passed for our Winding-Up or (ii) our failing to make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, we shall be deemed to be in default under the Securities and Securityholders holding not less than 15 per cent. of the aggregate principal amount of the Securities may institute proceedings for our Winding-Up and/or prove and/or claim in our Winding-Up for the principal amount of the Securities together with Distribution, Arrears of Distribution and any Additional Distribution Amount accrued to the day prior to the commencement of the Winding-Up. The right to proving and/or claiming in Winding-Up in respect of any of our payment obligations arising from the Securities is limited to circumstances provided by applicable law.

Substitution and Variation:.................	If Special Event Substitution or Variation is specified in the relevant Pricing Supplement as being applicable and a Special Event has occurred and is continuing, then we may, subject the conditions relating to Distribution (without any requirement for the consent or approval of the Securityholders) and subject to its having satisfied the requirements set out under the definition of "**Qualifying Securities**" (as defined in "*Terms and Conditions of the Securities*") immediately prior to the giving of any notice to Securityholders, and having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and the Securityholders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities.
Withholding Tax:	All payments in respect of Securities will be made without deduction or withholding for Hong Kong taxes unless the deduction or withholding is required by law. In that event, we will (subject to certain customary exceptions as described in Securities Condition 8 (*Taxation*)) pay such additional amounts as will result in the Securityholders receiving such amounts as they would have received in respect of such Securities had no such deduction or withholding been required.
Governing Law:.................................	Other than in respect of Securities Conditions 3(b), 3(c) and 3(d), which shall be governed by and construed in accordance with, Hong Kong law, the Securities and any non-contractual obligations arising out of or in connection with the Securities will be governed by, and construed in accordance with, English law.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this 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 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 this 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, and the claims experience of disability, health and income protection products, may continue and/or 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 and our regulatory liabilities and capital requirements. 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. Although recently announced vaccine developments offer the possibility of reducing the duration and easing the scale and healthcare impact of the COVID-19 pandemic, this will depend on the efficacy with which vaccines are developed, approved, produced, distributed and administered, which may vary country by country, and the extent to which administered vaccines are able to reduce the spread and impact of the virus. 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 31 December 2020, fixed income securities represented 83% 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 make 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 has 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. In addition, on 12 November 2020 and 13 January 2021, Executive Order 13959 and Executive Order 13974 were issued. These orders prohibit U.S. persons from, among other things, (i) transacting in publicly traded securities (or any securities that are derivative of, or are designed to provide investment exposure to, such securities) of any "Communist Chinese military companies", resulting in the subsequent delistings of certain Chinese companies from the New York Stock Exchange, and (ii) possessing any such securities. Furthermore, on 10 February 2021, Executive Order 14014 was issued authorising new sanctions targeting leaders of the military and military government of Myanmar. Further sanctions or other actions may be imposed or taken, and there is no assurance that our policyholders or partners will not be specifically impacted by such sanctions or actions. As of the date of this Offering Circular, we are unable to predict the impact of these events 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 this 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, 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 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 31 December 2020, we had total financial assets that are categorised as "Level 3", as defined in note 23 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular, in the fair value hierarchy with total fair value of US$6,052 million, or 2% 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 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."*

Hedging strategies and derivatives that we use, or may use in the future, may not adequately mitigate or offset the hedged risk.

We seek to manage foreign exchange, interest rate and equity market risks associated with our products and businesses through, among other things, our hedging programmes. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely mitigate such risks. Our hedging strategies also rely on assumptions and projections that may prove to be incorrect or inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our business, financial condition or results of operations. Market conditions can limit availability of hedging instruments, require us to post additional collateral, and further increase the cost of executing product-related hedges and such costs may not be recovered in the pricing of the underlying business risk being hedged.

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 2020 audited consolidated financial statements included elsewhere in this 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 2020, approximately 80% 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 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

A failure in our or any outsourced systems and processes, including information technology systems, may adversely affect our operations.

Our business depends heavily on the ability of our systems and processes, including 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 systems and processes. 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 this Offering Circular are for the thirteen months ended or as of 31 December 2018, and such period may not be directly comparable to the years ended 31 December 2020 and 2019.

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 2020, 2019 and 2018, we are also reporting supplementary financial information on a calendar year basis covering the twelve months ended 31 December 2018, which is set out in note 48 to our 2019 audited consolidated financial statements included elsewhere in this Offering Circular. Embedded value information is provided as of and for the year ended 31 December 2020, with comparative information as of and for the years ended 31 December 2019 and 2018.

Unless otherwise specified herein, information provided for 2020 is as of and for the year ended 31 December 2020, with comparative information provided as of and for the twelve months ended 31 December 2019 and 2018, respectively, as set out in note 48 to our 2019 audited consolidated financial statements included elsewhere in this 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 is not available, we present financial information for the years ended 31 December 2020 and 2019 as compared to the thirteen months ended or as of 31 December 2018. 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 and required capital. 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 RBC 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. Legislation setting out the GWS framework was enacted on 17 July 2020. On 31 December 2020, the Hong Kong SAR government gazetted 29 March 2021 as the commencement date of the legislation. Accordingly, 29 March 2021 is the date on which the GWS framework will become effective and the date on which the Insurance (Group Capital) Rules ("**Group Capital Rules**") will come into operation. However, the application of these rules remains under discussion with the HKIA and they will only become finalised when the Group is formally designated as being subject to them, which we expect to be in May 2021. Under the Group Capital Rules, the GWS capital framework will be based on a "Summation Approach", whereby published group-level total available and minimum capital requirements will be calculated as the sum of the available and required capital according to the regulatory requirements for each relevant regulated entity within the Group. The HKIA will retain the ability to vary the group capital requirement for a given entity such that it is commensurate with the risks associated with the relevant entity. While the calculations we use in this Offering Circular for the Group available capital, Group minimum capital requirement, Group LCSM surplus and the Group LCSM Cover Ratio are based on our current understanding of the likely application of the GWS framework to the Group, there may be significant changes in the calculation of these metrics once the GWS framework, and all relevant RBC regimes, come into effect.

For a more detailed discussion about RBC and GWS, see "*Regulation*".

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 is 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, or demand from our customers for, some of our products, or materially increase the number of policy withdrawals or surrenders. 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 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).

In addition, the Organisation for Economic Co-operation and Development ("**OECD**") is undertaking a new phase of work on tax policy, commonly referred to as "BEPS 2.0", which has two pillars. The first pillar ("**Pillar One**") focuses on changes to the international tax system in respect of consumer businesses and automated digital services. It aims to allocate more taxing rights to sales/market jurisdictions and to ensure a taxable presence in jurisdictions where enterprises have no physical presence but still have a significant economic presence. The second pillar ("**Pillar Two**") focuses on the development of rules that seek to apply a global minimum tax rate to multinational enterprises and their cross-border transactions. A carve-out from Pillar One has been proposed for the financial services industry. However, based on the blueprint covering the potential design of Pillar Two, the rules that the OECD are proposing may change our effective tax rate. At this stage, the proposed rules are still subject to agreement by OECD members. Given the uncertainty surrounding these developments, we are unable to predict the impact of such developments on our business, financial condition and results of operations.

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. In October 2020, the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") endorsed the Amendments to IFRS 17 issued by the IASB and incorporated the amendments in HKFRS 17, *Insurance Contracts*.

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 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 ("**IBA**") (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 ("**FCA**") 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. On 30 November 2020, the IBA announced a consultation on its intention to extend most U.S. dollar LIBOR tenors until 30 June 2023. The consultation period closed on 25 January 2021, and the FCA affirmed such extension on 5 March 2021.

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 this 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 depositary 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 depositary 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 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 as 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 may adversely affect the value of the Floating Rate Notes.

On 27 July 2017, the 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**"). On 30 November 2020, the IBA announced a consultation on its intention to extend most U.S. dollar LIBOR tenors until 30 June 2023. The consultation period closed on 25 January 2021, and the FCA affirmed such extension on 5 March 2021. It is not possible to predict the effect of the FCA Announcement, the extension, 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), the IBA 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.

USE OF PROCEEDS

We and/or our subsidiaries will use the net proceeds from each issue of Instruments for general corporate purposes. If, in respect of any particular issue of Instruments, there is a particular identified use of net proceeds, this will be stated in the applicable Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued pursuant to an Amended and Restated Agency Agreement dated 1 March 2017, as supplemented by a first supplemental agency agreement dated 1 March 2018, a second supplemental agency agreement dated 15 March 2019, a third supplemental agency agreement dated 13 March 2020 and a fourth supplemental agency agreement dated 16 March 2021 (as amended or further supplemented as at the Issue Date, the "**Agency Agreement**") between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent, The Bank of New York Mellon, Hong Kong Branch as lodging agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU Service**"), The Bank of New York Mellon as exchange agent (the "**Exchange Agent**"), The Bank of New York Mellon (the "**U.S. Registrar**"), The Bank of New York Mellon, Hong Kong Branch (the "**CMU Registrar**") and The Bank of New York Mellon SA/NV, Luxembourg Branch (the "**Registrar**" and together with the U.S. Registrar and the CMU Registrar, the "**Registrars**"), The Bank of New York Mellon (the "**U.S. Paying Agent**") and The Bank of New York Mellon, London Branch (the "**Paying Agent**" and together with the U.S. Paying Agent, the "**Paying Agents**") and the other agents named in it and with the benefit of a Deed of Covenant dated 1 March 2017 (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") executed by the Issuer in relation to the Notes. The fiscal agent, the CMU lodging agent, the paying agents, the registrars, the transfer agents, the exchange agent and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrars**", the "**Transfer Agents**", the "**Exchange Agent**" and the "**Calculation Agent(s)**". For the purposes of these Conditions, all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU Service, be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly. The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection upon prior written notice and satisfactory proof of holding at the specified office of the Fiscal Agent.

1. FORM, DENOMINATION AND TITLE

(a) ***Form:*** The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

(b) ***Denomination*****:** Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

(c) ***Title:*** Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the relevant Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

*Notwithstanding anything contained in these Conditions, for so long as any of the Notes is represented by a Global Note or a Global Certificate held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and/or The Depository Trust Company ("**DTC**") and/or the CMU Service (as the case may be), each person (other than Euroclear or Clearstream, Luxembourg, DTC or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or of DTC or of the CMU Service as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC or the CMU Service as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrars, the Exchange Agent and the Transfer Agents as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note or the registered holder of the relevant Global Certificate shall be treated by the Issuer, any Paying Agent, any Transfer Agent, any Registrar and the Exchange Agent as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note or Global Certificate, and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notes which are represented by a Global Note or a Global Certificate will be transferable only in* *accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, DTC and the CMU Service as the case may be. References to Euroclear, Clearstream, Luxembourg, DTC and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer and the Fiscal Agent or the CMU Lodging Agent, as the case may be.*

2. NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

(a) ***No Exchange of Notes*:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) ***Transfer of Registered Notes*:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the relevant Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the relevant Registrar or Transfer Agent may require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the relevant Registrar and the Noteholders. A copy of the current regulations will be made available by the relevant Registrar to any Noteholder upon request.

(c) ***Exercise of Options or Partial Redemption in Respect of Registered Notes*:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the relevant Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) ***Delivery of New Certificates*:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the relevant Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the relevant Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the relevant Registrar (as the case may be).

(e) ***Transfers Free of Charge*:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the relevant Registrar or the Transfer Agents, but upon payment by the applicant of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the relevant Registrar or the relevant Transfer Agent may require in respect of tax or charges).

(f) ***Closed Periods*:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. STATUS

The Notes and the Receipts and Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* in right of payment and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable law and subject to Condition 4, at all times rank at least equally with its payment obligations in respect of all other unsecured and unsubordinated indebtedness of the Issuer, present and future.

4. NEGATIVE PLEDGE

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement) the Issuer will not create or permit to subsist, and will procure that AIA Co. will not create or permit to subsist any mortgage, charge, lien, pledge or other form of encumbrance or security interest ("**Security**"), excluding any Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

In this Condition:

(a) "**Permitted Security Interest**" means any existing Security over any assets (or related documents of title) purchased by the Issuer or AIA Co. subject to such Security and any substitute Security created on those assets in connection with the refinancing (together with interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets; and

(b) "**Relevant Indebtedness**" means any present or future indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures or other investment securities (but excluding for the avoidance of doubt, instruments commonly referred to as transferable loan certificates) which for the time being are, or are intended on the part of the Issuer to be quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

5. INTEREST AND OTHER CALCULATIONS

(a) ***Interest on Fixed Rate Notes*:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) ***Interest on Floating Rate Notes and Index Linked Interest Notes*:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR, EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon;

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall promptly inform the Issuer and the Issuer shall use its best endeavours to appoint an independent financial advisor (the "**IFA**") and procure the IFA to request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the IFA and the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), or if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the IFA and the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the IFA and the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the IFA and the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the IFA and the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be.

(aa) Notwithstanding paragraph (z) above:

(A) if the Reference Rate is non-U.S. dollar LIBOR and the Issuer determines that a Benchmark Transition Event and related Benchmark Replacement Date have occurred prior to the applicable Reference Time in respect of any determination of the Benchmark on any date, the Calculation Agent will use, as directed by the Issuer, as a substitute for LIBOR and for each future interest determination date, the alternative reference rate (the "**Alternative Rate**") selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with accepted market practice. As part of such substitution, the Calculation Agent will make such adjustments as directed in writing by the Issuer ("**Adjustments**") to the Alternative Rate and the spread thereon to account for the basis between LIBOR and the Alternative Rate, as well as the business day convention, interest determination dates and related provisions and definitions, in each case that are consistent with accepted market practice for the use of such Alternative Rate for debt obligations such as the Floating Rate Notes (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible, in such other manner as the Issuer determines is reasonably necessary). If the Issuer determines there is no clear market consensus as to whether any rate has replaced LIBOR in customary market usage, the Issuer may appoint in its sole discretion an IFA to determine an appropriate Alternative Rate, and any Adjustments, and the decision of the IFA, will be binding on the Issuer, the Calculation Agent and the Noteholders. If the Rate of Interest cannot be determined in accordance with the foregoing provisions of paragraph (z) or this paragraph (aa)(A), the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period);

(B) if the Reference Rate is U.S. dollar LIBOR and the Issuer determines that a Benchmark Transition Event and related Benchmark Replacement Date have occurred prior to the applicable Reference Time in respect of any determination of the Benchmark on any date, the applicable U.S. Dollar Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of such determination on such date and all determinations on all subsequent dates. In connection with the implementation of a U.S. Dollar Benchmark Replacement, the Calculation Agent will make U.S. Dollar Benchmark Replacement Conforming Changes from time to time as directed in writing by the Issuer; and

(C) all determinations, decisions, elections and any calculations made by the Issuer pursuant to this paragraph (aa), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, may be made in the Issuer's sole discretion, and, notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from any other party.

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) ***Zero Coupon Notes*****:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) ***Dual Currency Notes*****:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) ***Partly Paid Notes*****:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) ***Accrual of Interest*****:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) ***Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding*****:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(h) ***Calculations*:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) ***Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts*:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders and any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) ***Definitions*:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Benchmark**" means, initially, LIBOR; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to U.S. dollar LIBOR, then "Benchmark" means the applicable U.S. Dollar Benchmark Replacement;

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark:

(i) in the case of clause (i) or (ii) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark; or

(ii) in the case of clause (iii) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(i) a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that such administrator has ceased or will cease to provide the Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;

(ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark; or

(iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**Business Centre**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**" means:

(i) in the case of a currency other than U.S. dollar, Euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of U.S. dollar, a U.S. Government Securities Business Day; and/or

(iii) in the case of Euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iv) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(v) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"**Compounded SOFR**" with respect to any Interest Period, means the rate of return of a daily compound interest investment computed in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards to 0.00001):

$$\left[\prod_{i=1}^{d_0}\left(1+\frac{SOFR_{i-5USBD} \times n_i}{360}\right)-1\right] \times \frac{360}{d}$$

Where:

"**d_0**" for any Interest Period, is the number of U.S. Government Securities Business Days in the relevant Interest Period;

"**i**" is a series of whole numbers from one to **d_0**, each representing the relevant U.S. Government Securities Business Day in chronological order from, and including, the first U.S. Government Securities Business Day in the relevant Interest Period;

"**$SOFR_{i-5USBD}$**" for any U.S. Government Securities Business Day "i" in the relevant Interest Period, is equal to SOFR in respect of the U.S. Government Securities Business Day falling five U.S. Government Securities Business Days prior to that day "i";

"**n_i**" for any U.S. Government Securities Business Day "i" in the relevant Interest Period, is the number of calendar days from, and including, such U.S. Government Securities Business Day "i" to, but excluding, the following U.S. Government Securities Business Day ("i+1"); and

"**d**" is the number of calendar days in the relevant Interest Period.

If, and to the extent that, the Issuer determines that Compounded SOFR cannot be determined in accordance with the formula above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the Issuer giving due consideration to any industry-accepted market practice for U.S. dollar denominated Floating Rate Notes at such time.

For the avoidance of doubt, the calculation of Compounded SOFR shall exclude the U.S. Dollar Benchmark Replacement Adjustment and the Margin specified in the relevant Pricing Supplement;

"**Corresponding Tenor**" with respect to a U.S. Dollar Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

(viii) if "**Actual/Actual-ICMA**" is specified hereon,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Agent**" means an investment bank or financial institution of international standing selected by the Issuer;

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

"**Euro-zone**" means the monetary union of European Union member states which have adopted the Euro as their common currency and sole legal tender;

"**Federal Reserve Bank of New York's Website**" means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source;

"**Interest Accrual Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro nor Hong Kong dollars or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro;

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon;

"**Interpolated Benchmark**" with respect to the Benchmark means the rate determined for the Corresponding Tenor by interpolating on a linear basis between: (1) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the Corresponding Tenor and (2) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the Corresponding Tenor;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

"**ISDA Fallback Adjustment**" means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor;

“**ISDA Fallback Rate**” means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Make Whole Redemption Amount**" means, with respect to each Note to be redeemed, either:

(i) an amount calculated by the Determination Agent equal to the higher of (i) the principal amount of such Note and (ii) the sum of (x) the present value of the principal amount of such Note and (y) the present values of the interest payable for the relevant Interest Periods from, and including, the relevant Make Whole Optional Redemption Date to the Maturity Date (exclusive of interest accrued to the Make Whole Optional Redemption Date), in each case, discounted to such redemption date at the Make Whole Reference Rate, plus the Make Whole Redemption Margin; or

(ii) the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement;

"**Make Whole Reference Rate**" means:

(i) with respect to any Make Whole Optional Redemption Date as specified in the relevant Pricing Supplement, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Security, assuming a price for the Reference Security (expressed as a percentage of its nominal amount) equal to the Reference Security Price for such Make Whole Optional Redemption Date; or

(ii) the rate specified in, or determined in the manner specified in, the relevant Pricing Supplement;

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market, in each case selected by the Issuer or IFA;

"**Reference Date**" means as set out in the relevant notice of redemption pursuant to Condition 6(f);

"**Reference Dealer**" means each of five banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues, or such other banks or method of selection of such banks as specified in the relevant Pricing Supplement;

"**Reference Dealer Quotations**" means, with respect to each Reference Dealer and any Make Whole Optional Redemption Date, the arithmetic average, as determined by the Determination Agent, of the bid and offered prices for the Reference Security (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the relevant Pricing Supplement on the Reference Date quoted in writing to the Determination Agent by such Reference Dealer;

"**Reference Rate**" means the rate specified as such hereon;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"**Reference Security**" shall be as set out in the relevant Pricing Supplement, *provided that* if the Reference Security is no longer outstanding, a Similar Security will be chosen by the Determination Agent at 11:00 a.m. (CET) on the third (3rd) Business Day preceding the Make Whole Optional Redemption Date, or at such other time and date specified in the relevant Pricing Supplement, quoted in writing by the Determination Agent to the Issuer and notified by the Issuer in accordance with Condition 14;

"**Reference Security Price**" means, with respect to any Make Whole Optional Redemption Date, either:

(i) (A) the arithmetic average of the Reference Dealer Quotations for such Make Whole Optional Redemption Date, after excluding the highest and lowest such Reference Dealer Quotations, or (B) if the Determination Agent obtains fewer than four such Reference Dealer Quotations, the arithmetic average of all such quotations; or

(ii) as otherwise provided in the relevant Pricing Supplement;

"**Reference Time**" with respect to any determination of the Benchmark means (1) if the Benchmark is LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, and (2) if the Benchmark is not LIBOR, the time determined by the Issuer in accordance with the U.S. Dollar Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto;

"**Similar Security**" means a reference security or reference securities having an actual or interpolated maturity comparable with the remaining term of the relevant series of Notes that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes;

"**SOFR**" with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's Website;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

"**Term SOFR**" means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body;

"**U.S. Dollar Benchmark Replacement**" means the Interpolated Benchmark; provided that if the Issuer cannot determine the Interpolated Benchmark as of the Benchmark Replacement Date, then "U.S. Dollar Benchmark Replacement" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(i) the sum of: (a) Term SOFR and (b) the U.S. Dollar Benchmark Replacement Adjustment;

(ii) the sum of: (a) Compounded SOFR and (b) the U.S. Dollar Benchmark Replacement Adjustment;

(iii) the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor (if any) and (b) the U.S. Dollar Benchmark Replacement Adjustment;

(iv) the sum of: (a) the ISDA Fallback Rate and (b) the U.S. Dollar Benchmark Replacement Adjustment; or

(v) the sum of: (a) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated Floating Rate Notes at such time and (b) the U.S. Dollar Benchmark Replacement Adjustment;

"**U.S. Dollar Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted U.S. Dollar Benchmark Replacement;

(ii) if the applicable Unadjusted U.S. Dollar Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment; or

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted U.S. Dollar Benchmark Replacement for U.S. dollar denominated Floating Rate Notes at such time;

"**U.S. Dollar Benchmark Replacement Conforming Changes**" means, with respect to any U.S. Dollar Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Interest Period," timing and frequency of determining rates and making payments of interest, changes to the definition of "Corresponding Tenor" solely when such tenor is longer than the Interest Period and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such U.S. Dollar Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the U.S. Dollar Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary);

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities; and

"**Unadjusted U.S. Dollar Benchmark Replacement**" means the U.S. Dollar Benchmark Replacement excluding the U.S. Dollar Benchmark Replacement Adjustment.

(k) ***Calculation Agents*:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. REDEMPTION, PURCHASE AND OPTIONS

(a) ***Redemption by Instalments and Final Redemption*:**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) ***Early Redemption*:**

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) ***Redemption for Taxation Reasons*****:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, including the decision of any court, tribunal or governmental agency, which change or amendment becomes effective on or after (or is enacted or adopted on or after but becomes effective before) the date on which agreement is reached to issue the first Tranche of the Notes, and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due, or (ii) the Issuer is or would be no longer entitled to claim a deduction for any payments in respect of the Notes in computing its Hong Kong (or any authority therein or thereof having power to tax) taxation liabilities or the amount of such deduction is materially reduced. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the right of the Issuer so to redeem has occurred, and, in the case of a redemption pursuant to clause (i) above, an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) ***Redemption at the Option of the Issuer*****:** If Call Option is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as agreed between the Issuer and the Fiscal Agent, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) ***Redemption at the Option of Noteholders*****:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 30 nor more than 60 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the relevant Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the relevant Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) ***Redemption at the Option of the Issuer (Make Whole Redemption)***: If Call Option (Make Whole Redemption) is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, in whole or in part, the Notes on any Make Whole Optional Redemption Date. Any such redemption of Notes shall be at their Make Whole Redemption Amount together with interest accrued to the date fixed for redemption.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as agreed between the Issuer and the Fiscal Agent, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Determination Agent shall (in the absence of manifest error) be final and binding upon all parties.

(g) ***Partly Paid Notes*****:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(h) ***Purchases*****:** The Issuer and its subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(i) ***Cancellation*****:** All Notes purchased by or on behalf of the Issuer or any of its subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the relevant Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. PAYMENTS AND TALONS

(a) ***Bearer Notes*****:**

(i) *Bearer Notes not held in the CMU Service:* Payments of principal and interest in respect of Bearer Notes not held in the CMU Service shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, (i) in the case of a currency other than Renminbi, outside the United States and its possessions by transfer to an account denominated in such currency with, a Bank and (ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System.

(ii) *Bearer Notes held in the CMU Service:* Payments of principal and interest in respect of Bearer Notes held in the CMU Service will be made outside the United States and its possessions to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(b) ***Registered Notes*****:**

(i) *Registered Notes not held in the CMU Service*:

(A) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the relevant Registrar and in the manner provided in paragraph (B) below.

(B) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Renminbi, on the fifth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:

- In the case of a currency other than Renminbi, in the relevant currency by transfer to the registered account of the Noteholder appearing in the Register; and

- in the case of Renminbi, by transfer to the registered account of the Noteholder. In this Condition 7(b), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(ii) *Registered Notes held in the CMU Service*:

Payments of principal and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) ***Payments in the United States*:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) ***Payments Subject to Fiscal Laws*:** All payments are subject in all cases to any applicable laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Appointment of Agents*:** The Fiscal Agent, the CMU Lodging Agent, the Paying Agents, the Registrars, the Transfer Agents, the Exchange Agent and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging Agent, the Paying Agents, the Registrars, Transfer Agents, the Exchange Agent and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, any Registrar, any Transfer Agent, the Exchange Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging Agent in relation to Notes accepted for clearance through the CMU Service, (v) one or more Calculation Agent(s) where the Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) ***Unmatured Coupons and Receipts and unexchanged Talons*:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), those Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make Whole Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) ***Talons*:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) ***Non-Business Days*:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than Euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in London and in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8. TAXATION

All payments of principal and interest by the Issuer or any of its agents making a payment on its behalf in respect of the Notes, the Receipts and the Coupons shall be made without withholding or deduction for any taxes, duties, assessments or governmental charges imposed, levied, collected, withheld or assessed by Hong Kong or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law or regulation. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) ***Other connection*:** for such taxes, duties, assessments or governmental charges imposed, levied, collected, withheld or assessed by reason of such Noteholder or Couponholder (or fiduciary, beneficial owner, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Noteholder or Couponholder, if the relevant Noteholder or Couponholder is an estate, nominee, trust, partnership, company or corporation) having a present or former connection with Hong Kong, other than the mere holding of the Note, Receipt or Coupon;

(b) ***Presentation more than 30 days after the Relevant Date*:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the Noteholder or Couponholder would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day;

(c) ***Payment by another Paying Agent*:** presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent;

(d) ***Estate, inheritance, etc.*:** for any estate, inheritance, gift, sale, transfer, personal property or similar tax, duty, assessment or other governmental charge;

(e) ***Failure to provide information*:** where such withholding or deduction could have been lawfully avoided if the Noteholder, Couponholder or beneficial owner (or a third party on behalf of the Noteholder, Couponholder or beneficial owner) had complied with a request addressed to such Noteholder or Couponholder to provide certification, identification or information reporting concerning the nationality, residence, identity or connection with the taxing jurisdiction of such Noteholder, Couponholder or beneficial owner (or third party); provided that the Issuer shall be deemed to have given adequate notice if it complies with the general notice provision provided in Condition 14); or

(f) for any combination of the foregoing.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or the date on which payment in full of the amount outstanding is made. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Make Whole Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

The Issuer or any of its agents making a payment on its behalf shall be permitted to withhold or deduct any amounts pursuant to or in connection with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, any current or future regulations or official interpretations thereof, any agreements (including any intergovernmental agreements) thereunder or any law, regulation, or official interpretation implementing any of the foregoing (in each case "**FATCA Withholding**"). The Issuer and its agents will have no liability for or have any obligation to pay additional amounts in respect of any such FATCA Withholding.

9. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. EVENTS OF DEFAULT

If any of the following events ("**Events of Default**") occurs and is continuing, the holders of, individually or in aggregate, not less than 15 per cent. of the aggregate principal amount of the outstanding Notes may give written notice to the Fiscal Agent at its specified office to declare that such Notes are immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

(a) ***Non-Payment*****:** default is made in the payment on the due date of interest or principal in respect of any of the Notes and such default continues for 10 business days in the case of principal and 14 business days in the case of interest; or

(b) ***Breach of Other Obligations*****:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 30 calendar days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

(c) ***Cross-Acceleration*****:** (i) any other present or future indebtedness of the Issuer or AIA Co. for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or AIA Co. fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds US$100,000,000 or its equivalent (as reasonably determined on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity), excluding any financial indebtedness made from one member of the Group to another; or

(d) ***Enforcement Proceedings*****:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or substantially all of the property, assets or revenues of the Issuer or AIA Co. and is not discharged or stayed within 30 business days; or

(e) ***Insolvency*****:** the Issuer or AIA Co. is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or substantially all of (or of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or AIA Co.; or

(f) ***Winding-up*****:** an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer or AIA Co., or the Issuer or AIA Co. ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation whilst solvent (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of AIA Co., whereby the undertaking and assets of AIA Co. are transferred to or otherwise vested in the Issuer or another of its subsidiaries; or

(g) ***Receivership*****:** an administrative or other receiver or an administrator is appointed of the whole or a material part of the property, assets or revenues of the Issuer or AIA Co. (as the case may be) and is not discharged within 30 business days; or

(h) ***Authorisation and Consents*****:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

(i) ***Analogous Events*****:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) to (g) above.

In this Condition 10, "**business day**" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in Hong Kong.

11. MEETINGS OF NOTEHOLDERS AND MODIFICATIONS

(a) ***Meetings of Noteholders*****:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10% in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount or the Make Whole Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75% or at any adjourned meeting not less than one-third in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90% in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) ***Modification of Agency Agreement*****:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12. REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the relevant Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (except in respect of the first payment of interest and their issue price, and so that, for the avoidance of doubt, references in these Conditions to “Issue Date” shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" and "Noteholders" shall be construed accordingly.

14. NOTICES

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Asia (which is expected to be the *Asian Wall Street Journal*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or DTC, or any other clearing system (except as provided in (ii) and (iii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by these Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate; (ii) on behalf of the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

15. CURRENCY INDEMNITY

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW AND JURISDICTION

(a) ***Governing Law*:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) ***Jurisdiction*:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the holders of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) ***Service of Process*:** The Issuer irrevocably appoints Kennedys of 25 Fenchurch Avenue, London EC3M 5AD, United Kingdom as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

TERMS AND CONDITIONS OF THE SECURITIES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Securities in definitive form (if any) issued in exchange for the Global Security or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Securities or on the Certificates relating to such Registered Securities. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Securities or Certificates, as the case may be. References in the Conditions to "**Securities**" are to the Securities of one Series only, not to all Securities that may be issued under the Programme.*

The Securities are issued pursuant to an Amended and Restated Agency Agreement dated 1 March 2017, as supplemented by a first supplemental agency agreement dated 1 March 2018, a second supplemental agency agreement dated 15 March 2019, a third supplemental agency agreement dated 13 March 2020 and a fourth supplemental agency agreement dated 16 March 2021 (as amended or further supplemented as at the Issue Date, the "**Agency Agreement**") between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent, The Bank of New York Mellon, Hong Kong Branch as lodging agent for Securities to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU Service**"), The Bank of New York Mellon as exchange agent (the "**Exchange Agent**"), The Bank of New York Mellon (the "**U.S. Registrar**"), The Bank of New York Mellon, Hong Kong Branch (the "**CMU Registrar**") and The Bank of New York Mellon SA/NV, Luxembourg Branch (the "**Registrar**" and together with the U.S. Registrar and the CMU Registrar, the "**Registrars**"), The Bank of New York Mellon (the "**U.S. Paying Agent**") and The Bank of New York Mellon, London Branch (the "**Paying Agent**" and together with the U.S. Paying Agent, the "**Paying Agents**") and the other agents named in it and with the benefit of a Deed of Covenant dated 1 March 2017 (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") executed by the Issuer in relation to the Securities. The fiscal agent, the CMU lodging agent, the paying agents, the registrars, the transfer agents, the exchange agent and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrars**", the "**Transfer Agents**", the "**Exchange Agent**" and the "**Calculation Agent(s)**". For the purposes of these Conditions, all references to the Fiscal Agent shall, with respect to a Series of Securities to be held in the CMU Service, be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly. The Securityholders (as defined below), the holders of the distribution coupons (the "**Coupons**") relating to distribution bearing Securities in bearer form and, where applicable in the case of such Securities, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Securities in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Securities which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection upon prior written notice and satisfactory proof of holding at the specified office of the Fiscal Agent.

1. FORM, DENOMINATION AND TITLE

The Securities are issued in bearer form ("**Bearer Securities**") or in registered form ("**Registered Securities**") in each case in the Specified Denomination(s) shown hereon.

This Security is a Senior Perpetual Security, a Subordinated Perpetual Security, a Subordinated Dated Security, a Deeply Subordinated Perpetual Security or a Deeply Subordinated Dated Security.

Bearer Securities are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached.

Registered Securities are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Securities by the same holder.

Securities will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Title to the Bearer Securities and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Securities shall pass by registration in the register that the Issuer shall procure to be kept by the relevant Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Security, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or a distribution in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Securityholder**" means the bearer of any Bearer Security and the Receipts relating to it or the person in whose name a Registered Security is registered (as the case may be), "**holder**" (in relation to a Security, Receipt, Coupon or Talon) means the bearer of any Bearer Security, Receipt, Coupon or Talon or the person in whose name a Registered Security is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Securities.

Notwithstanding anything contained in these Conditions, for so long as any of the Securities is represented by a Global Security or a Global Certificate held on behalf of Euroclear Bank SA/NV ("***Euroclear***"*) and/or Clearstream Banking S.A. (*"***Clearstream, Luxembourg***"*) and/or The Depository Trust Company (*"***DTC***"*) and/or the CMU Service (as the case may be), each person (other than Euroclear or Clearstream, Luxembourg, DTC or the CMU Service) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or of DTC or of the CMU Service as the holder of a particular principal amount of such Securities (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC or the CMU Service as to the principal amount of such Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrars, the Exchange Agent and the Transfer Agents as the holder of such principal amount of such Securities for all purposes other than with respect to the payment of principal or distribution on such principal amount of such Securities, for which purpose the bearer of the relevant Global Security or the registered holder of the relevant Global Certificate shall be treated by the Issuer, any Paying Agent, any Transfer Agent, any Registrar and the Exchange Agent as the holder of such principal amount of such Securities in accordance with and subject to the terms of the relevant Global Security or Global Certificate, and the expressions* "***Securityholder***" *and* "***holder of Securities***" *and related expressions shall be construed accordingly.*

Securities which are represented by a Global Security or a Global Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, DTC and the CMU Service as the case may be. References to Euroclear, Clearstream, Luxembourg, DTC and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer and the Fiscal Agent or the CMU Lodging Agent, as the case may be.

2. NO EXCHANGE OF SECURITIES AND TRANSFERS OF REGISTERED SECURITIES

(a) ***No Exchange of Securities***: Registered Securities may not be exchanged for Bearer Securities. Bearer Securities of one Specified Denomination may not be exchanged for Bearer Securities of another Specified Denomination. Bearer Securities may not be exchanged for Registered Securities.

(b) ***Transfer of Registered Securities***: One or more Registered Securities may be transferred upon the surrender (at the specified office of the relevant Registrar or any Transfer Agent) of the Certificate representing such Registered Securities to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the relevant Registrar or Transfer Agent may require. In the case of a transfer of part only of a holding of Registered Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the relevant Registrar and the Securityholders. A copy of the current regulations will be made available by the relevant Registrar to any Securityholder upon request.

(c) ***Exercise of Options or Partial Redemption in Respect of Registered Securities***: In the case of an exercise of an Issuer's or a Securityholder's option in respect of, or a partial redemption of, a holding of Registered Securities represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Securities of the same holding having different terms, separate Certificates shall be issued in respect of those Securities of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the relevant Registrar or any Transfer Agent. In the case of a transfer of Registered Securities to a person who is already a holder of Registered Securities, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) ***Delivery of New Certificates***: Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the relevant Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the relevant Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the relevant Registrar (as the case may be).

(e) ***Transfers Free of Charge***: Transfers of Securities and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the relevant Registrar or the Transfer Agents, but upon payment by the applicant of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Issuer, the relevant Registrar or the relevant Transfer Agent may require in respect of tax or charges).

(f) ***Closed Periods***: No Securityholder may require the transfer of a Registered Security to be registered (i) during the period of 15 days ending on the due date for redemption of that Security, (ii) during the period of 15 days before any date on which Securities may be called for redemption by the Issuer at its option pursuant to Condition 6(c), (iii) after any such Security has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. STATUS

(a) ***Status and ranking of the Senior Perpetual Securities***: The Senior Perpetual Securities constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* in right of payment and without any preference among themselves. The payment obligations of the Issuer under the Senior Perpetual Securities shall, save for such exceptions as may be provided by applicable law, at all times rank at least equally with its payment obligations in respect of all other unsecured and unsubordinated indebtedness of the Issuer, present and future.

(b) ***Status and ranking of the Subordinated Securities***: The Subordinated Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer which rank *pari passu* in right of payment and without any preference among themselves and with its Parity Obligations and in priority in right of payment to payments to holders of present or future outstanding Junior Obligations of the Issuer. The rights and claims of the Securityholders in respect of the Subordinated Securities will be subordinated in right of payment to the claims of all Senior Creditors, including, for the avoidance of doubt, the holders of Senior Perpetual Securities and the Notes as provided in this Condition 3.

(c) ***Status and ranking of the Deeply Subordinated Securities***: The Deeply Subordinated Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer which rank *pari passu* in right of payment and without any preference among themselves and with its payment obligations in respect of its Parity Obligations and in priority in right of payment to payments to holders of present or future outstanding Junior Obligations of the Issuer. The rights and claims of the Securityholders in respect of the Deeply Subordinated Securities will be subordinated in right of payment to the claims of all Senior Creditors, including, for the avoidance of doubt, the holders of Senior Perpetual Securities, the Subordinated Securities and the Notes as provided in this Condition 3.

(d) ***Set-off – Subordinated Securities and Deeply Subordinated Securities***: Subject to applicable law, no holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Subordinated Securities or Deeply Subordinated Securities, and each holder shall, by virtue of his holding of any such Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any holder by the Issuer in respect of, or arising under or in connection with the Subordinated Securities or Deeply Subordinated Securities is discharged by set-off, such holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up, the liquidator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator) and accordingly any such discharge shall be deemed not to have taken place.

4. DISTRIBUTION AND OTHER CALCULATIONS

(a) ***Accrual of Distribution***: The Securities confer a right to receive distributions (each a "**Distribution**") from the Distribution Commencement Date at the Rate of Distribution payable in arrear on each Distribution Payment Date, subject as provided in Condition 5.

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, Distribution will continue to accrue at the applicable Rate of Distribution (after as well as before any judgment) up to but excluding whichever is the earlier of (i) the date on which all sums due in respect of any Security are received by or on behalf of the relevant Securityholder and (ii) the day which is seven days after the Fiscal Agent has notified the Securityholders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Securityholders under these Conditions).

(b) ***Fixed Distribution Amount***: The amount of distribution payable in respect of each Security for any Distribution Period shall be the relevant Fixed Distribution Amount and, if the Securities are in more than one Specified Denomination, shall be the relevant Fixed Distribution Amount in respect of the relevant Specified Denomination.

(c) ***Calculation of Distribution Amount:*** The amount of distribution payable in respect of each Security for any period for which a Fixed Distribution Amount is not specified shall be calculated by applying the Rate of Distribution to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Security divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of Euro, means one cent.

If the relevant Pricing Supplement specifies that the Rate of Distribution is subject to reset, the Calculation Agent will, on the Calculation Business Day prior to each Reset Date, calculate the applicable Reset Distribution Rate payable in respect of the Securities. The Calculation Agent will cause the applicable Reset Distribution Rate determined by it to be notified to the Issuer, the Paying Agents, the Securityholders and each listing authority, stock exchange and/or quotation system (if any) on to which the Securities have then been admitted to listing, trading and/or quotation as soon as practicable after the relevant Reset Date. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4(c) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents and the Securityholders and no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

5. DEFERRAL OR CANCELLATION OF DISTRIBUTION

(a) ***Deferral of Distribution Payments – Issuer Discretion***

(i) This Condition 5(a) is applicable to Securities only if Optional Distribution Deferral is specified as applicable in the relevant Pricing Supplement.

(ii) The Issuer may, at its sole discretion, elect to defer, in whole or in part, any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date (an "**Optionally Deferred Distribution Payment**") by giving notice in writing to the Fiscal Agent and to the Securityholders (in accordance with Condition 15) not more than 10 nor less than five Business Days prior to a scheduled Distribution Payment Date (an "**Optional Deferral Event**") unless, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, during the Dividend Pusher Lookback Period ending on the day before that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred. Any partial payment of outstanding Distribution (including any Arrears of Distribution and any Additional Distribution Amount) by the Issuer shall be shared by the Securityholders of all outstanding Securities on a *pro-rata* basis.

(iii) The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with this Condition 5(a) and any failure to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) shall not constitute a default of the Issuer in respect of the Securities.

(iv) If the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, the Issuer shall deliver to the Fiscal Agent, together with the notice required by Condition 5(a)(ii), a certificate in the form scheduled to the Agency Agreement signed by two directors of the Issuer confirming that an Optional Deferral Event has occurred and is continuing, and that no Compulsory Distribution Payment Event has occurred and is continuing.

(v) Any Distribution deferred pursuant to this Condition 5(a) shall constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirements applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution may be deferred pursuant to this Condition 5(a) except that this Condition 5(a)(v) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

(vi) If Distributions are specified to be compounding in the relevant Pricing Supplement, each amount of Arrears of Distribution shall accrue distribution at the Rate of Distribution as if it constituted the principal of the Securities and the amount of such additional distribution (the "**Additional Distribution Amount**") with respect to Arrears of Distribution shall be due and payable pursuant to this Condition 5(a) and shall be calculated by applying the Rate of Distribution to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 5(a). The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added, for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

(vii) If the Dividend Stopper is specified in the Pricing Supplement as applicable, then if on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Condition 5(a)(ii), the Issuer shall not:

(A) if Discretionary Payment Restriction (Stopper) is specified as applicable in the relevant Pricing Supplement, declare, pay or make any discretionary dividends, distributions or other payments on, and will procure that no discretionary dividend, distribution or other payment is declared, paid or made on any of its Relevant Obligations (Stopper), save that such restriction shall not apply to payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants; or

(B) if Discretionary Redemption Restriction (Stopper) is specified as applicable in the relevant Pricing Supplement, make any discretionary redemption, reduction, cancellation, buy-back or acquisition for any consideration of any of its Relevant Obligations (Stopper), save that such restriction shall not apply to an exchange of any of its Parity Obligations in whole for Junior Obligations, a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants,

in each case, unless and until the Issuer (i) has satisfied in full all outstanding Arrears of Distributions and any Additional Distribution Amounts, (ii) has redeemed or purchased and cancelled the Securities in full, or (iii) is permitted to do so by an Extraordinary Resolution (as defined in the Agency Agreement) of the Securityholders.

(viii) The Issuer:

(A) may satisfy any Arrears of Distribution and any Additional Distribution Amount (in whole or in part) at any time by giving notice of such election to the Securityholders (in accordance with Condition 15) and the Fiscal Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment date specified in such notice). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be paid to the holders of all outstanding Securities on a *pro-rata* basis; and

(B) in any event shall satisfy any outstanding Arrears of Distribution deferred in accordance with Condition 5(a)(ii), in whole but not in part, upon the earliest to occur of:

(1) the next Distribution Payment Date falling immediately after a breach of Condition 5(a)(vii);

(2) the date on which the Securities are redeemed at the option of the Issuer pursuant to Condition 6(c);

(3) a Special Event Redemption Date; and

(4) the Winding-Up of the Issuer.

(ix) Notwithstanding any other provision in these Conditions, the deferral of any Distribution payment in accordance with this Condition 5(a) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 10) on the part of the Issuer.

(b) ***Cancellation of Distribution Payments – Issuer Discretion***

(i) This Condition 5(b) is applicable to Securities only if Optional Distribution Cancellation is specified as applicable in the relevant Pricing Supplement.

(ii) The Issuer may, at its sole discretion, elect to cancel, in whole or in part, any Distribution which is otherwise scheduled to be paid on a Distribution Payment

Date (an "**Optionally Cancelled Distribution Payment**") by giving notice in writing to the Fiscal Agent and to the Securityholders (in accordance with Condition 15) not more than 10 nor less than five Business Days prior to a scheduled Distribution Payment Date (an "**Optional Cancellation Event**") unless, if the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, during the Dividend Pusher Lookback Period ending on the day before that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred. Any partial payment of outstanding Distribution by the Issuer shall be shared by the Securityholders of all outstanding Securities on a *pro-rata* basis.

(iii) The Issuer shall have no obligation to pay any Distribution on any Distribution Payment Date if it validly elects not to do so in accordance with this Condition 5(b) and any failure to pay any Distribution shall not constitute a default of the Issuer in respect of the Securities. 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.

(iv) If the Dividend Pusher is specified in the relevant Pricing Supplement as being applicable, the Issuer shall deliver to the Fiscal Agent, together with the notice referred to in Condition 5(b)(ii), a certificate in the form scheduled to the Agency Agreement signed by two directors of the Issuer confirming that an Optional Cancellation Event has occurred and is continuing, and that no Compulsory Distribution Payment Event has occurred and is continuing.

(v) If the Dividend Stopper is specified in the Pricing Supplement as applicable, then if on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Condition 5(b)(ii), the Issuer shall not:

(A) if Discretionary Payment Restriction (Stopper) is specified as applicable in the relevant Pricing Supplement, declare, pay or make any discretionary dividends, distributions or other payments on, and will procure that no discretionary dividend, distribution or other payment is declared, paid or made on any of its Relevant Obligations (Stopper), save that such restriction shall not apply to payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants; or

(B) if Discretionary Redemption Restriction (Stopper) is specified as applicable in the relevant Pricing Supplement, make any discretionary redemption, reduction, cancellation, buy-back or acquisition for any consideration of any of its Relevant Obligations (Stopper), save that such restriction shall not apply to an exchange of any of its Parity Obligations in whole for Junior Obligations, a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants,

in each case, unless and until the Issuer (i) has satisfied in full the Distribution scheduled to be paid on any subsequent Distribution Payment Date (which, for the avoidance of doubt, shall exclude any Distribution that has been cancelled in accordance with these Conditions prior to and in respect of a Distribution Payment Date preceding such subsequent Distribution Payment Date), (ii) has redeemed or purchased and cancelled the Securities in full, or (iii) is permitted to do so by an Extraordinary Resolution of the Securityholders.

(vi) Notwithstanding any other provision in these Conditions, the cancellation or non-payment of any Distribution payment in accordance with this Condition

5(b) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 10) on the part of the Issuer.

(c) ***Deferral or Cancellation of Distribution Payments – Mandatory***

(i) This Condition 5(c) is applicable to Securities only if Mandatory Distribution Deferral or Mandatory Distribution Cancellation is specified as applicable in the relevant Pricing Supplement.

(ii) If applicable, the relevant Pricing Supplement shall specify provisions for the mandatory deferral or cancellation of Distribution.

(d) ***Definitions***

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Centre**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**" means:

(i) in the case of a currency other than Euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

a "**Compulsory Distribution Payment Event**" occurs:

(a) if Payment Event (Pusher) is specified in the relevant Pricing Supplement, if a discretionary dividend, distribution or other payment is declared, paid or made on any Relevant Obligations (Pusher) (other than a payment declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants); or

(b) if Redemption Event (Pusher) is specified in the relevant Pricing Supplement, if the Issuer makes any discretionary redemption, reduction, cancellation, buy-back or acquisition for any consideration any of its Relevant Obligations (Pusher) (except for (i) an exchange of any of its Parity Obligations in whole for Junior Obligations, or (ii) a repurchase or other acquisition of any Relevant Obligations (Pusher) in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors, agents or consultants, or (iii) any repurchase or other acquisition which occurs in connection with a merger, amalgamation, consolidation, sale or other corporate reorganisation or which is required under the Hong Kong Companies Ordinance).

The relevant Pricing Supplement may also provide that a Compulsory Distribution Payment Event may not occur if Distributions are not permitted to be paid for regulatory or other reasons specified in the Pricing Supplement;

"**Dated Security**" means a Subordinated Dated Security or a Deeply Subordinated Dated Security;

"**Day Count Fraction**" means, in respect of the calculation of an amount of distribution on any Security for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Distribution Period or a Distribution Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of a Distribution Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = $\frac{[360\times(\mathrm{Y}_2-\mathrm{Y}_1)]+[30\times(\mathrm{M}_2-\mathrm{M}_1)]+(\mathrm{D}_2-\mathrm{D}_1)}{360}$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereo*n, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:*

Day Count Fraction = $\frac{[360\times(Y_2-Y_1)]+[30\times(M_2-M_1)]+(D_2-D_1)}{360}$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction = $\frac{[360\times(Y_2-Y_1)]+[30\times(M_2-M_1)]+(D_2-D_1)}{360}$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

(viii) if "**Actual/Actual-ICMA**" is specified hereon,

if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year where:

"**Determination Agent**" means an investment bank or financial institution of international standing selected by the Issuer;

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Distribution Payment Date(s);

"**Distribution Accrual Period**" means the period beginning on and including the Distribution Commencement Date and ending on but excluding the first Distribution Period Date and each successive period beginning on and including a Distribution Period Date and ending on but excluding the next succeeding Distribution Period Date;

"**Distribution Amount**" means, in relation to a Security and a Distribution Period, the amount of distribution payable in respect of that Security for that Distribution Period;

"**Distribution Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Distribution Determination Date**" means, with respect to a Rate of Distribution and Distribution Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Distribution Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Distribution Accrual Period if the Specified Currency is neither Sterling nor Euro nor Hong Kong dollars or (iii) the day falling two TARGET Business Days prior to the first day of such Distribution Accrual Period if the Specified Currency is Euro;

"**Distribution Payment Date**" means the first Distribution Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"**Distribution Period**" means the period beginning on and including the Distribution Commencement Date and ending on but excluding the first Distribution Payment Date and each successive period beginning on and including a Distribution Payment Date and ending on but excluding the next succeeding Distribution Payment Date;

"**Distribution Period Date**" means each Distribution Payment Date unless otherwise specified hereon;

"**Rate of Distribution**" means the rate of distribution payable from time to time in respect of this Security and that is either specified or calculated in accordance with the provisions hereon;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Securities are denominated; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

"**Deeply Subordinated Security**" means a Deeply Subordinated Perpetual Security or a Deeply Subordinated Dated Security;

"**Dividend Pusher Lookback Period**", if applicable, shall be the period specified in the relevant Pricing Supplement;

"**Early Redemption Amount**" means any of an Early Redemption Amount (Accounting Event), Early Redemption Amount (Minimal Amount Outstanding), Early Redemption Amount (Rating Event), and Early Redemption Amount (Tax);

"**Early Redemption Amount (Accounting Event)**" means, in respect of any Security in which "Accounting Event Redemption" is specified as being applicable in the relevant Pricing Supplement, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Redemption Amount (Minimal Amount Outstanding)**" means, in respect of any Security, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Redemption Amount (Rating Event)**" means, in respect of any Security in which "Rating Event Redemption" is specified as being applicable in the relevant Pricing Supplement, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Redemption Amount (Tax)**" means, in respect of any Security, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Hong Kong Companies Ordinance**" means the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong;

"**Junior Obligations**" unless modified in the relevant Pricing Supplement, means:

(i) in the context of Subordinated Perpetual Securities or Subordinated Dated Securities, (a) any Preference Shares and the Ordinary Shares and any other instruments or securities issued, entered into or guaranteed by the Issuer ranking *pari passu* in right of payment therewith in respect of which all payments of dividends and distributions are discretionary and (b) any instruments or securities issued, entered into or guaranteed by the Issuer or other obligations of the Issuer ranking, or expressed to rank, junior in right of payment to the Subordinated Perpetual Securities or Subordinated Dated Securities, including, for the avoidance of doubt, the Deeply Subordinated Perpetual Securities or Deeply Subordinated Dated Securities; and

(ii) in the context of Deeply Subordinated Perpetual Securities or Deeply Subordinated Dated Securities, (a) the Ordinary Shares and any other instruments or securities issued, entered into or guaranteed by the Issuer ranking *pari passu* in right of payment therewith in respect of which all payments of dividends and distributions are discretionary and (b) any instruments or securities issued, entered into or guaranteed by the Issuer or other obligations of the Issuer ranking, or expressed to rank, junior in right of payment to the Deeply Subordinated Perpetual Securities or Deeply Subordinated Dated Securities.

"**Make Whole Redemption Amount**" means, with respect to each Security to be redeemed, either:

(i) an amount calculated by the Determination Agent equal to the higher of (i) the principal amount of such Security and (ii) the sum of (x) the present value of the principal amount of such Security and (y) the present values of Distribution payable for the relevant Distribution Payment Dates from, and including, the relevant Make Whole Optional Redemption Date to the Maturity Date (exclusive of Distribution accrued to the Make Whole Optional Redemption Date), in each case, discounted to such redemption date at the Make Whole Reference Rate, plus the Make Whole Redemption Margin; or

(ii) the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement;

"**Make Whole Reference Rate**" means:

(i) with respect to any Make Whole Optional Redemption Date as specified in the relevant Pricing Supplement, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Security, assuming a price for the Reference Security (expressed as a percentage of its nominal amount) equal to the Reference Security Price for such Make Whole Optional Redemption Date; or

(ii) the rate specified in, or determined in the manner specified in, the relevant Pricing Supplement;

"**Optional Redemption Amount**" means, in respect of any Security, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date**" has the meaning given in the relevant Pricing Supplement;

"**Ordinary Shares**" means the ordinary share capital of the Issuer;

"**Parity Obligations**" unless modified in the relevant Pricing Supplement, means:

(i) in the context of Subordinated Perpetual Securities or Subordinated Dated Securities, any instruments or securities issued, entered into or guaranteed by the Issuer or other obligations of the Issuer the claims of the holders of which rank, or are expressed to rank, on a Winding-Up of the Issuer, *pari passu* in right of payment with the Subordinated Perpetual Securities or Subordinated Dated Securities; and

(ii) in the context of Deeply Subordinated Perpetual Securities or Deeply Subordinated Dated Securities, any Preference Shares and any other instruments or securities issued, entered into or guaranteed by the Issuer or other obligations of the Issuer the claims of the holders of which rank, or are expressed to rank, on a Winding-Up of the Issuer, *pari passu* in right of payment with the Deeply Subordinated Perpetual Securities or Deeply Subordinated Dated Securities;

"**Preference Shares**" means any present or future outstanding preference shares of the Issuer;

"**Rating Agencies**" means the rating agencies specified in the relevant Pricing Supplement, or if one or more of the rating agencies specified in the relevant Pricing Supplement shall not make a rating of the Securities publicly available, another recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for such rating agency;

"**Reference Date**" means as set out in the relevant notice of redemption pursuant to Condition 6(g);

"**Reference Dealer**" means each of five banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues, or such other banks or method of selection of such banks as specified in the relevant Pricing Supplement;

"**Reference Dealer Quotations**" means, with respect to each Reference Dealer and any Make Whole Optional Redemption Date, the arithmetic average, as determined by the Determination Agent, of the bid and offered prices for the Reference Security (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the relevant Pricing Supplement on the Reference Date quoted in writing to the Determination Agent by such Reference Dealer;

"**Reference Security**" shall be as set out in the relevant Pricing Supplement, *provided that* if the Reference Security is no longer outstanding, a Similar Security will be chosen by the Determination Agent at 11:00 a.m. (CET) on the third Business Day preceding the Make Whole Optional Redemption Date, or at such other time and date specified in the relevant Pricing Supplement, quoted in writing by the Determination Agent to the Issuer and notified by the Issuer in accordance with Condition 15;

"**Reference Security Price**" means, with respect to any Make Whole Optional Redemption Date, either:

(i) (A) the arithmetic average of the Reference Dealer Quotations for such Make Whole Optional Redemption Date, after excluding the highest and lowest such Reference Dealer Quotations, or (B) if the Determination Agent obtains fewer than four such Reference Dealer Quotations, the arithmetic average of all such quotations; or

(ii) as otherwise provided in the relevant Pricing Supplement;

"**Regulatory Event**", if applicable, has the meaning given to it in the relevant Pricing Supplement;

"**Relevant Obligations (Pusher)**" has the meaning given to it in the relevant Pricing Supplement;

"**Relevant Obligations (Stopper)**" has the meaning given to it in the relevant Pricing Supplement;

"**Senior Creditors**" means any creditors of the Issuer who are unsubordinated creditors of the Issuer (including all policyholders (and including, for the avoidance of doubt, all policyholder claims));

"**Similar Security**" means a reference security or reference securities having an actual or interpolated maturity comparable with the remaining term of the relevant series of Securities that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate securities of comparable maturity to the remaining term of such Security;

"**Special Event**" means a Tax Event, a Rating Event, an Accounting Event, any other event designated as a Special Event in the relevant Pricing Supplement (which may include a Regulatory Event), or any combination of the foregoing;

"**Special Event Redemption**" means a redemption in respect of: (i) a Tax Event, or (ii) a Rating Event, or (iii) an Accounting Event, (iv) redemption in the case of minimal amount outstanding or (v) such other Special Event as so designated in the relevant Pricing Supplement;

"**Special Event Redemption Date**" means the date on which the Securities are redeemed in a Special Event Redemption;

"**Subordinated Security**" means any of a Subordinated Perpetual Security or a Subordinated Dated Security; and

"**Winding-Up**" means a final and effective order or resolution for the liquidation, winding-up or similar proceedings in respect of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction, merger or amalgamation, (a) the terms of which reorganisation, reconstruction, merger or amalgamation have previously been approved by an Extraordinary Resolution; and (b) which does not result in the Securities thereby becoming redeemable or repayable in accordance with these Conditions).

(e) ***Calculation Agents***

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Security is outstanding (as defined in the Agency Agreement). Where more than one Calculation

Agent is appointed in respect of the Securities, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Distribution for a Distribution Accrual Period or to calculate any Distribution Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. REDEMPTION, PURCHASE AND OPTIONS

(a) *Redemption of Securities at Maturity*

(i) Subordinated Dated Securities or Deeply Subordinated Dated Securities, unless previously redeemed, purchased and cancelled as provided below, shall be finally redeemed on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise provided hereon, is their nominal amount).

(ii) Senior Perpetual Securities, Subordinated Perpetual Securities or Deeply Subordinated Perpetual Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3 and without prejudice to Condition 10) only have the right to redeem or purchase them in accordance with the following provisions of this Condition 6.

(b) *Redemption for Taxation Reasons*

(i) A redemption pursuant to Condition 6(b)(ii)(y) below shall apply to Securities only if Tax Event Redemption is specified as being applicable in the relevant Pricing Supplement.

(ii) The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax) (together with Distributions accrued to the date fixed for redemption, including any Arrears of Distribution and any Additional Distribution Amount), if (x) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, including the decision of any court, tribunal or governmental agency, which change or amendment becomes effective on or after (or is enacted or adopted on or after but becomes effective before) the date on which agreement is reached to issue the first Tranche of the Securities, and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Securities then due, or (y) the Issuer is or would be no longer entitled to claim a deduction for any payments in respect of the Dated Securities in computing its Hong Kong (or any authority therein or thereof having power to tax) taxation liabilities or the amount of such deduction is materially reduced (each of clauses (x) and (y), a "**Tax Event**").

(iii) Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the right of the Issuer so to redeem has occurred, and, in the case of a redemption pursuant to sub-paragraph (b)(ii)(x) above, an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(c) ***Issuer's Call Option***

(i) This Condition 6(c) shall apply to Securities only if Issuer's Call Option is specified as being applicable in the relevant Pricing Supplement.

(ii) The Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Securityholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Securities on any Optional Redemption Date. Any such redemption of Securities shall be at their Optional Redemption Amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount). Any such redemption or exercise must relate to Securities of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

(iii) All Securities in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(c).

(iv) In the case of a partial redemption the notice to Securityholders shall also contain the certificate numbers of the Bearer Securities, or in the case of Registered Securities shall specify the nominal amount of Registered Securities drawn and the holder(s) of such Registered Securities, to be redeemed, which shall have been drawn in such place and in such manner as agreed between the Issuer and the Fiscal Agent, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(d) ***Rating Event Redemption***

(i) This Condition 6(d) shall apply to Securities only if Rating Event Redemption is specified as being applicable in the relevant Pricing Supplement.

(ii) The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable) at their Early Redemption Amount (Rating Event), if, immediately before giving such notice, the Issuer delivers to the Fiscal Agent the certificate referred to below stating that an amendment, clarification or change has occurred in the rules, criteria, guidelines or methodologies of relevant Rating Agencies or any of their respective successors to the rating business thereof, which amendment, clarification or change (x) results in, or will result in, a lower equity credit for the Securities than the equity credit assigned as of the date agreement is reached to issue the Securities or results in or will result in no equity credit for the Securities, or (y) results in or will result in the shortening of the length of time the Securities are assigned a particular level of equity credit by such rating agency as compared to the length of time the Securities would have been assigned that level of equity credit by such rating agency on the date agreement is reached to issue the Securities (a "**Rating Event**").

(iii) Prior to the publication of any notice of redemption pursuant to this Condition 6(d), the Issuer shall deliver or procure that there is delivered to the Fiscal

Agent a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances.

(iv) Upon the expiry of any such notice as is referred to in this Condition 6(d), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(d), provided that such date for redemption shall be no earlier than the last day before the date on which the Securities will no longer be eligible for the same or higher category of equity credit.

(e) ***Accounting Event Redemption***

(i) This Condition 6(e) shall apply to Securities that are (A) either a Subordinated Perpetual Security or a Deeply Subordinated Perpetual Security and (B) only if Accounting Event Redemption is specified as being applicable in the relevant Pricing Supplement.

(ii) The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable) at their Early Redemption Amount (Accounting Event), if, immediately before giving such notice, as a result of any changes or amendments to IFRS or any other accounting standards that may replace IFRS for the purposes of the consolidated financial statements of the Issuer (the "**Relevant Accounting Standard**"), the Securities must not or must no longer be recorded as "equity" of the Issuer pursuant to the Relevant Accounting Standard (an "**Accounting Event**").

(iii) Prior to the publication of any notice of redemption pursuant to this Condition 6(e), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent: (A) a certificate, signed by two directors of the Issuer, stating that the circumstances referred to above prevail and setting out the details of such circumstances; and (B) an opinion of the Issuer's independent auditors stating that the circumstances referred to above prevail and the date on which the relevant change or amendment to the Relevant Accounting Standard is due to take effect.

(iv) Upon the expiry of any such notice as is referred to in this Condition 6(e), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(e) provided that such date for redemption shall be no earlier than the last day before the date on which the Securities must not or must no longer be so recorded as "equity" of the Issuer pursuant to the Relevant Accounting Standard.

(f) ***Minimal Outstanding Amount Redemption***

(i) This Condition 6(f) shall apply to Securities only if Minimal Outstanding Event Redemption is specified as being applicable in the relevant Pricing Supplement.

(ii) The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on the Issuer giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable) at the Early Redemption Amount (Minimal Outstanding Amount), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount originally issued (including any further securities issued in accordance with Condition 14.

(iii) Upon expiry of any such notice as is referred to in this Condition 6(f), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(f).

(g) ***Issuer's Call Option (Make Whole Redemption)***

(i) This Condition 6(g) shall apply only (A) to Subordinated Dated Securities or Deeply Subordinated Dated Securities and (B) if Issuer's Call Option (Make Whole Redemption) is specified as being applicable in the relevant Pricing Supplement.

(ii) The Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Securityholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Securities on any Optional Redemption Date. Any such redemption of Securities shall be at their Make Whole Redemption Amount together with Distributions accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount). Any such redemption or exercise must relate to Securities of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

(iii) All Securities in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(g).

(iv) In the case of a partial redemption the notice to Securityholders shall also contain the certificate numbers of the Bearer Securities, or in the case of Registered Securities shall specify the nominal amount of Registered Securities drawn and the holder(s) of such Registered Securities, to be redeemed, which shall have been drawn in such place and in such manner as agreed between the Issuer and the Fiscal Agent, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(v) The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Determination Agent shall (in the absence of manifest error) be final and binding upon all parties.

(h) ***Other redemption***

The Issuer shall be entitled to specify additional redemption events and the conditions attaching thereto in the relevant Pricing Supplement. Such additional redemption events may include, without limitation, redemption upon a Regulatory Event.

(i) ***Purchases***

The Issuer and its subsidiaries may at any time purchase Securities (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(j) ***Cancellation***

All Securities purchased by or on behalf of the Issuer or any of its subsidiaries may be surrendered for cancellation, in the case of Bearer Securities, by surrendering each such Security together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Securities, by surrendering the Certificate representing such Securities to the relevant Registrar and, in each case, if so surrendered, shall, together with all Securities redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged.

7. PAYMENTS AND TALONS

(a) ***Bearer Securities***:

(i) Bearer Securities not held in the CMU Service: Payments of principal and distribution in respect of Bearer Securities not held in the CMU Service shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts, Securities (in the case of all other payments of principal and, in the case of distribution, as specified in Condition 7(f)(iv)) or Coupons (in the case of distribution, save as specified in Condition 7(f)(iv)), as the case may be, (i) in the case of a currency other than Renminbi, outside the United States and its possessions by transfer to an account denominated in such currency with, a Bank and (ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Securityholder with a bank in Hong Kong. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System.

(ii) Bearer Securities held in the CMU Service: Payments of principal and distribution in respect of Bearer Securities held in the CMU Service will be made outside the United States and its possessions to the person(s) for whose account(s) interests in the relevant Bearer Security are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(b) ***Registered Securities***:

(i) *Registered Securities not held in the CMU Service*:

(A) Payments of principal in respect of Registered Securities shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the relevant Registrar and in the manner provided in paragraph (B) below.

(B) Distribution on Registered Securities shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Renminbi, on the fifth day before the due date for payment thereof (the "**Record Date**"). Payments of distribution on each Registered Security shall be made:

– In the case of a currency other than Renminbi, in the relevant currency by transfer to the registered account of the Securityholder appearing in the Register; and

– in the case of Renminbi, by transfer to the registered account of the Securityholder. In this Condition 7(b), "**registered account**" means the Renminbi account maintained by or on behalf of the Securityholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(ii) *Registered Securities held in the CMU Service*:

Payments of principal and distribution in respect of Registered Securities held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Security are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) ***Payments in the United States***: Notwithstanding the foregoing, if any Bearer Securities are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Securities in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) ***Payments Subject to Fiscal Laws***: All payments are subject in all cases to any applicable laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Securityholders or Couponholders in respect of such payments.

(e) ***Appointment of Agents***: The Fiscal Agent, the CMU Lodging Agent, the Paying Agents, the Registrars, the Transfer Agents, the Exchange Agent and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging Agent, the Paying Agents, the Registrars, Transfer Agents, the Exchange Agent and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Securityholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, any Registrar, any Transfer Agent, the Exchange Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Securities, (iii) a Transfer Agent in relation to Registered Securities, (iv) a CMU Lodging Agent in relation to Securities accepted for clearance through the CMU Service, (v) one or more Calculation Agent(s) where the Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Securities may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Securities denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Securityholders.

(f) ***Unmatured Coupons and Receipts and unexchanged Talons***:

(i) Upon the due date for redemption of Bearer Securities, those Securities should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the

Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make Whole Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Security, any unexchanged Talon relating to such Security (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iii) Where any Bearer Security that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Securities is presented for redemption without all unmatured Coupons, and where any Bearer Security is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(iv) If the due date for redemption of any Security is not a due date for payment of distribution, distribution accrued from the preceding due date for payment of distribution or the Distribution Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Security or Certificate representing it, as the case may be. Distribution accrued on a Subordinated Dated Security or Deeply Subordinated Dated Security that only bears distribution after its Maturity Date shall be payable on redemption of such Security against presentation of the relevant Security or Certificate representing it, as the case may be.

(g) ***Talons***: On or after the Distribution Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Security, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) ***Non-Business Days***: If any date for payment in respect of any Security, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any distribution or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than Euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in London and in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8. TAXATION

All payments of principal and distribution by the Issuer or any of its agents making a payment on its behalf in respect of the Securities, the Receipts and the Coupons shall be made without withholding or deduction for any taxes, duties, assessments or governmental charges imposed, levied, collected, withheld or assessed by Hong Kong or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law or regulation. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Securityholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Security, Receipt or Coupon:

(a) ***Other connection***: for such taxes, duties, assessments or governmental charges imposed, levied, collected, withheld or assessed by reason of such Securityholder or Couponholder (or fiduciary, beneficial owner, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Securityholder or Couponholder, if the relevant Securityholder or Couponholder is an estate, nominee, trust, partnership, company or corporation) having a present or former connection with Hong Kong, other than the mere holding of the Security, Receipt or Coupon;

(b) ***Presentation more than 30 days after the Relevant Date***: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the Securityholder or Couponholder would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day;

(c) ***Payment by another Paying Agent***: presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Security, Receipt or Coupon to another Paying Agent;

(d) ***Estate, inheritance, etc.***: for any estate, inheritance, gift, sale, transfer, personal property or similar tax, duty, assessment or other governmental charge;

(e) ***Failure to provide information***: where such withholding or deduction could have been lawfully avoided if the Securityholder, Couponholder or beneficial owner (or a third party on behalf of the Securityholder, Couponholder or beneficial owner) had complied with a request addressed to such Securityholder or Couponholder to provide certification, identification or information reporting concerning the nationality, residence, identity or connection with the taxing jurisdiction of such Securityholder, Couponholder or beneficial owner (or third party); provided that the Issuer shall be deemed to have given adequate notice if it complies with the general notice provision provided in Condition 15); or

(f) for any combination of the foregoing.

As used in these Conditions, "**Relevant Date**" in respect of any Security, Receipt or Coupon means the date on which payment in respect of it first becomes due or the date on which payment in full of the amount outstanding is made. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Securities, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Make Whole Redemption Amounts, and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**distribution**" shall be deemed to include all Distribution Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it and (iii) "**principal**" and/or "**distribution**" shall be deemed to include any additional amounts that may be payable under this Condition.

The Issuer or any of its agents making a payment on its behalf shall be permitted to withhold or deduct any amounts pursuant to or in connection with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, any current or future regulations or official interpretations thereof, any agreements (including any intergovernmental agreements) thereunder or any law, regulation, or official interpretation implementing any of the foregoing (in each case "**FATCA Withholding**"). The Issuer and its agents will have no liability for or have any obligation to pay additional amounts in respect of any such FATCA Withholding.

9. PRESCRIPTION

Claims against the Issuer for payment in respect of the Securities, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of distribution) from the appropriate Relevant Date in respect of them.

10. NON-PAYMENT

(a) ***Limited rights to institute proceedings***: Notwithstanding any of the provisions below in this Condition 10, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due and is unpaid. In the case of any Distribution, such Distribution will not be due if the Issuer has, as the case may be, elected to defer or cancel that Distribution in accordance with Condition 5(a) or 5(b) or been mandatorily required to defer or cancel that Distribution in accordance with Condition 5(c) or as otherwise provided in the applicable Pricing Supplement.

(b) ***Proceedings for Winding-Up***: Upon (i) an order being made or an effective resolution being passed for the Winding-Up of the Issuer or (ii) the Issuer failing to make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Securities and Securityholders holding not less than 15 per cent. of the aggregate principal amount of the Securities may institute proceedings for the Winding-Up of the Issuer and/or prove and/or claim in the Winding-Up of the Issuer for the principal amount of the Securities together with Distribution, Arrears of Distribution and any Additional Distribution Amount accrued to the day prior to the commencement of the Winding-Up. 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.

(c) ***Enforcement***: Without prejudice to Condition 10(b), Securityholders holding not less than 15 per cent. of the aggregate principal amount of the outstanding Securities may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Securities (other than any payment obligation of the Issuer under or arising from the Securities including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, including any damages awarded for breach of any obligations), provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

(d) ***Extent of Securityholders' remedy***: No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Securityholders, whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities.

11. MEETINGS OF SECURITYHOLDERS AND MODIFICATIONS

(a) ***Meetings of Securityholders***: The Agency Agreement contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Securityholders holding not less than 10% in nominal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Securityholders whatever the nominal amount of the Securities held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity of Subordinated Dated Securities or Deeply Subordinated Dated Securities or redemption of the Securities, any date for payment of distribution or Distribution Amounts on the Securities, (ii) to reduce or cancel any premium payable on redemption of the Securities, (iii) to reduce the rate or rates of distribution in respect of the Securities or to vary the method or basis of calculating the rate or rates or amount of distribution or the basis for calculating any Distribution Amount in respect of the Securities, (iv) if a Minimum and/or a Maximum Rate of Distribution or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount or the Make Whole Redemption Amount, (vi) to vary the currency or currencies of payment or denomination of the Securities, (vii) to amend the subordination provisions in the Deed of Covenant or (viii) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75% or at any adjourned meeting not less than one-third in nominal amount of the Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Securityholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90% in nominal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

These Conditions may be amended, modified or varied in relation to any Series of Securities by the terms of the relevant Pricing Supplement in relation to such Series.

(b) ***Modification of Agency Agreement***: The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Securityholders.

12. REPLACEMENT OF SECURITIES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

If a Security, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Securities, Receipts, Coupons or Talons) and of the relevant Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Securityholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Security, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Securities, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Securities, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. SUBSTITUTION OR VARIATION

(a) This Condition 13 shall apply to Securities only if Special Event Substitution or Variation is specified as being applicable in the relevant Pricing Supplement.

(b) If a Special Event has occurred and is continuing, then the Issuer may, subject to Condition 4 (without any requirement for the consent or approval of the Securityholders) and subject to its having satisfied the requirements set out under the definition of "Qualifying Securities" immediately prior to the giving of any notice referred to herein that the provisions of this Condition 13 have been complied with, and having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 15, the Securityholders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities.

(c) Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 13, as the case may be.

(d) In connection therewith, any outstanding Arrears of Distribution (including any Additional Distribution Amount) will be satisfied in full in accordance with the provisions of Condition 5(a) (if applicable).

(e) In connection with any substitution or variation in accordance with this Condition 13, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

(f) Any such substitution or variation in accordance with the foregoing provisions shall not be permitted if any such substitution or variation would give rise to a Special Event with respect to the Securities or the Qualifying Securities.

In this Condition 13, "**Qualifying Securities**" means securities that:

(a) have terms not materially less favourable to an investor (including, without limitation, terms allowing for the reduction, conversion or write-down of their principal amount in certain circumstances) than the terms of the Securities (as reasonably determined by the Issuer, and provided that a certification to such effect (and confirming that the conditions set out in (i) and (ii) below have been satisfied) of two directors of the Issuer shall have been delivered to the Securityholders prior to the substitution or variation of the relevant Securities), provided that:

(i) they are issued by the Issuer or any wholly-owned direct or indirect subsidiary of the Issuer with a guarantee of the Issuer; and

(ii) they (or, as appropriate, the guarantee as aforesaid) shall rank senior to or *pari passu* with the Securities on a Winding-Up of the issuer or guarantor thereof, shall preserve the Securityholders' rights to any Arrears of Distribution, any Additional Distribution Amount and any other payment that has accrued with respect to the relevant securities, and shall contain terms which provide for the same Rate of Distribution, Distribution Payment Dates and redemption events, from time to time applying to the Securities; and other terms of such securities are substantially identical (as reasonably determined by the Issuer) to the Securities, save for the modifications or amendments to such terms that are required to be made in order to avoid or resolve the applicable Special Event;

(b) have been, or will on issue be, assigned at least the same rating as that assigned by the Rating Agencies to the Securities (if any such rating was assigned on or prior to the Issue Date of the Securities, as specified in the relevant Pricing Supplement) immediately prior to such substitution or variation; and

(c) are listed on the The Stock Exchange of Hong Kong Limited or another securities exchange of international standing regularly used for the listing and quotation of debt securities offered and traded in the international markets.

14. FURTHER ISSUES

The Issuer may from time to time without the consent of the Securityholders or Couponholders create and issue further securities having the same terms and conditions as the Securities (except in respect of the first payment of distribution and their issue price, and so that, for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to the first issue date of the Securities) and so that the same shall be consolidated and form a single series with such Securities, and references in these Conditions to "**Securities**" and "**Securityholders**" shall be construed accordingly.

15. NOTICES

Notices to the holders of Registered Securities shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Securities shall be valid if published in a daily newspaper of general circulation in Asia (which is expected to be the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Securities in accordance with this Condition.

So long as the Securities are represented by a Global Security or a Global Certificate and such Global Security or Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or DTC, or any other clearing system (except as provided in (ii) and (iii) below), notices to the holders of Securities of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by these Conditions or by delivery of the relevant notice to the holder of the Global Security or Global Certificate; (ii) on behalf of the CMU Service, notices to the holders of Securities of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Security or Global Certificate.

16. CURRENCY INDEMNITY

Any amount received or recovered in a currency other than the currency in which payment under the relevant Security, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Securityholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Security, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Security, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Securityholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Securityholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Security, Coupon or Receipt or any other judgment or order.

17. RIGHTS OF THIRD PARTIES

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999 (England and Wales) or the Contracts (Rights of Third Parties) Ordinance (Hong Kong).

18. GOVERNING LAW AND JURISDICTION

(a) ***Governing Law***: The Securities, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law except that the subordination provisions set out in Conditions 3(b), (c) and (d) are governed by, and shall be construed in accordance with, Hong Kong law.

(b) ***Jurisdiction***: The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Securities, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Securities, Receipts, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the holders of the Securities, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) ***Service of Process***: The Issuer irrevocably appoints Kennedys of 25 Fenchurch Avenue, London EC3M 5AD, United Kingdom as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Securityholders of such appointment in accordance with Condition 15. Nothing shall affect the right to serve process in any manner permitted by law.

FORM OF PRICING SUPPLEMENT IN RELATION TO NOTES

[*The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.*]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.][5]

[**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.] [6]

MiFID II product governance / target market – [*legend to be included for issuances involving one or more MiFID Firm manufacturers*]

[**MIFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

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5 To be included if the Notes may constitute "packaged" products and no KID will be prepared or the Issuer wishes to prohibit offers to EEA retail investors for any other reason.

6 To be included if the Notes may constitute "packaged" products and no KID will be prepared or the Issuer wishes to prohibit offers to UK retail investors for any other reason.

UK MiFIR product governance / target market – [*legend to be included for issuances involving one or more UK MiFIR Firm manufacturers*]

[UK MIFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

The Notes have not and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any other jurisdiction. The Notes may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold inside the United States only to "qualified institutional buyers" as defined under and in accordance with Rule 144A promulgated under the Securities Act and outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S promulgated under the Securities Act.

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information in this Pricing Supplement amends and supplements the Offering Circular dated 16 March 2021 (the "**Offering Circular**"), and supersedes the information in the Offering Circular to the extent inconsistent with the information in the Offering Circular. This Pricing Supplement should be read together with the Offering Circular, which is hereby incorporated by reference. Terms used herein but not defined herein shall have the respective meanings as set forth in the Offering Circular.

This Pricing Supplement is intended for the sole use of the person to whom it is provided by the sender, and it is being distributed to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKSE**")) ("**Professional Investors**") only.

Notice to Hong Kong investors: the Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The HKSE has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Pricing Supplement, 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 Pricing Supplement.

This Pricing Supplement includes particulars given in compliance with the Rules Governing the Listing of Securities on the HKSE (the "**HKSE Rules**" or "**Listing Rules**") for the purpose of giving information with regard to us. We accept full responsibility for the accuracy of the information contained in this Pricing Supplement and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

[Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products"]/[capital markets products other than "prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]

ANY DISCLAIMERS OR OTHER NOTICES THAT MAY APPEAR BELOW ARE NOT APPLICABLE TO THIS COMMUNICATION AND SHOULD BE DISREGARDED. SUCH DISCLAIMERS OR OTHER NOTICES WERE AUTOMATICALLY GENERATED AS A RESULT OF THIS COMMUNICATION BEING SENT VIA BLOOMBERG OR ANOTHER EMAIL SYSTEM.

Pricing Supplement dated [●]

AIA Group Limited
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the US$12,000,000,000 Global Medium Term Note and Securities Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Notes Conditions (the "**Conditions**") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [*current date*] [and the supplemental Offering Circular dated [*date*]], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.*]

1.	Issuer:	AIA Group Limited
2.	[(i) Series Number:]	[●]
	[(ii) Tranche Number:	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)]	
3.	Specified Currency or Currencies:	[●]

			(If Notes are being cleared through DTC with interest and or principal payable in a currency other than U.S. dollars, check whether DTC will accept payments in such currency)
4.	Aggregate Nominal Amount:		[●]
	[(i)]	[Series]:	[●]
	[(ii)	Tranche:	[●]]
5.	(i)	Issue Price:	[●] per cent of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	[(ii)	Net Proceeds:	[●] (Required only for listed issues)]
6.	(i)[8] [9]	Specified Denominations:[7]	[●]
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:		*[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*[10]
9.	Interest Basis:		[[●] per cent Fixed Rate]
			[[*Specify* reference rate] +/- [●] per cent Floating Rate]
			[Zero Coupon]
			[Index Linked Interest]
			[Other (*Specify*)]

7 Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

8 If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]/[€199,000]. No notes in definitive form will be issued with a denomination above [€99,000]/[€199,000].

9 Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HKD500,000 (or equivalent in other currencies).

10 Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

		(further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)]
11.	Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]*
12.	Put/Call Options:	[Put Option] [Call Option] [Call Option (Make Whole Redemption)] [(further particulars specified below)]
13.	Listing:	[Hong Kong/Other (*specify*)/None] (*For Notes to be listed on the Hong Kong Stock Exchange, insert the expected effective listing date of the Notes*)
14.	Method of Distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with *[*specify *Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/*not adjusted*]*
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[11]

[11] For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of

	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360/Actual/Actual(ICMA/ISDA)/Actual/ 365(fixed)/other]
	(vi)	[Determination Dates:	[●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/Condition [●] or Condition [●]]
16.	Floating Rate Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[●]
	(ii)	Specified Period:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable')*
	(iii)	Specified Interest Payment Dates:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(v)	Additional Business Centre(s):	[Not Applicable/*give details*]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]

Renminbi denominated Fixed Rate Notes to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.

	(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Fiscal Agent]):	[[Name] shall be the Calculation Agent *(no need to specify if the Fiscal Agent is to perform this function)*]
	(viii)	Screen Rate Determination:	
		● Reference Rate:	[*For example*, LIBOR or EURIBOR]
		● Interest Determination Date(s):	[●]
		● Relevant Screen Page:	[*For example*, *Reuters LIBOR 01/EURIBOR 01*]
	(ix)	ISDA Determination	
		● Floating Rate Option:	[●]
		● Designed Maturity:	[●]
		● Reset Date:	[●]
	(x)	Margin(s):	[+/-] [●] per cent per annum
	(xi)	Minimum Rate of Interest:	[●] per cent per annum
	(xii)	Maximum Rate of Interest:	[●] per cent per annum
	(xiii)	Day Count Fraction:	[●]
	(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17.		Zero Coupon Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Amortisation Yield:	[●] per cent per annum
	(ii)	Day count fraction:	[●]
	(iii)	Any other formula / basis of determining amount payable:	[●]
18.		Index-Linked Interest Note/other variable-linked interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula/other variable:	[*give or annex details*]

(ii)	Calculation Agent responsible for calculating the interest due:	[●]
(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
(iv)	Interest Determination Date(s):	[●]
(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
(vi)	Interest or calculation period(s):	[●]
(vii)	Specified Period:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")*
(viii)	Specified Interest Payment Dates:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Business Day Convention or Eurodollar Convention, insert "Not Applicable")*
(ix)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(x)	Additional Business Centre(s):	[●]
(xi)	Minimum Rate/Amount of Interest:	[●] per cent per annum
(xii)	Maximum Rate/Amount of Interest:	[●] per cent per annum
(xiii)	Day Count Fraction:	[●]

19.	Dual Currency Note Provisions	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	Call Option	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
21.	Call Option (Make Whole Redemption)	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Make Whole Optional Redemption Date(s):	[●]
	(ii) Reference Security:	[●]
	(iii) Reference Security Price:	[Not Applicable]

	(iv) Make Whole Redemption Margin:	[●]
	(v) Quotation Time:	[●]
	(vi) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(vii) Make Whole Redemption Amount:	[●]
22.	Put Option	[Applicable/Not Applicable]
		(If not applicable, delete the remaining subparagraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
23.	Final Redemption Amount of each Note	[●] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
	(i) Index/Formula/variable:	[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the Final Redemption Amount:	[●]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[●]

	(v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi) [Payment Date]:	[●]
	(vii) [Minimum Final Redemption Amount:	[●] per Calculation Amount]
	(viii) [Maximum Final Redemption Amount:	[●] per Calculation Amount]
24.	Early Redemption Amount	[Not Applicable]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	*(If both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)*

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes	**Bearer Notes:** [Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][12] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [**Registered Notes:** [Unrestricted Global Certificate exchangeable for unrestricted Individual Note Certificates in the limited circumstances described in the Unrestricted Global Certificate] [and]

12 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]/[€199,000]", the temporary Global Note shall not be exchangeable on [●] days' notice.

		[Restricted Global Certificate exchangeable for Restricted Individual Note Certificates in the limited circumstances described in the Restricted Global Certificate]]
26.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details* *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(vi) and 16(x) relate*]
27.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
29.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
30.	Redenomination, Renominalisation and Reconventioning Provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
31.	Consolidation Provisions:	[The provisions in [Condition 13 (*Further Issues*)] [annexed to this Pricing Supplement] apply]
32.	Other Terms or Special Conditions:	[Not Applicable/*give details*]

DISTRIBUTION

33.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give names*]
34.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
35.	U.S. Selling Restrictions:	Reg. S Category 2; *(In the case of Bearer Notes)* – [TEFRA C/TEFRA D/TEFRA not applicable]

		(In the case of Registered Notes) – [Not] Rule 144A Eligible
36.	Additional Selling Restrictions:	[Not Applicable/*give details*]
37.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, or the Issuer wishes to prohibit offers to EEA retail investors for any other reason, "Applicable" should be specified.*)
38.	Prohibition of Sales to UK Retail Investors	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, or the Issuer wishes to prohibit offers to UK retail investors for any other reason, "Applicable" should be specified.*)

OPERATIONAL INFORMATION

	ISIN Code	[●]
	Common Code:	[●]
	CUSIP:	[●]
	CMU Instrument Number:	[●]
	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
	Delivery:	Delivery [against/free of] payment
	Additional Paying Agent(s) (if any):	[●]

GENERAL

	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in [U.S. dollars]):	[Not Applicable/US$[●]]
	[Ratings:	The Notes to be issued are expected to be rated: [S&P: [●]] [Other: [●]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)]

[STABILISATION

In connection with the issue of the Notes, [*name(s) of Stabilising Manager(s)*] (or persons acting on behalf of [*name(s) of Stabilising Manager(s)*]) (the "Stabilising Manager[s]") may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilising Manager[s] to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]

[INVESTMENT CONSIDERATIONS

There are significant risks associated with the Notes including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.]

[USE OF PROCEEDS

[ ] *(See "Use of Proceeds" wording in the Offering Circular. If the use of the net proceeds is different from those reasons stated, include those reasons here.)*]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the US$12,000,000,000 Global Medium Term Note and Securities Programme.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of AIA Group Limited:

By: ______________________________

Name:
Title:

FORM OF PRICING SUPPLEMENT IN RELATION TO SECURITIES

[*The Pricing Supplement in respect of each Tranche of Securities will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Securities and their issue.*]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.][13]

[**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Securities are not intended to
be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail
investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.] [14]

MiFID II product governance / target market – [*legend to be included for issuances involving one or more MiFID Firm manufacturers*]

[**MIFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment

[13] To be included if the Securities may constitute "packaged" products and no KID will be prepared or the Issuer wishes to prohibit offers to EEA retail investors for any other reason.

[14] To be included if the Securities may constitute "packaged" products and no KID will be prepared or the Issuer wishes to prohibit offers to UK retail investors for any other reason.

in respect of the Securities (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

UK MiFIR product governance / target market – [*legend to be included* for *issuances involving one or more UK MiFIR Firm manufacturers*]

[UK MIFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

The Securities have not and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any other jurisdiction. The Securities may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold inside the United States only to "qualified institutional buyers" as defined under and in accordance with Rule 144A promulgated under the Securities Act and outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S promulgated under the Securities Act.

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information in this Pricing Supplement amends and supplements the Offering Circular dated 16 March 2021 (the "**Offering Circular**"), and supersedes the information in the Offering Circular to the extent inconsistent with the information in the Offering Circular. This Pricing Supplement should be read together with the Offering Circular, which is hereby incorporated by reference. Terms used herein but not defined herein shall have the respective meanings as set forth in the Offering Circular.

This Pricing Supplement is intended for the sole use of the person to whom it is provided by the sender, and it is being distributed to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKSE**")) ("**Professional Investors**") only.

Notice to Hong Kong investors: the Issuer confirms that the Securities are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Securities are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The HKSE has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Securities on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Securities or the Issuer or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Pricing Supplement, 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 Pricing Supplement.

This Pricing Supplement includes particulars given in compliance with the Rules Governing the Listing of Securities on the HKSE (the "**HKSE Rules**" or "**Listing Rules**") for the purpose of giving information with regard to us. We accept full responsibility for the accuracy of the information contained in this Pricing Supplement and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

[Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Securities are ["prescribed capital markets products"]/[capital markets products other than "prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]

ANY DISCLAIMERS OR OTHER NOTICES THAT MAY APPEAR BELOW ARE NOT APPLICABLE TO THIS COMMUNICATION AND SHOULD BE DISREGARDED. SUCH DISCLAIMERS OR OTHER NOTICES WERE AUTOMATICALLY GENERATED AS A RESULT OF THIS COMMUNICATION BEING SENT VIA BLOOMBERG OR ANOTHER EMAIL SYSTEM.

Pricing Supplement dated [•]

AIA Group Limited
Issue of [Aggregate Nominal Amount of Tranche] [Title of Securities]
under the US$12,000,000,000 Global Medium Term Note and Securities Programme

The document constitutes the Pricing Supplement relating to the issue of Securities described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Securities Conditions (the "**Conditions**") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Securities and must be read in conjunction with such Offering Circular dated [*current date*] [and the supplemental Offering Circular dated [*date*]], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.*]

1.	Issuer:	AIA Group Limited
2.	[(i) Series Number:]	[•]
	[(ii) Tranche Number:	[•]
	(If fungible with an existing Series, details of that Series, including the date on which the Securities become fungible)]	

3.	Type of Security and Ranking:	[Senior Perpetual Securities/Subordinated Perpetual Securities/Subordinated Dated Securities/Deeply Subordinated Perpetual Securities/Deeply Subordinated Dated Securities] (*specify if any additional provisions relating to ranking under Condition 3, if applicable*)
4.	Specified Currency or Currencies:	[•] *(If Securities are being cleared through DTC with interest and or principal payable in a currency other than U.S. dollars, check whether DTC will accept payments in such currency)*
5.	Aggregate Nominal Amount:	[•]
	[(i)] [Series]:	[•]
	[(ii) Tranche:	[•]]
6.	(i) Issue Price:	[•] per cent of the Aggregate Nominal Amount [plus accrued Distribution from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	[(ii) Net Proceeds:	[•] (Required only for listed issues)]
7.	Maturity Date:	[Specify/Not Applicable]
8.	(i) Specified Denominations:[15] [16] [17]	[•]
	(ii) Calculation Amount:	[•]
9.	(i) Issue Date:	[•]
	(ii) Distribution Commencement Date:	[*Specify*/Issue Date/Not Applicable]

[15] Securities (including Securities denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

[16] If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]/[€199,000]. No securities in definitive form will be issued with a denomination above [€99,000]/[€199,000].

[17] Securities to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HKD500,000 (or equivalent in other currencies).

10.	Distribution Basis:	[[●] per cent. Fixed Rate] [Optional Distribution Deferral applies. Distributions are [compounding/non-compounding] in accordance with Condition 5(a)(vi)] [Optional Distribution Cancellation applies] [Mandatory Distribution Deferral applies] [Mandatory Distribution Cancellation applies] (see paragraph [14/15/16] below)
11.	Put/Call Options:	[Tax Event Redemption] [Issuer's Call Option] [Issuer's Call Option (Make Whole Redemption)] [Rating Event Redemption] [Accounting Event Redemption] *(Subordinated Perpetual Securities or Deeply Subordinated Perpetual Securities only)* [(See paragraph [17/18/19/20/21/22/23] below)]
12.	Listing:	[Hong Kong/Other (*specify*)/None] (*For Securities to be listed on the Hong Kong Stock Exchange, insert the expected effective listing date of the Securities*)
13.	Method of Distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO DISTRIBUTION (IF ANY) PAYABLE

14.	Rate of Distribution:	[[•] per cent. per annum payable in arrear on each Distribution Payment Date]/ [*(or if the Rate of Distribution of the Securities are to be subject to step-up(s), consider the following)* (a) in respect of the period from, and including, the Issue Date to, but excluding, the First Reset Date, the Initial Distribution Rate; [and] (b) in respect of the period from, and including, the First Reset Date to, but excluding, the Second Reset Date, the First Reset Distribution Rate[./;]

(c) from and including, each Reset Date falling on and after the Second Reset Date, to, but excluding, the immediately following Reset Date, up to the Reset Date falling on Additional Step-up Margin Reset Date, the Second Reset Distribution Rate[./;/; and]

(d) from, and including, each Reset Date falling on and after the Additional Step-up Margin Reset Date, to, but excluding, the immediately following Reset Date, the Third Reset Distribution Rate.

Where:

"**Initial Distribution Rate**" is [•] per cent.; [and]

"**Second Reset Distribution Rate**" is [•] per cent.[;]

["**Third Reset Distribution Rate**" is [•] per cent.;]

"**First Reset Date**" is [•];

"**Second Reset Date**" is [•]; and

"**Additional Step-up Margin Reset Date**" is [•];]

(*Amend as appropriate. See "Definitions" section for applicability of any additional definitions.*)

(ii)	Distribution Payment Date(s):	[•] and [•] in each year [adjusted in accordance with [*specify Business day Convention and any applicable Business Centre(s) for the definition of "Business Day"]]/[not adjusted*]
(iii)	Fixed Distribution Amount[(s)]:	[•] per Calculation Amount[18]
(iv)	Distribution Deferral:	[Applicable/Not Applicable]/[*give details*]

[18] For Hong Kong dollar or Renminbi denominated Securities where the Distribution Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Distribution Amount shall be calculated by multiplying the product of the Rate of Distribution and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Securities and to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Securities, in each case being rounded upwards.

	(v)	Distribution Cancellation:	[Applicable/Not Applicable]/[*give details*]
	(vi)	Broken Amount(s):	[Not Applicable]/[[•] per Calculation Amount, payable on the Distribution Payment Date falling [in/on] [•]]
	(vii)	Day Count Fraction:	[30/360 / Actual/Actual (ICMA/ISDA) / other]
15.	Dividend Pusher and Dividend Stopper:		[Applicable/Not Applicable] [Payment Event (Pusher) applies] [Redemption Event (Pusher) applies] [Discretionary Payment Restriction (Stopper) applies] [Discretionary Redemption Restriction (Stopper) applies] (*select as applicable*)
	(i)	[Dividend Pusher Lookback Period:	[•] months]
	(ii)	Relevant Obligations (Pusher):	[Junior Obligations/Parity Obligations/Junior Obligations and Parity Obligations/Not Applicable] [The definition of "Junior Obligations" set out in the Terms and Conditions shall be modified as follows: [*insert*]] [The definition of "Parity Obligations" set out in the Terms and Conditions shall be modified as follows: [*insert*]]
	(iii)	Relevant Obligations (Stopper):	[Junior Obligations/Parity Obligations/Junior Obligations and Parity Obligations/Not Applicable]
	(iv)	Compulsory Distribution Payment Event	[Applicable/Not Applicable]/[*give details*]
16.	Other terms relating to the method of calculating Distribution:		[Not Applicable]/[*specify which criteria apply*]

PROVISIONS RELATING TO REDEMPTION

17.	Issuer's Call Option		
	(i)	Optional Redemption Date(s):	[•]

	(ii)	Optional Redemption Amount of each Security:	[•] per Calculation Amount
	[(iii)	If redeemable in part:	(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount	[•] per Calculation Amount]
	(iv)	Notice period:	[•] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
18.	Issuer's Call Option (Make Whole Redemption)		[Applicable/Not Applicable] *(Applicable only to Subordinated Dated Securities or Deeply Subordinated Dated Securities. If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Make Whole Optional Redemption Date(s):	[•]
	(ii)	Reference Security:	[•]
	(iii)	Reference Security Price:	[Not Applicable]
	(iv)	Make Whole Redemption Margin:	[•]
	(v)	Quotation Time:	[•]
	(vi)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
	Make Whole Redemption Amount:		[•]
19.	Rating Event Redemption:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Early Redemption Amount (Rating Event):	[As defined in the Conditions]/[[•] per Calculation Amount]

	(ii)	relevant Rating Agencies in relation to any Rating Event:	[•]
20.	Accounting Event Redemption:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Early Redemption Amount (Accounting Event):	[As defined in the Conditions]/[[•] per Calculation Amount]
21.	Minimal Outstanding Amount Redemption		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Early Redemption Amount (Minimal Outstanding Amount):	[As defined in the Conditions]/[[•] per Calculation Amount]
22.	Tax Event Redemption:		[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Early Redemption Amount (Tax Event):	[As defined in the Conditions]/[[•] per Calculation Amount]
23.	Other Special Events		[Not Applicable/*give details*]
24.	Conditional Purchase:		[Not Applicable/Condition 6(h) (*Redemption, Purchase and Options — Purchases*) shall be conditional.] [The Issuer, any of its Subsidiaries or any of their respective agents may: (a) prior to the First Reset Date, at any time purchase Securities up to a maximum amount representing 25 per cent. of the aggregate principal amount of the Securities issued on the Issue Date in the open market or otherwise and at any price; and (b) following the First Reset Date, at any time purchase Securities in the open market or otherwise and at any price.]

GENERAL PROVISIONS APPLICABLE TO THE SECURITIES

25.	Special Event Substitution or Variation:	[Applicable/Not Applicable]

26.	Form of Securities:	**Bearer Securities:** [Temporary Global Security exchangeable for a permanent Global Security which is exchangeable for Definitive Securities in the limited circumstances specified in the permanent Global Security] [Temporary Global Security exchangeable for Definitive Securities on [•] days' notice][19] [Permanent Global Security exchangeable for Definitive Securities in the limited circumstances specified in the permanent Global Security] [**Registered Securities:** [Unrestricted Global Certificate exchangeable for unrestricted Individual Security Certificates in the limited circumstances described in the Unrestricted Global Certificate] [and] [Restricted Global Certificate exchangeable for Restricted Individual Security Certificates in the limited circumstances described in the Restricted Global Certificate]]
27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details* *Note that this paragraph relates to the date and place of payment, and not distribution period end dates, to which sub paragraph 14(ii) relates*]
28.	Talons for future Coupons or Receipts to be attached to Definitive Securities (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
29.	Redenomination, Renominalisation and Reconventioning Provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
30.	Consolidation Provisions:	[The provisions in [Condition 13 (*Further Issues*)] [annexed to this Pricing Supplement] apply]
31.	Other Terms or Special Conditions:	[Not Applicable/*give details*]

19 If the Specified Denominations of the Securities in paragraph 8 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]/[€199,000]", the temporary Global Security shall not be exchangeable on [●] days' notice.

DISTRIBUTION

32.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give names*]
33.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
34.	U.S. Selling Restrictions:	Reg. S Category 2; *(In the case of Bearer Securities)* – [TEFRA C/TEFRA D/TEFRA not applicable] *(In the case of Registered Securities) – [Not] Rule 144A Eligible*
35.	Additional Selling Restrictions:	[Not Applicable/*give details*]
36.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Securities clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Securities may constitute "packaged" products and no KID will be prepared, or the Issuer wishes to prohibit offers to EEA retail investors for any other reason, "Applicable" should be specified.*)
37.	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] (*If the Securities clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Securities may constitute "packaged" products and no KID will be prepared, or the Issuer wishes to prohibit offers to UK retail investors for any other reason, "Applicable" should be specified.*)

OPERATIONAL INFORMATION

	ISIN Code	[•]
	Common Code:	[•]
	CUSIP:	[•]
	CMU Instrument Number:	[•]
	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
	Delivery:	Delivery [against/free of] payment

Additional Paying Agent(s) (if any):	[•]

GENERAL

The aggregate principal amount of Securities issued has been translated into U.S. dollars at the rate of [•], producing a sum of (for Securities not denominated in [U.S. dollars]):	[Not Applicable/US$[•]]
[Ratings:	The Securities to be issued are expected to be rated: [S&P: [•]] [Other: [•]] *(The above disclosure should reflect the rating allocated to Securities of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*]

[STABILISATION

In connection with the issue of the Securities, [*name(s) of Stabilising Manager(s)*] (or persons acting on behalf of [*name(s) of Stabilising Manager(s)*]) (the "Stabilising Manager[s]") may over-allot Securities or effect transactions with a view to supporting the price of the Securities at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilising Manager[s] to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]

[INVESTMENT CONSIDERATIONS

[***SPECIFY ANY ADDITIONAL INVESTMENT OR TAX CONSIDERATIONS WHICH ARE RELEVANT TO THE TERMS OF THE SECURITIES***]

There are significant risks associated with the Securities including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Securities, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Securities unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Securities.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.]

[USE OF PROCEEDS

[ ] *(See "Use of Proceeds" wording in the Offering Circular. If the use of the net proceeds is different from those reasons stated, include those reasons here.)*]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Securities described herein pursuant to the US$12,000,000,000 Global Medium Term Note and Securities Programme.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of AIA Group Limited:

By: ______________________________

Name:
Title:

SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

1. INITIAL ISSUE OF INSTRUMENTS

Global Instruments and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or a sub-custodian for the CMU Service or registered in the name of a nominee for DTC.

Upon the initial deposit of a Global Instrument with the Common Depositary or with a sub-custodian for the CMU Service or registration of Registered Instruments in the name of (a) any nominee for Euroclear and Clearstream, Luxembourg or a Common Depositary therefor or (b) the HKMA as operator of the CMU Service and delivery of the relative Global Certificate to the Common Depositary or the sub-custodian for the CMU Service (as the case may be), Euroclear or Clearstream, Luxembourg or the CMU Service (as the case may be) will credit each subscriber with a nominal amount of Instruments equal to the nominal amount thereof for which it has subscribed and paid.

Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Instruments in the name of a nominee for DTC and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Instruments equal to the nominal amount thereof for which it has subscribed and paid.

Instruments that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Instruments that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2. RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system ("**Alternative Clearing System**") as the holder of an Instrument represented by a Global Instrument or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be) for his share of each payment made by us to the bearer of such Global Instrument, or the holder of the underlying Registered Instruments, as the case may be, and in relation to all other rights arising under the Global Instruments or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against us in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Instrument or Global Certificate and such obligations of ours will be discharged by payment to the bearer of such Global Instrument, or the holder of the underlying Registered Instruments, as the case may be, in respect of each amount so paid.

If a Global Instrument or a Global Certificate is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Instrument or Global Certificate are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error) shall be the only person(s) entitled (in the case of Registered Instruments, directed or deemed by the CMU Service as entitled) to receive payments in respect of Instruments represented by such Global Instrument or Global Certificate and we will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Instrument or Global Certificate are credited as being held in the CMU Service in respect of each amount so paid. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of Instruments represented by such Global Instrument or Global Certificate, must look solely to the CMU Lodging Agent for his share of each payment so made by us in respect of such Global Instrument or Global Certificate.

3. EXCHANGE

3.1 Temporary Global Instruments

Each temporary Global Instrument will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(a) if the relevant Pricing Supplement indicates that such Global Instrument is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Instruments defined and described below; and

(b) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Instrument or, if so provided in the relevant Pricing Supplement, for Definitive Instruments.

3.2 Permanent Global Instruments

Each permanent Global Instrument will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*Partial Exchange of Permanent Global Instruments*" below, in part for Definitive Instruments (a) if the permanent Global Instrument is held on behalf of Euroclear or Clearstream, Luxembourg or the CMU Service or any other clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or (b) if principal in respect of any Instruments is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case of Instruments lodged with the CMU Service, the CMU Lodging Agent) of its election for such exchange.

In the event that a Global Instrument is exchanged for Definitive Instruments, such Definitive Instruments shall be issued in Specified Denomination(s) only. An Instrumentholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Instrument in respect of such holding and would need to purchase a principal amount of Instruments such that it holds an amount equal to one or more Specified Denominations.

3.3 Permanent Global Certificates

(a) Unrestricted Global Certificates

If the relevant Pricing Supplement states that the Instruments are to be represented by an Unrestricted Global Certificate on issue, the following will apply in respect of transfers of Instruments held in Euroclear or Clearstream, Luxembourg or the CMU Service or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Instruments within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Instruments may be withdrawn from the relevant clearing system.

Transfers of the holding of Instruments represented by any Global Certificate pursuant to Notes Condition 2(b) or Securities Condition 2(b) may only be made:

(i) in whole but not in part, if such Instruments are held on behalf of Euroclear or Clearstream, Luxembourg or the CMU Service or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(ii) in whole but not in part, if such Instruments are held on behalf of a Custodian for DTC and if DTC notifies us that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that DTC Unrestricted Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and we are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

(iii) in whole or in part, with our prior consent, provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

(b) Restricted Global Certificates

If the relevant Pricing Supplement states that the Restricted Instruments are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of such Instruments held in DTC. These provisions will not prevent the trading of interests in the Instruments within DTC whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Instruments may be withdrawn from DTC. Transfers of the holding of Instruments represented by that Restricted Global Certificate pursuant to Notes Condition 2(b) or Securities Condition 2(b) may only be made:

(i) in whole but not in part, if such Instruments are held on behalf of a Custodian for DTC and if DTC notifies us that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Restricted Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and we are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

(ii) in whole or in part, with our consent, provided that, in the case of any transfer pursuant to (i) or (ii) above, the relevant Registered Instrumentholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Instrumentholder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Instruments as set out in "*Transfer Restrictions*".

3.4 Partial Exchange of Permanent Global Instruments

For so long as a permanent Global Instrument is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Instrument will be exchangeable in part on one or more occasions for Definitive Instruments (a) if principal in respect of any Instruments is not paid when due or (b) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

3.5 Delivery of Instruments

On or after any due date for exchange the holder of a Global Instrument may surrender such Global Instrument or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent (or, in the case of Instruments lodged with the CMU Service, the CMU Lodging Agent). In exchange for any Global Instrument, or the part thereof to be exchanged, we will (a) in the case of a temporary Global Instrument exchangeable for a permanent Global Instrument, deliver, or procure the delivery of, a permanent Global Instrument in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Instrument that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Instrument to reflect such exchange or (b) in the case of a Global Instrument exchangeable for Definitive

Instruments or Registered Instruments, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Instruments and/or Certificates, as the case may be. Global Instruments and Definitive Instruments will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Instruments**" means, in relation to any Global Instrument, the definitive Bearer Instruments for which such Global Instrument may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Instrument and a Talon). Definitive Instruments will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Instrument, we will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Instruments.

3.6 Exchange Date

"**Exchange Date**" means (a) in relation to an exchange of a temporary Global Instrument to a permanent Global Instrument, the day falling after the expiry of 40 days after its issue date; (b) in relation to an exchange of a permanent Global Instrument to a Definitive Instrument, a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of any Instruments when due 30 days after the date of receipt of the first relevant notice by the Fiscal Agent; (c) in relation to an exchange of a permanent Global Instrument to a Registered Instrument, a day falling not more than five days after the date of receipt of the first relevant notice by the Fiscal Agent; or (d) in the case of failure to pay principal in respect of any Instruments when due or an Event of Default has occurred and is continuing, a day falling 45 days after the date of receipt of the first relevant notice by the Fiscal Agent, provided if such date is not a day on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located, the immediately following day on which banks are so open in such locations.

4. AMENDMENT TO CONDITIONS

The temporary Global Instruments, permanent Global Instruments and Global Certificates contain provisions that apply to the Instruments that they represent, some of which modify the effect of the terms and conditions of the Instruments set out in this Offering Circular. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Instrument unless exchange for an interest in a permanent Global Instrument or for Definitive Instruments or Registered Instruments is improperly withheld or refused. Payments on any temporary Global Instrument issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Instruments represented by a Global Instrument (except with respect to Global Instrument held through the CMU Service) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Instruments, surrender of that Global Instrument to or to the order of the Fiscal Agent as shall have been notified to the Instrumentholders for such purpose. A record of each payment so made will be endorsed on each Global Instrument, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Instruments. Notes Condition 8(c) and Securities Condition 8(c) will apply to the Definitive Instruments only. For the purpose of any payments made in respect of a Global Instrument, the relevant place of presentation (if applicable) shall be disregarded in the definition of "**business day**" set out in Notes Condition 7(h) and Securities Condition 7(h) (*Non-Business Days*).

All payments in respect of Instruments represented by a Global Certificate (other than a Global Certificate held through the CMU Service) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing

System Business Day immediately prior to the date for payment (the “**record date**”), where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Instrument or Global Certificate held through the CMU Service, any payments of principal, interest or distribution (if any), or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Instrument are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service as at the business day before the date for payment) and, save in the case of final payment, no presentation of the relevant bearer Global Instrument or Global Certificate shall be required for such purpose.

4.2 Prescription

Claims against us in respect of Instruments that are represented by a permanent Global Instrument will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or distribution) from the appropriate Relevant Date (as defined in Notes Condition 8 and Securities Condition 8).

4.3 Meetings

The holder of a permanent Global Instrument or of the Instruments represented by a Global Certificate shall (unless such permanent Global Instrument or Global Certificate represents only one Instrument) be treated as being two persons for the purposes of any quorum requirements of a meeting of Instrumentholders and, at any such meeting, the holder of a permanent Global Instrument or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Instruments. (All holders of Registered Instruments are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Instruments comprising such Instrumentholder’s holding, whether or not represented by a Global Certificate).

4.4 Cancellation

Cancellation of any Instrument represented by a permanent Global Instrument or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Instrument or its presentation to or to the order of the Fiscal Agent for endorsement in the relevant schedule of such permanent Global Instrument or in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificates in the register of the certificateholders, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

4.5 Purchase

Instruments represented by a permanent Global Instrument may only be purchased by us or any of our subsidiaries if they are purchased together with the rights to receive all future payments of interest or distribution and Instalment Amounts (if any) thereon.

4.6 Our Option

Any option of ours provided for in the Conditions of any Instruments while such Instruments are represented by a permanent Global Instrument or a Global Certificate shall be exercised by us giving notice to the Instrumentholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Instruments, the certificate numbers of Instruments drawn or, in the case of Registered Instruments, the holder of the Instruments in respect of a partial exercise of an option and accordingly no drawing of Instruments shall be required. In the event that any option of ours is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system in respect of the Instruments will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, DTC, the CMU Service or any other clearing system (as the case may be).

4.7 Instrumentholders' Options

Any option of the Instrumentholders provided for in the Conditions of any Instruments while such Instruments are represented by a permanent Global Instrument may be exercised by the holder of the permanent Global Instrument giving notice to the Fiscal Agent or (in respect of Instruments represented by a Global Certificate) the Registrar or Transfer Agent or (in respect of Instruments lodged with the CMU Service) the CMU Lodging Agent within the time limits relating to the deposit of Instruments with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised, and stating the nominal amount of Instruments in respect of which the option is exercised and at the same time presenting the permanent Global Instrument or Global Certificate to the Fiscal Agent, the Registrar or a Transfer Agent (or, in each case, to a Paying Agent acting on their behalf), as the case may be, for notation.

4.8 Notices

So long as any Instruments are represented by a Global Instrument or Global Certificate and such Global Instrument or Global Certificate is held on behalf of (a) Euroclear and/or Clearstream, Luxembourg and/or DTC or any other clearing system (except as provided in (b) below), notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Instrument or Global Certificate or (b) the CMU Service, notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Instrument or Global Certificate.

4.9 Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear or Clearstream, Luxembourg or the CMU Service and/or any other relevant clearing system as being entitled to an interest in a temporary Global Instrument or a permanent Global Instrument which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the temporary Global Instrument or permanent Global Instrument became void, they had been the holders of Definitive Instruments, in an aggregate principal amount equal to the principal amount of Instruments they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or the CMU Service and/or any other relevant clearing system.

5. PARTLY PAID NOTES

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates.

While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, we may forfeit such Notes and shall have no further obligation to their holder in respect of them.

TOTAL CAPITALISATION

The following table sets out the consolidated Total Capitalisation (as defined below) of the Group as derived from our audited consolidated financial statements as of 31 December 2020. The table should be read in conjunction with our audited consolidated financial statements as of 31 December 2020 and the notes thereto included elsewhere in this Offering Circular.

	As of 31 December 2020
	(in US$ millions)
Medium term notes and securities[(1)]	8,559
Total Borrowings	**8,559**
Equity	
Share capital	14,155
Employee share-based trusts	(155)
Other reserves	(11,891)
Retained earnings	44,704
Fair value reserve	15,170
Foreign currency translation reserve	233
Property revaluation reserve	1,027
Others	(43)
Non-controlling interests	468
Total Equity	**63,668**
Total Capitalisation[(2)]	**72,227**

(1) Represents our outstanding medium term notes and securities placed to the market as of 31 December 2020.
(2) Total Capitalisation is the sum of Total Borrowings plus Total Equity.

There has been no material change in our Total Capitalisation since 31 December 2020.

SELECTED 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 twelve months ended 31 December 2020, 2019 and 2018, set forth below, has been derived from our 2020 audited consolidated financial statements and 2019 audited consolidated financial statements (including note 48), respectively, included elsewhere in this Offering Circular. The information on VONB and EV Equity as of and for the twelve months ended 31 December 2020, 2019 and 2018, set forth below, has been derived from *"Supplementary Embedded Value Information"* included elsewhere in this 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 audited consolidated financial statements and the information in *"Supplementary Embedded Value Information"* included elsewhere in this Offering Circular.

The consolidated income statement and 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.

During the year ended 31 December 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 revised accounting policy in relation to the Hong Kong participating business was effective from 1 January 2020 and has been applied retrospectively. The effects of the adoption of the revised accounting policy have been restated in the consolidated income statement for the year ended 31 December 2019, and in the statement of financial position as of 31 December 2019 and 2018, in each case, as set forth in the 2020 audited consolidated financial statements included elsewhere in this Offering Circular. Unless otherwise specified herein, the comparative information as of and for the twelve months ended 31 December 2019 and 2018 set out in this Offering Circular has not been adjusted and may not be directly comparable. This accounting policy change impacts OPAT and IFRS metrics, including IFRS profit, insurance contract liabilities and total equity, for the Group and for our Hong Kong reporting segment, but has no impact on VONB and EV Equity. For additional information, see note 2 and note 48 to our audited consolidated financial statements as of and for the year ended 31 December 2020 included elsewhere in this Offering Circular.

There are also certain new amendments to IFRS adopted for the first time beginning 1 January 2020 and these have no material impact to the Group. Details of the relevant new amendments are disclosed in note 2 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

We have adopted IFRS 16, Leases, since 1 January 2019, pursuant to which we are required to reclassify and adjust certain financial line items in our consolidated financial statements. Please refer to Note 2 to our 2019 audited consolidated financial statements for a discussion on the impact of the adoption of IFRS 16. As permitted by IFRS 16, we elected to initially measure the right-of-use assets in relation to each lease at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. This approach does not require any restatement of the corresponding figures for the prior periods before 1 January 2019. Our financial information as of and for the thirteen months ended 31 December 2018 may not be directly comparable to the financial information after 1 January 2019.

CONSOLIDATED INCOME STATEMENT

	Twelve months ended 31 December			
	2020	**2019** (as adjusted)	**2019** (as previously reported)	**2018** (as previously reported)
	(in US$ millions)			
Revenue				
Premiums and fee income	35,780	34,777	34,777	31,271
Premiums ceded to reinsurers	(2,452)	(2,166)	(2,166)	(1,842)
Net premiums and fee income	33,328	32,611	32,611	29,429
Investment return	16,707	14,350	14,350	2,655
Other operating revenue	324	281	281	285
Total revenue	**50,359**	**47,242**	**47,242**	**32,369**
Expenses				
Insurance and investment contract benefits	36,865	34,068	33,400	23,633
Insurance and investment contract benefits ceded	(2,126)	(1,940)	(1,940)	(1,675)
Net insurance and investment contract benefits	34,739	32,128	31,460	21,958
Commission and other acquisition expenses	4,402	4,283	4,283	3,781
Operating expenses	2,695	2,468	2,468	2,171
Finance costs	292	283	283	212
Other expenses	944	845	845	739
Total expenses	**43,072**	**40,007**	**39,339**	**28,861**
Profit before share of losses from associates and joint ventures	7,287	7,235	7,903	3,508
Share of losses from associates and joint ventures	(17)	(8)	(8)	-
Profit before tax	**7,270**	**7,227**	**7,895**	**3,508**
Income tax (expense) / credit attributable to policyholders' returns	(171)	(179)	(179)	65
Profit before tax attributable to shareholders' profits	**7,099**	**7,048**	**7,716**	**3,573**
Tax expense	**(1,491)**	**(1,209)**	**(1,208)**	**(849)**
Tax attributable to policyholders' returns	171	179	179	(65)
Tax expense attributable to shareholders' profits	(1,320)	(1,030)	(1,029)	(914)
Net profit	**5,779**	**6,018**	**6,687**	**2,659**
Less: amounts attributable to non-controlling interests	-	39	39	62
Net profit attributable to shareholders of the Issuer	**5,779**	**5,979**	**6,648**	**2,597**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 31 December			
	2020	2019 (as adjusted)	2019 (as previously reported)	2018 (as previously reported)
	(in US$ millions)			
Assets				
Intangible assets	2,634	2,520	2,520	1,970
Investments in associates and joint ventures	606	615	615	610
Property, plant and equipment	2,722	2,865	2,865	1,233
Investment property	4,639	4,834	4,834	4,794
Reinsurance assets	4,560	3,833	3,833	2,887
Deferred acquisition and origination costs	27,915	26,328	26,328	24,626
Financial investments:				
Loans and deposits	9,335	10,086	10,086	7,392
Available for sale				
Debt securities	165,106	138,852	138,852	112,485
At fair value through profit or loss				
Debt securities	36,775	33,132	33,132	27,736
Equity securities	59,182	50,322	50,322	38,099
Derivative financial instruments	1,069	971	971	430
Total financial investments	271,467	233,363	233,363	186,142
Deferred tax assets	23	23	23	26
Current tax recoverable	103	205	205	164
Other assets	5,833	5,605	5,605	4,903
Cash and cash equivalents	5,619	3,941	3,941	2,451
Total assets	**326,121**	**284,132**	**284,132**	**229,806**
Liabilities				
Insurance contract liabilities	223,071	192,181	189,597	164,764
Investment contract liabilities	12,881	12,273	12,273	7,885
Borrowings	8,559	5,757	5,757	4,954
Obligations under repurchase and securities lending agreements	1,664	1,826	1,826	1,683
Derivative financial instruments	1,003	412	412	243
Provisions	230	225	225	168
Deferred tax liabilities	6,902	6,214	6,237	4,187
Current tax liabilities	346	432	432	532
Other liabilities	7,797	9,417	9,417	5,984
Total liabilities	**262,453**	**228,737**	**226,176**	**190,400**
Equity				
Share capital	14,155	14,129	14,129	14,073
Employee share-based trusts	(155)	(220)	(220)	(258)
Other reserves	(11,891)	(11,887)	(11,887)	(11,910)
Retained earnings	44,704	40,922	40,372	35,661
Fair value reserve	15,170	11,669	14,663	2,211
Foreign currency translation reserve	233	(698)	(698)	(1,301)
Property revaluation reserve	1,027	1,073	1,163	538
Others	(43)	(41)	(14)	(8)
Amounts reflected in other comprehensive income	16,387	12,003	15,114	1,440
Total equity attributable to shareholders of the Issuer	**63,200**	**54,947**	**57,508**	**39,006**
Non-controlling interests	468	448	448	400
Total equity	**63,668**	**55,395**	**57,956**	**39,406**
Total liabilities and equity	**326,121**	**284,132**	**284,132**	**229,806**

OTHER DATA

	As of and for the Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions, except ratios)		
VONB(1)(2)	**2,765**	**4,154**	**3,955**
ANP(1)(2)	**5,219**	**6,585**	**6,510**
TWPI(1)(3)	**35,408**	**34,002**	**30,543**
OPAT(1)(4)(5)(6)	**5,942**	**5,689**	**5,298**
EV Equity(1)(5)	**67,185**	**63,905**	**56,203**
HKIO Solvency Ratio(7)	**489%**	**362%**	**421%**
Group LCSM Cover Ratio(1)(8)(9)	**374%**	**366%**	**n/a**
Leverage Ratio(6)(10)	**11.9%**	**9.4%**	**11.2%**

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

(2) For the years ended 31 December 2020 and 2019, ANP and VONB included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

(3) TWPI excludes the contribution from Tata AIA Life.

(4) For a reconciliation of OPAT to net profit, see note 7 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular. OPAT is before non-operating investment returns and other items, net of tax.

(5) OPAT and EV Equity include the contribution from Tata AIA Life.

(6) For the twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

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

(8) This ratio applies to the Group and is based on our current understanding of the new GWS framework. For more information see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Group Solvency Position*" and "*Regulation – Regulatory Framework – Hong Kong – Hong Kong Insurance Regulatory Regime Developments*".

(9) Includes US$1,735 million of subordinated securities issued in September 2020 that we expect will be eligible Tier 2 debt capital.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with our 2020 and 2019 audited consolidated financial statements, and the accompanying notes thereto, which are included elsewhere in this Offering Circular, together with the other information included elsewhere in this Offering Circular. This section contains forward-looking statements that involve risks and uncertainties. Our results may differ materially from those discussed in those forward-looking statements as a result of various factors, including those described under "Risk Factors".

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 2020, 2019 and 2018, we are also reporting supplementary financial information on a calendar year basis covering the twelve months ended 31 December 2018, which is set out in note 48 to our 2019 audited consolidated financial statements included elsewhere in this Offering Circular. Unless otherwise specified herein, information provided for 2020 is as of and for the year ended 31 December 2020, with comparative information provided as of and for the twelve months ended 31 December 2019 and 2018, respectively. Embedded value information is provided as of and for the year ended 31 December 2020, with comparative information as of and for the years ended 31 December 2019 and 2018. For additional information, see the notes to our audited consolidated financial statements as of and for the year ended 31 December 2019 included elsewhere in this Offering Circular and "*Risk Factors – Certain amounts presented in this Offering Circular are for the thirteen months ended 31 December 2018, and such period may not be directly comparable to the years ended 31 December 2020 and 2019*".

During the year ended 31 December 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 revised accounting policy in relation to the Hong Kong participating business was effective from 1 January 2020 and has been applied retrospectively. The effects of the adoption of the revised accounting policy have been restated in the consolidated income statement for the year ended 31 December 2019, and in the statement of financial position as of 31 December 2019 and 2018, in each case, as set forth in the 2020 audited consolidated financial statements included elsewhere in this Offering Circular. Unless otherwise specified herein, the comparative information as of and for the twelve months ended 31 December 2019 and 2018 set out in this Offering Circular has not been adjusted and may not be directly comparable. This accounting policy change impacts OPAT and IFRS metrics, including IFRS profit, insurance contract liabilities and total Equity, for the Group and for our Hong Kong reporting segment, but has no impact on VONB and EV Equity. For additional information, see note 2 and note 48 to our audited consolidated financial statements as of and for the year ended 31 December 2020 included elsewhere in this Offering Circular.

OVERVIEW

We are the holding company of the largest independent publicly listed pan-Asian life insurance group in the world. We trace our roots to 1919 when C.V. Starr, a young American entrepreneur, established a fire and marine insurance agency in Shanghai. From this beginning, we have built a long and established record that provides us with significant experience and expertise, enabling us to offer products and services across all classes of consumers, from the mass market to high net worth individuals and corporate clients, across our geographical markets. We are a market leader in the Asia Pacific region based on life insurance premiums and we hold leading positions across the majority of geographical markets in which we operate.[20] We were an early entrant to a number of our Key Segments and are distinguished in many markets by our consistent presence operating through wholly-owned subsidiaries and branches. Our brand is widely known and highly respected in the markets we serve, and we believe our reputation is that of an industry leader in quality and service excellence.

As of 31 December 2020, we had total assets of US$326,121 million and total equity attributable to shareholders of the Issuer of US$63,200 million. For the year ended 31 December 2020, VONB was US$2,765 million and OPAT was US$5,942 million. We have maintained a stable persistency rate of 95%, 95% and 96% for the twelve months ended 31 December 2020, 2019 and 2018, respectively. We had ANP of US$5,219 million and TWPI of US$35,408 million for the year ended 31 December 2020, with 86% of our TWPI consisting of renewal premiums. As of 31 December 2020, we had EV Equity of US$67,185 million.

KEY PERFORMANCE INDICATORS

We measure the scale and profitability of our business using various key performance indicators, including the following:

- Value of new business ("**VONB**"): VONB, our most important value metric, measures the value of new business written in the reporting period. It is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period, less the cost of holding the required capital in excess of regulatory reserves to support this business.

- Annualised new premiums ("**ANP**"): ANP is our measure of new business in the reporting period, consisting of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of pension business, personal lines and motor insurance (of which we sell very small amounts in a limited number of markets).

- Total weighted premium income ("**TWPI**"): TWPI provides a volume measure of transactions undertaken in the reporting period that have the potential to generate profits for our shareholders. TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums, before reinsurance ceded. We apply a weighting of 10% to single premiums because such weighting makes the value of a single premium sale broadly equivalent to the same dollar amount of first year premiums in a regular premium sale. In this manner, TWPI provides an indication of our longer-term business volumes as it smoothes the peaks and troughs in single premiums. There are two key drivers of TWPI, namely the persistency of the renewal premiums generated by our in-force portfolio and our new business.

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

- Equity attributable to shareholders of the Issuer on the embedded value basis ("**EV Equity**"): EV Equity is the total of embedded value ("**EV**"), goodwill and other intangible assets attributable to shareholders of the Issuer. EV is an actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future

[20] Based on gross premiums written. Market rankings are based on latest available data published by relevant regulatory and industry sources, as well as our own internal estimates where reasonable. In Mainland China, we are among the leading foreign life insurance companies based on gross premiums written.

new business. EV for the Issuer is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis. EV is comprised of two components: the value of in-force business ("**VIF**") and adjusted net worth ("**ANW**"). VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital to support the in-force business. VIF for the Issuer is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis. ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Issuer, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Issuer. ANW for the Issuer is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis. Goodwill and other intangible assets are consistent with the amounts reported in our IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

The following table shows VONB, ANP, TWPI, OPAT and EV Equity as of and for the periods indicated.

	As of and for the Twelve months ended 31 December				**Change**	
	2020	**2019** (as adjusted)	**2019** (as previously reported)	**2018** (as previously reported)	**2020/2019** (as adjusted)	**2019/2018** (as previously reported)
	(in US$ millions)				**(%)**	
VONB[1]...........	2,765	4,154	4,154	3,955	(33)	5
ANP[1]	5,219	6,585	6,585	6,510	(21)	1
TWPI[2]............	35,408	34,002	34,002	30,543	4	11
OPAT[3][4]	5,942	5,689	5,741	5,298	4	8
EV Equity[3]	67,185	63,905	63,905	56,203	5	14

(1) For the years ended 31 December 2020 and 2019, ANP and VONB included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

(2) TWPI excludes the contribution from Tata AIA Life.

(3) OPAT and EV Equity include the contribution from Tata AIA Life.

(4) For the twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

Our Key Performance Indicators are non-GAAP financial measures used for management decision-making and internal performance management purposes. Non-GAAP financial measures are not measures of our performance under IFRS and should not be considered in isolation or as alternatives to any performance measures derived in accordance with IFRS or any other generally accepted accounting principles.

GEOGRAPHICAL SEGMENTS

We report our financial results on a geographical segment basis. This includes reporting separately the results for each of our Key Segments and an "**Other Markets**" segment. Our Other Markets segment includes the combined results for Australia (including New Zealand), Cambodia, Indonesia, South Korea, Sri Lanka, the Philippines, Taiwan (China), Vietnam and Myanmar (which began operations as a wholly owned foreign life insurer in November 2019), as well as our interest in our joint venture in India.

Finally, we also provide information of our Group Corporate Centre. The Group Corporate Centre segment includes our corporate functions, shared services and elimination of intra-group transactions.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations, as well as the comparability of our results of operations between periods, are affected by a number of factors, including: economic conditions and demographic fundamentals in the Asia Pacific region; fluctuations in market interest rates and credit risk; fluctuations in equity markets; fluctuations in foreign exchange rates; regulatory environment; customer sentiment and policyholder behaviour; claims experience; product mix and multi-channel distribution; and competition in our geographical markets.

Economic conditions and demographic fundamentals in the Asia Pacific region

The Asia Pacific region's economic growth trends, household savings rates, demographic profiles and life insurance penetration rates are some of the key factors affecting the performance of the region's life insurance industry. As we have a presence in 18 geographical markets across the region and provide a range of products to different customer segments, our business is less susceptible to adverse trends in any one geographical market. However, if the economic conditions in the Asia Pacific region deteriorate, or the impact on our business is different from what we expect, our financial condition and results of operations may be materially and adversely affected.

Fluctuations in market interest rates and credit risk

We are affected by fluctuations in market interest rates as a substantial portion of our invested assets is held in fixed income debt securities. Movements in interest rates and credit spreads may affect the level and timing of recognition of gains and losses on debt securities and other investments held in our invested assets. A sustained period of lower interest rates or credit spreads would generally reduce the investment yield of our invested assets over time as higher yielding investments mature or are redeemed and proceeds are reinvested in new investments with lower yields. However, declining interest rates would also increase realised and unrealised gains on our existing investments. Conversely, rising interest rates should, over time, increase our investment income, but may reduce the market value of our invested assets. Our holding of debt securities also exposes us to corporate, sovereign and other credit risk.

In addition, interest rate risk arises from our insurance and investment contracts with fully guaranteed benefit features. While these contracts do not form a substantial part of our in-force product portfolio, they do carry the risk that interest income from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable as interest rates fall or fail to meet customer expectations for participating or universal life products. In periods of rapidly increasing interest rates, changing yield curves or changing spreads of credit instruments, policy loans, surrenders and withdrawals may increase. These events may result in cash payments by the Group requiring the sale of invested assets at a time of declining prices, which may result in realised losses. In addition, when interest rates increase, third-party financing of premiums may decrease, leading to a reduction in the premiums we earn.

Fluctuations in equity markets

Fluctuations in equity markets may affect our investment returns and sales of many of our unit-linked and universal life insurance products. Our exposure to equity markets is significantly less than our exposure to debt markets, with equity securities representing only 13% of the total Policyholder and Shareholder Investments as of 31 December 2020. In general, the investment risk in respect of investments held to back unit-linked contracts is borne by holders of our unit-linked insurance products, such as variable universal life insurance products. The investment risk associated with investments held by participating funds is shared between our policyholders and our shareholders based on the minimum policyholder participation ratios established by local regulations, whereas the investment risk associated with investments held by other participating business is shared between our policyholders and our shareholders where the timing or amount of the sharing are at the discretion of the Group as an insurer.

Sales of unit-linked products typically decrease in periods of protracted or steep declines in equity markets and increase in periods of rising equity markets. In particular, customers may be reluctant to commit to new unit-linked products in times of uncertainty or market volatility, although some customers with regular premium paying policies may choose to maintain their payments of regular premiums as markets decline, following a strategy of dollar cost averaging. Policy loans, surrenders and withdrawals may increase at times of declining equity markets. In addition, lower investment returns for our unit-linked products would also reduce the asset management and other fees we earn, certain of which are based on the account balance of these contracts. Conversely, in periods of rapidly rising equity markets, surrenders may increase as customers lock in the capital gains, leading to an overall lower account balance and therefore lower fees earned where such fees are based on the account balance of these contracts.

Fluctuations in foreign exchange rates

Our business has a presence in 18 geographical markets in the Asia Pacific region. As each of our operating units operates largely in its local currency (except for Hong Kong, which is primarily denominated in U.S. dollars), we face foreign exchange rate risk arising from the conversion of the functional currencies of our local operations to our reporting currency, the U.S. dollar. In addition, profits generated in local currencies by our operating units must be converted to U.S. dollars at the exchange rate in effect on the date at which they are repatriated to the Group. The translation of local currency to U.S. dollars can also lead to gains and losses that affect our Group-wide solvency margin.

Each of our operating units is subject to foreign exchange risk, mainly through translation of its assets and liabilities denominated in currencies other than its functional currency. Our exposure to foreign exchange rate risk in each operating unit is partially mitigated because assets and liabilities in the functional currency of each operating unit are generally matched and some of our operating units undertake hedging activities such as cross-currency swaps and foreign exchange forward contracts. In addition, premiums and deposits are largely received in the local functional currency, insurance and investment contract liabilities are largely determined in that currency and operating units typically invest in assets denominated in that currency to match insurance and investment contract liabilities.

The overall net foreign exchange impact, both realised and unrealised, from these transactions was a loss of US$104 million in the year ended 31 December 2020, a loss of US$360 million in the year ended 31 December 2019 and a loss of US$209 million in the twelve months ended 31 December 2018.

Regulatory environment

We are subject to the regulatory oversight of a number of financial services, insurance, tax, securities and related regulators, as described in *"Regulation"* in this Offering Circular. These regulators have broad authority over our business, including our capital requirements, where we are authorised to operate and our ability to enter certain new lines of business, expand our operations, offer new products, enter into distribution arrangements and declare dividends. These regulators oversee our operations in each of the geographical markets in which we operate and, as a result of this broad and diverse oversight, we are occasionally subject to overlapping, conflicting and/or increased regulation. Our efforts to comply with changes in regulations may lead to increased operating and administrative expenses. In addition, pursuant to the insurance laws, rules and regulations of the various geographical markets in which we operate, we are restricted to a specified range of investment activities. These restrictions may limit our ability to diversify investment risks and improve returns on our invested assets, thereby affecting our results of operations as well as liquidity and solvency positions. Furthermore, we are subject to the tax regime of each geographical market in which we operate. If the tax regime, or the application of the tax regime to us, changes, our tax liabilities in each of these geographical markets could also change materially. See *"Risk Factors – Risks Relating to Our Business – Cross-border operations inherently pose complex legal, political, regulatory, tax and economic risks."*

Customer sentiment and policyholder behaviour

As an insurer with a long-established track record, a significant portion of our business is on a regular premium basis, which has provided us with a regular stream of renewal premiums. However, customer sentiment and actual policyholder behaviour (such as policy take-up rates, premium holidays, lapses and surrenders) may differ from our expectations due to factors that are outside of our control. In particular, persistency varies over time and from one type of product to another. Persistency measures the proportion of customers who continue to maintain their policies with us, which we calculate by reference to the percentage of insurance policies remaining in-force from month to month, as measured by premiums. Factors that cause policy take-up, lapse and surrender rates to vary over time include changes in investment performance of the assets underlying the contract (in the case of unit-linked and universal life contracts), changes in the rate of policyholder dividends declared relative to competitors, regulatory changes that make alternative products more attractive, customer perception of the insurance industry in general and the Group in particular, and general economic conditions in each of our key markets. These factors can cause our results of operations and the financial position of our business to fluctuate from year to year.

Customers may perceive particular value in contracts with guaranteed features at times of low market interest rates and consequently policy lapses may be lower than expected.

Claims experience

Our reported financial results are affected by our claims experience, which may vary from the assumptions that we make both when we design and price our products and when we calculate our insurance contract liabilities. Claims experience varies over time and from one type of product to another, and may be impacted by specific events and changes in macroeconomic conditions, population demographics, mortality, morbidity and other factors.

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. 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.

Product mix and multi-channel distribution

We design and distribute a broad range of life insurance, accident and health insurance, savings plans, employee benefits, credit life and pension products. The performance of our operating units, and the revenue we generate, are affected by our ability to deliver the most suitable products to our targeted customer segments through multiple distribution channels in each of our markets on a timely basis. Our ability to expand and build, as well as adequately manage and utilise, alternative distribution channels, including bancassurance, IFAs, brokers and specialist advisers, may affect the performance of our operating units.

Competition in our geographical markets

Competition may negatively affect our business and future business prospects by reducing our market share in the geographical markets in which we operate, decreasing our margins and spreads, increasing our policy acquisition costs and operating expenses or reducing the growth of our customer base. Depending on the nature of the product, our competitors include insurance companies, mutual fund companies, banks and investment management firms.

REVENUES, EXPENSES AND PROFITABILITY

We derive our revenues primarily from:

- insurance premiums from the sale of life insurance policies and annuity contracts, as well as A&H insurance products;
- policy fees for our unit-linked and universal life insurance products; and
- investment returns from our invested assets.

Our expenses consist primarily of:

- the change in insurance and investment contract liabilities;
- insurance and investment contract benefits and claims paid to policyholders;
- commission and other acquisition expenses;
- operating expenses, including employee benefit expenses, operating lease rentals, depreciation and amortisation and other expenses;
- finance costs and other expenses, including investment management expenses; and
- taxation in the various geographical markets in which we operate.

Our profitability depends mainly on our ability to attract new customers, retain existing customers, price and manage risk on insurance products, manage our invested assets and control our expenses.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial information requires selecting accounting policies and making estimates and assumptions that affect the reported amounts of assets, liabilities, and revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. For more information regarding our critical accounting estimates and judgements, see note 3 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

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

Product Classification

We issue contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. We exercise significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require us to pay significant additional benefits to our customers. In the event we have to pay significant additional benefits to our customers, the contract is accounted for as an insurance contract.

The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs.

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

We calculate the insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, policyholder dividends (for other participating business), surrenders and expenses set at the policy inception date. These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by geographical market, year of issuance and product. Mortality, surrender and expense assumptions are based on actual experience by each geographical market, modified to allow for variations in policy form. We exercise significant judgement in making appropriate assumptions.

For contracts with an explicit account balance, such as universal life and unit-linked contracts, insurance contract liabilities represent the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges. Significant judgement is exercised in making appropriate estimates of gross profits which are based on historical and anticipated future experiences, these estimates are regularly reviewed by us. We account for insurance contract liabilities for participating business written in participating funds and other participating business with distinct portfolios by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund 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 applicable regulations or the underlying bonus rules as determined by the relevant board of directors based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. Establishing these liabilities requires the exercise of significant judgement. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. We account for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

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

Deferred Acquisition and Origination Costs

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

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

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

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

Liability Adequacy Testing

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

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

Fair Values of Financial Assets

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

The degree of judgement used in measuring the fair value of financial assets generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Changes in the fair value of financial assets held by our participating funds affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the proportion of the net assets of the participating funds that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based on current local regulations. Both of the foregoing changes are reflected in the consolidated income statement.

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

Fair value of property held for own use and investment property

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

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgement. We assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset, or a group of assets, is impaired includes observable data that comes to our attention about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
    - Adverse changes in the payment status of issuers; or
    - National or local economic conditions that correlate with increased default risk.

For loans and receivables, impairment loss is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the group of financial assets or individual accounts.

In respect of available for sale debt securities, we recognised nil, nil and US$81 million impairment losses for the twelve months ended 31 December 2020, 2019 and 2018, respectively.

Impairment of Goodwill and Other Intangible Assets

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

OVERVIEW OF CONSOLIDATED FINANCIAL RESULTS

The tables below provide a summary of the results of operations for the Group for the twelve months ended 31 December 2020, 2019 and 2018. For more information on performance by each reporting segment, see *"– Segmental Information"* below.

Discussion of Key Performance Indicators

VONB, ANP, TWPI and OPAT

The following discusses our results as measured by VONB, ANP, TWPI and OPAT for the twelve months ended 31 December 2020, 2019 and 2018. For definitions of these metrics, see "*– Overview – Key Performance Indicators"*. For a discussion of EV Equity, see "*– EV Equity*".

VONB

The following table shows a breakdown of VONB by geographical segment for the twelve months ended 31 December 2020, 2019 and 2018.

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions)		
Mainland China	968	1,167	965
Hong Kong	550	1,621	1,712
Thailand	469	494	447
Singapore	330	352	357
Malaysia	222	258	247
Other Markets[(1)]	514	535	435
Subtotal	**3,053**	**4,427**	**4,163**
Adjustment to reflect consolidated reserving and capital requirements	(103)	(87)	(56)
After-tax value of unallocated Group Office expenses	(161)	(154)	(152)
Total before non-controlling interests (Consolidated)	**2,789**	**4,186**	**3,955**
Non-controlling interests	(24)	(32)	-
Total	**2,765**	**4,154**	**3,955**

(1) For the years ended 31 December 2020 and 2019, VONB included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

VONB was US$2,765 million for the year ended 31 December 2020, a decrease of 33% from US$4,154 million for the year ended 31 December 2019. VONB margin declined by 10.3 percentage points to 52.6% in the year ended 31 December 2020 compared with 62.9% in the year ended 31 December 2019. The decline in new business sales reflected the impact of the COVID-19 pandemic as containment measures in many of our markets limited face-to-face sales activity, particularly in the first half of the year ended 31 December 2020.

Mainland China was the largest contributor to the Group's VONB in the year ended 31 December 2020. VONB decreased by 17% for the year ended 31 December 2020 compared to the year ended 31 December 2019, which was primarily driven by limited sales volumes during the initial outbreak of the COVID-19 pandemic in the first quarter of the year ended 31 December 2020.

VONB for Hong Kong reduced by 66% in the year ended 31 December 2020 as new business sales to Mainland Chinese visitors have effectively been on hold from early February 2020 following the introduction of travel restrictions. VONB margins reduced due to acquisition expense overruns following the fall in new business volumes, a shift in product mix and the impact of lower interest rates.

Thailand reported a 5% decline in VONB for the year ended 31 December 2020, primarily driven by lower sales volumes due to the impact of the COVID-19 outbreaks. This was partly offset by 36% VONB growth in the second half of the year ended 31 December 2020 compared to the first half of the year ended 31 December 2020 as movement restrictions eased in the second half of the year ended 31 December 2020.

VONB for Singapore declined by 6% for the year ended 31 December 2020 with growth in the agency business offset by lower new business from the partnership distribution business, as sales to the offshore customer segment were particularly affected by border controls. During the second half of the year ended 31 December 2020, there was a recovery due to a positive shift in product mix and a reduction in acquisition expense overruns as new business volumes increased.

VONB for Malaysia reduced by 14% in the year ended 31 December 2020, mainly driven by strict COVID-19 related movement restrictions imposed in the first half of the year ended 31 December 2020.

VONB for the Other Markets segment was 4% lower for the year ended 31 December 2020 compared to the year ended 31 December 2019, following the decline in VONB in New Zealand, the Philippines and Indonesia. This was partially offset by positive VONB growth in the remaining markets in the Other Markets segment for the year ended 31 December 2020 compared to the year ended 31 December 2019.

VONB was US$4,154 million for the year ended 31 December 2019, an increase of 5% from US$3,955 million for the twelve months ended 31 December 2018. VONB margin improved by 2.9 percentage points to 62.9% in the year ended 31 December 2019 compared with 60.0% in the twelve months ended 31 December 2018. The VONB growth in Mainland China and Other Markets was largely offset by a 5% decline in Hong Kong where the social unrest in the second half of the year ended 31 December 2019 drove a decline in sales from the Mainland Chinese visitor customer segment. Despite the lower interest rate environment in the second half of the year ended 31 December 2019, VONB margin improved, supported by the enhanced profitability in our long-term savings and protection products in Hong Kong and the positive effect of a tax rule change that increased the tax deductibility of commissions in Mainland China.

Mainland China delivered VONB growth of 21% to US$1,167 million for the year ended 31 December 2019 compared with the twelve months ended 31 December 2018. Our Premier Agency strategy supported the growth in active agents and further improvements in productivity.

Hong Kong reported a 5% reduction in VONB for the year ended 31 December 2019, which reflected a decline in sales from the Mainland Chinese visitor customer segment in the second half of the year ended 31 December 2019, which broadly tracked the reduction in visitor arrivals from Mainland China as reported by the Hong Kong Tourism Board. This was partly offset by our domestic customer segment in Hong Kong, which continued to deliver VONB growth for the year ended 31 December 2019.

Thailand continued to benefit from strong progress in both our Financial Adviser ("**FA**") programme and our exclusive partnership with Bangkok Bank Public Company Limited (Bangkok Bank) and reported VONB growth of 11% to US$494 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018.

VONB in Singapore remained stable at US$352 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 as growth in regular premium sales was offset by lower single premium sales in our partnership distribution channel.

VONB growth from Malaysia grew by 4% to US$258 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, supported by increased sales in both agency and in-branch bancassurance channels.

Other Markets reported VONB growth of 23% to US$535 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, led by Australia, the Philippines and Vietnam.

The VONB results for the Group for the year ended 31 December 2019 were reported after a deduction of US$273 million for the consolidation 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.

The total VONB for the Group for the year ended 31 December 2019 excluded the VONB attributable to non-controlling interests of US$32 million. VONB for the twelve months ended 31 December 2018 has not been restated and was reported before deducting the amount attributable to non-controlling interests of US$27 million.

ANP

The following table shows a breakdown of ANP by geographical segment for the twelve months ended 31 December 2020, 2019 and 2018.

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions)		
Mainland China	1,197	1,248	1,067
Hong Kong	1,138	2,393	2,697
Thailand	661	729	611
Singapore	520	538	547
Malaysia	369	406	382
Other Markets[1]	1,334	1,271	1,206
Total	**5,219**	**6,585**	**6,510**

(1) For the years ended 31 December 2020 and 2019, ANP included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

ANP decreased by 21% to US$5,219 million in the year ended 31 December 2020 compared with the year ended 31 December 2019. New business regular premiums decreased by 3% and accounted for 90% of overall ANP in the year ended 31 December 2020. The decline was primarily driven by lower production in our Key Segments, partly offset by growth in Other Markets primarily driven by Australia, Taiwan (China) and Vietnam.

ANP increased by 1% to US$6,585 million in the year ended 31 December 2019 compared with the twelve months ended 31 December 2018. New business regular premiums increased by 2% and accounted for 93% of overall ANP in the year ended 31 December 2019. The growth was primarily driven by growth in Thailand, Malaysia, Mainland China and Other Markets, partly offset by lower production in Hong Kong and Singapore.

TWPI

The following table shows a breakdown of TWPI by geographical segment for the twelve months ended 31 December 2020, 2019 and 2018.

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions)		
Mainland China	5,622	4,804	4,006
Hong Kong	13,042	13,107	11,444
Thailand	4,462	4,352	3,895
Singapore	3,088	2,916	2,738
Malaysia	2,216	2,142	2,083
Other Markets(1)	6,978	6,681	6,377
Total	**35,408**	**34,002**	**30,543**

(1) Excludes Tata AIA Life.

TWPI was US$35,408 million in the year ended 31 December 2020, an increase of 4% from US$34,002 million in the year ended 31 December 2019, driven primarily by growth in Mainland China.

TWPI was US$34,002 million in the year ended 31 December 2019, an increase of 11% from US$30,543 million in the twelve months ended 31 December 2018, driven primarily by growth in Hong Kong, Thailand and Mainland China.

OPAT

The following table shows a breakdown of OPAT by geographical segment for the twelve months ended 31 December 2020, 2019 and 2018.

	Twelve months ended 31 December			
	2020	**2019**	**2019**	**2018**
		(as adjusted)	**(as previously reported)**	**(as previously reported)**
	(in US$ millions)			
Mainland China	1,220	1,061	1,061	870
Hong Kong(1)	2,059	1,879	1,931	1,814
Thailand	987	1,064	1,064	995
Singapore	621	583	583	558
Malaysia	326	333	333	320
Other Markets(2)(3)	687	772	823	826
Group Corporate Centre(3)	42	(3)	(54)	(85)
Total	**5,942**	**5,689**	**5,741**	**5,298**

(1) For the twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

(2) Includes Tata AIA Life.

(3) Prior to 1 January 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 1 January 2020, the Group enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. While the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation, the comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable.

OPAT was US$5,942 million in the year ended 31 December 2020, an increase of 4% from US$5,689 million for the year ended 31 December 2019 (as adjusted). The growth was driven by our high-quality, recurring sources of earnings and proactive management of our in-force portfolio. Renewal premiums received increased by 10%, and total recurring premiums accounted for over 90% of premiums received in the year ended 31 December 2020. OPAT growth was supported by positive claims experience throughout the year ended 31 December 2020, which offset the effect of lower yields on new fixed income investments and lower assumed long-term returns on equity investments. Persistency improved in the second half of the year ended 31 December 2020, supported by a normalisation of lapse experience for AIA Thailand, and has remained at 95% for the Group for the year ended 31 December 2020.

Mainland China delivered a 15% increase in OPAT for the year ended 31 December 2020 compared to the year ended 31 December 2019, primarily from our growing in-force portfolio and favourable claims experience. Overall claims experience remained positive throughout the year ended 31 December 2020 even as significant positive experience in the first half of the year ended 31 December 2020 normalised in the second half of the year ended 31 December 2020.

Hong Kong’s OPAT increased by 10% for the year ended 31 December 2020 compared to the year ended 31 December 2019 (as adjusted), as underlying business growth and favourable claims experience more than offset reduced investment income from lower bond yields and the negative impact from the reduction in long-term investment return assumptions since the end of 2019.

Thailand reported a 7% reduction in OPAT for the year ended 31 December 2020 compared to the year ended 31 December 2019. Although lapse experience significantly improved in the second half of the year ended 31 December 2020 compared to the first half of the year ended 31 December 2020, a declining Thai equity market and reduced long-term equity return assumptions throughout the year ended 31 December 2020 more than offset positive operating experience and underlying business growth.

OPAT in Singapore increased by 7% in the year ended 31 December 2020 compared to the year ended 31 December 2019, driven by the combination of the growth in our in-force portfolio and improved operating experience across persistency, expenses and claims.

Malaysia’s OPAT declined by 2% for the year ended 31 December 2020 compared to the year ended 31 December 2019, as underlying growth and positive claims experience were 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 8% for the year ended 31 December 2020 compared to the year ended 31 December 2019.

OPAT in Other Markets declined by 11% for the year ended 31 December 2020 compared to the year ended 31 December 2019, primarily due to a US$68 million decrease in OPAT from Australia for the year ended 31 December 2020 compared to the year ended 31 December 2019 as a result of lower profitability from disability insurance policies. Growth in OPAT in Taiwan (China) and Vietnam broadly offset lower OPAT from Indonesia, the Philippines and South Korea.

As previously reported, OPAT was US$5,741 million in the year ended 31 December 2019, an increase of 8% from US$5,298 million for the twelve months ended 31 December 2018 due to business growth in each of our reporting segments despite the unfavourable effects of the lower interest rates in the second half of the year ended 31 December 2019 as well as higher medical claims and operating expenses.

Mainland China continued to deliver OPAT growth of 22% for the year ended 31 December 2019, primarily driven by strong new business growth, a high proportion of insurance and fee based earnings and sustained favourable operating experience.

As previously reported, OPAT from Hong Kong grew by 6% for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 as underlying business growth was partially offset by lower interest rates in the second half of the year ended 31 December 2019, which reduced yields on new fixed income investments and affected profit generation from our in-force participating product portfolio.

Thailand reported a 7% increase in OPAT for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 as a result of business growth and improved persistency, offset by negative medical claims experience arising from higher influenza claims and significantly lower yields on new fixed income investments in the second half of the year ended 31 December 2019.

Singapore delivered 4% growth in OPAT for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, reflecting the underlying business growth, partly offset by continuing pressure on the profitability of our HealthShield portfolio.

OPAT from Malaysia grew by 4% for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 driven by underlying business growth, which was partly offset by higher medical claims driven by the greater incidence of seasonal infectious diseases in the second half of the year ended 31 December 2019.

As previously reported, Other Markets reported flat OPAT growth for the year ended 31 December 2019, as the earnings contribution from new business growth was offset by a deterioration in operating experience in South Korea and higher operating expenses incurred by AIA Australia in response to various regulatory changes.

Discussion of Selected Consolidated Income Statement Information

The following discusses certain selected consolidated income statement information for the twelve months ended 31 December 2020, 2019 and 2018.

Net Premiums and Fee Income

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions)		
Premiums and fee income	35,780	34,777	31,271
Premiums ceded to reinsurers	(2,452)	(2,166)	(1,842)
Total	**33,328**	**32,611**	**29,429**

Premiums and fee income increased by 3% to US$35,780 million in the year ended 31 December 2020 from US$34,777 million in the year ended 31 December 2019, primarily due to growth in our in-force portfolio.

Premiums ceded to reinsurers increased by 13% to US$2,452 million in the year ended 31 December 2020 from US$2,166 million in year ended 31 December 2019, due to the increase in premiums and fee income. For a discussion of our reinsurance strategy, see *"– Operations – Underwriting and New Business – Reinsurance"*.

Premiums and fee income increased by 11% to US$34,777 million in the year ended 31 December 2019 from US$31,271 million in the twelve months ended 31 December 2018, primarily due to increase in regular premiums from new business.

Premiums ceded to reinsurers increased by 18% to US$2,166 million in the year ended 31 December 2019 from US$1,842 million in the twelve months ended 31 December 2018, due to the increase in premiums and fee income.

IFRS Operating Profit Investment Return

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions)		
Interest income	7,051	6,624	6,125
Expected long-term investment return for equities and real estate	2,347	2,275	1,951
IFRS operating profit investment return	**9,398**	**8,899**	**8,076**

IFRS operating profit investment return, consisting of interest income plus expected long-term investment return for equities and real estate, increased by 6% to US$9,398 million in the year ended 31 December 2020 from US$8,899 million in the year ended 31 December 2019. The increase was primarily driven by the increased size of our investment portfolio.

The fixed income yield of the Policyholder and Shareholder Investments was 4.38% in the year ended 31 December 2020 as compared with 4.57% in the year ended 31 December 2019. Fixed income yield is the interest income from fixed income investments excluding investment income from unit-linked contracts and consolidated investment funds (which was US$7,051 million and US$6,624 million in the years ended 31 December 2020 and 2019, respectively), as a percentage of average fixed income investments measured at amortised cost over the period.

IFRS operating profit investment return increased by 10% to US$8,899 million in the year ended 31 December 2019 from US$8,076 million in the twelve months ended 31 December 2018. The increase was primarily driven by the increased size of our investment portfolio.

The fixed income yield of the Policyholder and Shareholder Investments was 4.57% in the year ended 31 December 2019 as compared with 4.64% in the twelve months ended 31 December 2018. Fixed income yield is the interest income from fixed income investments excluding investment income from unit-linked contracts and consolidated investment funds (which was US$6,624 million and US$6,125 million in the twelve months ended 31 December 2019 and 2018, respectively), as a percentage of average fixed income investments measured at amortised cost over the period.

Net Insurance and Investment Contract Benefits

Net insurance and investment contract benefits increased by 8% to US$34,739 million in the year ended 31 December 2020 from US$32,128 million in the year ended 31 December 2019 (as adjusted), reflecting the underlying growth of the in-force portfolio.

As previously reported, net insurance and investment contract benefits increased by 43% to US$31,460 million in the year ended 31 December 2019 from US$21,958 million in the twelve months ended 31 December 2018, reflecting underlying growth of the in-force portfolio from new business and positive market movements on equity investments backing unit-linked and participating policies.

Commission and Other Acquisition Expenses

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions)		
Commission and other acquisition expenses			
Commission and other acquisition expenses incurred	5,566	6,499	6,271
Deferral and amortisation of acquisition costs	(1,164)	(2,216)	(2,490)
Total	**4,402**	**4,283**	**3,781**

Commission and other acquisition expenses incurred decreased by 14% to US$5,566 million in the year ended 31 December 2020 from US$6,499 million in the year ended 31 December 2019, primarily due to lower new business volumes. Deferral and amortisation of acquisition costs decreased by 47% to US$1,164 million in the year ended 31 December 2020 from US$2,216 million in the year ended 31 December 2019, reflecting a decrease in deferrals of acquisition costs.

Commission and other acquisition expenses incurred increased by 4% to US$6,499 million in the year ended 31 December 2019 from US$6,271 million in the twelve months ended 31 December 2018, primarily due to underlying business growth. Deferral and amortisation of acquisition costs decreased by 11% to US$2,216 million in the year ended 31 December 2019 from US$2,490 million in the twelve months ended 31 December 2018, reflecting the increase in amortisation.

Operating Expenses

Operating expenses mainly include employee benefit expenses, depreciation and amortisation and other operating expenses. Operating expenses increased by 9% to US$2,695 million in the year ended 31 December 2020 from US$2,468 million in the year ended 31 December 2019. Our expense ratio increased to 7.6% in the year ended 31 December 2020 from 7.3% in the year ended 31 December 2019, mainly as a result of lower new business volumes and the inclusion of the CMLA business acquired in Australia in the second half of the year ended 31 December 2019.

Operating expenses increased by 14% to US$2,468 million in the year ended 31 December 2019 from US$2,171 million in the twelve months ended 31 December 2018, mainly as a result of higher operating expenses incurred by Australia in response to various regulatory changes as well as the inclusion of the businesses acquired from CBA in Australia and New Zealand. Our expense ratio increased to 7.3% in the year ended 31 December 2019 from 7.1% in the twelve months ended 31 December 2018.

Finance Costs and Other Expenses

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions)		
Finance costs	**292**	**283**	**212**
Other expenses			
Investment management expenses and others	580	530	479
Restructuring and other non-operating costs	285	246	204
Depreciation on property held for own use	32	42	35
Change in third-party interests in consolidated investment funds	47	27	21
Other expenses total	**944**	**845**	**739**

Finance costs increased by 3% to US$292 million in the year ended 31 December 2020 from US$283 million in the year ended 31 December 2019, mainly from increased interest expenses following the issuance of new medium term notes and securities during the year ended 31 December 2020.

Other expenses increased by 12% to US$944 million in the year ended 31 December 2020 from US$845 million in the year ended 31 December 2019, mainly from higher investment management expenses and restructuring costs and other non-operating costs.

Finance costs increased by 33% to US$283 million in the year ended 31 December 2019 from US$212 million in the twelve months ended 31 December 2018, mainly from increased interest expenses following the issuance of new medium term notes during the year ended 31 December 2019, as well as interest on lease liabilities following the adoption of IFRS 16.

Other expenses increased by 14% to US$845 million in the year ended 31 December 2019 from US$739 million in the year ended 31 December 2019, mainly from higher costs for restructuring and other non-operating activities, as well as investment management expenses.

Profit Before Tax

Profit before tax was US$7,270 million in the year ended 31 December 2020, as compared with US$7,227 million in the year ended 31 December 2019 (as adjusted).

As previously reported, profit before tax was US$7,895 million in the year ended 31 December 2019 as compared with US$3,508 million in the twelve months ended 31 December 2018.

Income Tax

	Twelve months ended 31 December			
	2020	2019	2019	2018
		(as adjusted)	(as previously reported)	(as previously reported)
	(in US$ millions)			
Current income tax	1,059	610	610	824
Deferred income tax on temporary differences	432	599	598	25
Tax expenses	**1,491**	**1,209**	**1,208**	**849**
Of which				
Tax expenses attributable to shareholders' profits	1,320	1,030	1,029	914
Tax expenses attributable to policyholders' returns	171	179	179	(65)
Total	**1,491**	**1,209**	**1,208**	**849**

Tax expense has two components: the tax charged on shareholders' profits of US$1,320 million in the year ended 31 December 2020 as compared with US$1,030 million in the year ended 31 December 2019 (as adjusted), and the tax charged on policyholders' returns of US$171 million in the year ended 31 December 2020 as compared with US$179 million in the year ended 31 December 2019 (as adjusted).

Each of our geographic markets has its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction. The effective corporate tax rate on profit before tax of the Group increased to 21% in the year ended 31 December 2020 from 17% in the year ended 31 December 2019 (as adjusted).

As previously reported, the tax charged on shareholders' profits was US$1,029 million in the year ended 31 December 2019 as compared with US$914 million in the twelve months ended 31 December 2018, and the tax charged on policyholders' returns was US$179 million in the year ended 31 December 2019 as compared with negative US$65 million in the twelve months ended 31 December 2018.

As previously reported, the effective corporate tax rate on profit before tax of the Group decreased to 15% in the year ended 31 December 2019 from 24% in the twelve months ended 31 December 2018.

Net Profit attributable to shareholders of the Issuer

Net profit attributable to shareholders of the Issuer decreased by 3% to US$5,779 million in the year ended 31 December 2020 compared with the year ended 31 December 2019 (as adjusted). This decrease was primarily due to negative short-term fluctuations in investment return related to equities and real estate of US$425 million in the year ended 31 December 2020, compared with positive short-term fluctuations in investment return of US$305 million in the year ended 31 December 2019 (as adjusted).

As previously reported, net profit attributable to shareholders of the Issuer increased by 156% to US$6,648 million in the year ended 31 December 2019 compared with the twelve months ended 31 December 2018. This increase was primarily due to positive short-term fluctuations in investment return related to equities and real estate of US$937 million in the year ended 31 December 2019, compared with negative short-term fluctuations in investment return of US$2,063 million in the twelve months ended 31 December 2018.

Movements in Other Comprehensive Income

Amounts reflected in other comprehensive income increased to US$16,387 million in the year ended 31 December 2020 from US$12,003 million in the year ended 31 December 2019 (as adjusted). The increase was mainly a result of positive foreign currency translation adjustments of US$931 million and positive fair value movements of US$3,501 million.

As previously reported, amounts reflected in other comprehensive income increased to US$15,114 million in the year ended 31 December 2019 from US$1,440 million in the twelve months ended 31 December 2018. The increase was mainly a result of positive foreign currency translation adjustments of US$603 million and positive fair value movements of US$12,452 million.

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, Sri Lanka, the Philippines, Taiwan (China), Vietnam and Myanmar (which began operations as a wholly owned foreign life insurer in November 2019), as well as our 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

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions, except VONB margin)		
VONB[1]	968	1,167	965
VONB margin[2]	80.9%	93.5%	90.5%
ANP	1,197	1,248	1,067
TWPI	5,622	4,804	4,006
OPAT	1,220	1,061	870

(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.

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

VONB decreased by 17% to US$968 million and ANP decreased by 4% to US$1,197 million, in each case, for the year ended 31 December 2020 compared to the year ended 31 December 2019, which was primarily driven by limited sales volumes during the initial outbreak of the COVID-19 pandemic in the first quarter of the year ended 31 December 2020. As movement controls eased, new business sales momentum improved and our usual seasonal pattern resumed with VONB weighted towards the first half of the year ended 31 December 2020. VONB margin decreased by 12.6 percentage points to 80.9%, driven by a product mix shift towards long-term participating savings products as a result of successful cross-sales to existing customers, and the application of 5% withholding tax from July 2020.

OPAT increased by 15% for the year ended 31 December 2020, primarily driven by our growing in-force portfolio and supported by favourable claims experience.

During the year ended 31 December 2020, AIA China successfully obtained regulatory approval and completed the conversion of our Shanghai branch to become the first foreign wholly-owned foreign life insurance subsidiary in Mainland China and consolidated other existing branches under the new subsidiary. We have also received regulatory approval to begin preparing our newest branch in Sichuan. Sichuan is Mainland China’s sixth largest province by GDP and fourth largest by population, which we believe represents a significant long-term growth opportunity for AIA China.

Year Ended 31 December 2019 Compared with Twelve Months Ended 31 December 2018

AIA China delivered another strong performance where VONB increased by 21% to US$1,167 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018. ANP increased by 17% to US$1,248 million and VONB margin increased by 3.0 percentage points to 93.5%, in each case for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, as the positive effect of a tax rule change that increased the tax deductibility of commissions was offset by the impact of enhanced policyholder benefits within our protection products. OPAT increased by 22% to US$1,061 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 as strong new business growth, a high proportion of insurance and fee based earnings and sustained favourable operating experience continued to underpin our strong track record of earnings growth in Mainland China.

The continuing execution of our differentiated Premier Agency strategy in Mainland China supported another strong performance for the year ended 31 December 2019. AIA China further enhanced our proprietary Premier Agency programme with new development programmes and technology designed to further uplift the quality of our agency leaders. These included implementing a bespoke training programme focused on prospecting and recruiting high-quality talent and driving greater adoption of our digital Master Planner management platform. We also leveraged the deep experience of our successful agency leaders to enhance the platform with new features that guide leaders to adopt a proven and more structured approach to agency management.

These initiatives have contributed to growth in the number of active agents and increased agent productivity for year ended 31 December 2019 compared to the twelve months ended 31 December 2018.

In line with the Group's differentiated health and well-being strategic framework, we expanded our protection-focused customer product propositions to include value-added support for our customers across their entire healthcare journey from prevention and protection to recovery. For the year ended 31 December 2019, we upgraded our flagship All-in-One protection product with expanded disease coverage and critical illness benefits and we launched two new single-disease products jointly developed with WeDoctor, our strategic partner. These products are tailored to the specific needs of our target customer segments and leverage WeDoctor services to support customers throughout their individual medical journeys. Our high net worth customers benefit from our proprietary claims administrator and medical network, which includes more than 650 domestic and overseas healthcare providers.

In July 2019, we successfully opened new sales and service centres in Tianjin and Shijiazhuang, Hebei, which represents our first geographical expansion within Mainland China in 17 years.

Hong Kong

	Twelve months ended 31 December			
	2020	2019	2019	2018
		(as adjusted)	(as previously reported)	(as previously reported)
	(in US$ millions, except VONB margin)			
VONB(1)	550	1,621	1,621	1,712
VONB margin(2)	44.7%	66.1%	66.1%	62.0%
ANP	1,138	2,393	2,393	2,697
TWPI	13,042	13,107	13,107	11,444
OPAT(3)	2,059	1,879	1,931	1,814

(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 twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

AIA Hong Kong's VONB and ANP decreased by 66% and 52% respectively, as new business sales from Mainland Chinese visitors have effectively been on hold from early February 2020 following the introduction of travel restrictions. VONB margin declined by 21.4 percentage points for the year ended 31 December 2020, reflecting acquisition expense overruns following the fall in new business volumes, a shift in product mix and the impact of lower interest rates.

OPAT increased 10%, driven by underlying growth in our high quality in-force portfolio with renewal premiums up 11%, and was supported by favourable claims experience that more than offset the effect of lower bond yields and the reduction in long term investment return assumptions.

For our agency channel, despite the disruptions from tightening social distancing measures, our Premier Agency remained the market leader in agency distribution in Hong Kong and delivered ANP growth for the domestic customer segment in the second half of the year ended 31 December 2020 compared with the first half of the year ended 31 December 2020. In addition, our number of new recruits and agent productivity improved in the second half of the year ended 31 December 2020 compared to the first half of the year ended 31 December 2020.

For our partnership distribution channel, VONB for the year ended 31 December 2020 significantly decreased compared to the year ended 31 December 2019 due to a higher historical mix of sales to Mainland Chinese visitors by retail IFAs.

Year Ended 31 December 2019 Compared with Twelve Months Ended 31 December 2018

AIA Hong Kong reported a 5% reduction in VONB to US$1,621 million for the year ended 31 December 2019 compared with the twelve months ended 31 December 2018, which reflected a decline in sales from the Mainland Chinese visitor customer segment in the second half of the year ended 31 December 2019, which broadly tracked the reduction in visitor arrivals to Hong Kong. This was partly offset by our domestic customer segment in Hong Kong, which continued to deliver VONB growth for the year ended 31 December 2019. Overall ANP decreased by 11% to US$2,393 million while VONB margin increased by 4.1 percentage points to 66.1%, in each case for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, driven by enhanced profitability in our long-term savings and protection products. We continued to maintain our focus on writing high-quality, profitable new business with approximately 90% of total ANP from policies having a premium payment term of at least five years. TWPI grew by 15% to US$13,107 million as persistency for our in-force policies remained high throughout the year ended 31 December 2019. OPAT (as previously reported) grew by 6% as TWPI growth of 15% was partially offset by lower interest rates in the second half of the year ended 31 December 2019, which reduced yields on new fixed income investments and affected profit generation from our in-force participating product portfolio.

Our agency business achieved positive VONB growth for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, including growth from our domestic customer segment, demonstrating the quality of our people and the execution of our Premier Agency strategy against a challenging market backdrop. We continued to focus on supporting our agents with innovative and powerful digital tools. During the year ended 31 December 2019, we launched an interactive financial health check that enables our agents to provide more targeted and bespoke advice to our customers. We also continued to grow the number of high-calibre recruits in our AIA Premier Academy programme, which supported an increase in the total number of active agents. We believe that the fundamental quality and professionalism of our agents remains a key differentiator for AIA in the Hong Kong market.

VONB from partnership distribution reported a significant decline in the second half of the year ended 31 December 2019, due to lower sales from the Mainland Chinese visitor customer segment and increased competition in the retail IFA channel. In bancassurance, our exclusive partnership with Citibank also experienced lower sales from the Mainland Chinese visitor customer segment, although new sales and marketing initiatives throughout the year ended 31 December 2019 continued to support positive VONB growth for the domestic customer segment.

For the year ended 31 December 2019, our Hong Kong business delivered growth in VONB from existing customer repurchases as we launched a series of marketing initiatives to promote protection products, especially for plans certified under the Hong Kong SAR government's new Voluntary Health Insurance Scheme. This focus on protection was also supported by AIA Vitality, which saw growth in VONB from products integrated with the programme for the year ended 31 December 2019.

Thailand

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions, except VONB margin)		
VONB[(1)]	469	494	447
VONB margin[(2)]	71.0%	67.7%	73.1%
ANP	661	729	611
TWPI	4,462	4,352	3,895
OPAT	987	1,064	995

(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.

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

VONB from AIA Thailand declined 5% for the year ended 31 December 2020 compared to the year ended 31 December 2019, primarily driven by lower sales volume due to the impact of the COVID-19 outbreaks. We saw positive VONB momentum as movement restrictions eased and business activities begain to normalise in the second half of the year ended 31 December 2020. Although ANP decreased by 9% for the year ended 31 December 2020 compared to the year ended 31 December 2019 reflecting the lower sales volume, VONB margin increased to 71.0%, driven by a substantial shift in product mix towards long-term protection products and medical riders as a result of greater customer awareness of individual protection needs due to the COVID-19 pandemic.

OPAT reduced by 7% as in-force growth for the year ended 31 December 2020 and positive operating experience in the second half of the year ended 31 December 2020 were more than offset by a declining Thai equity market and reduced long term equity return assumptions.

In our agency business we more than doubled the number of new recruits in the second half of the year ended 31 December 2020 compared with the first half of the year ended 31 December 2020, supported by our continued focus on the execution of our differentiated Financial Adviser ("**FA**") programme.

Our strategic bancassurance partner, Bangkok Bank, delivered positive VONB growth for the year ended 31 December 2020.

Year Ended 31 December 2019 Compared with Twelve Months Ended 31 December 2018

AIA Thailand delivered 11% VONB growth to US$494 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, supported by strong sales momentum in both our FA agency programme and our exclusive partnership with Bangkok Bank. ANP increased by 19 % to US$729 million, while VONB margin decreased by 5.4 percentage points to 67.7%, in each case for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, reflecting a higher proportion of bancassurance business. OPAT increased by 7% to US$1,064 million for the year ended 31 December 2019 as a result of underlying business growth and improvements in persistency, offset by negative medical claims experience arising from higher influenza claims and significantly lower yields on new fixed income investments in the second half of the year ended 31 December 2019.

Our Thailand business continues to transform the quality and professionalism of our market-leading agency force in Thailand through focused execution of our FA programme. In 2019, agents in the FA programme represented 15% of total agents and contributed more than 30% of total agency VONB. Our focused training and development programmes helped our FA new recruits achieve significantly higher productivity and more than double the activity ratio of standard new agents. VONB growth delivered by our FA programme was offset by our proactive efforts to reduce the number of less productive agents for the agency channel overall.

Our strategic bancassurance partnership with Bangkok Bank delivered VONB growth during the year ended 31 December 2019 as we continued to train in-branch insurance specialists and other bank staff across Bangkok Bank's nationwide retail branch network. This supported higher overall productivity for the partnership.

During the year ended 31 December 2019, we focused on promoting our expanded range of critical illness products as part of our continuing efforts to raise customer awareness of their individual protection gaps. As a result, we delivered an increase in ANP for critical illness products for the year ended 31 December 2019. We also activated our regional partnership with Medix in Thailand, helping to further differentiate our customer propositions with personal medical case management services in the affluent customer segment. Digitalisation played a significant role in AIA Thailand's continued enhancement of its distribution, customer experience and operational efficiency. During the year ended 31 December 2019, we added new e-payment options for premium collection, which drove an increase in the proportion of new business premiums collected digitally and was a key driver of our improved persistency experience.

Singapore

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions, except VONB margin)		
VONB[1]	330	352	357
VONB margin[2]	63.4%	65.5%	65.4%
ANP	520	538	547
TWPI	3,088	2,916	2,738
OPAT	621	583	558

(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.

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

AIA Singapore's VONB declined by 6% for the year ended 31 December 2020 as VONB growth in our agency business was more than offset by lower VONB in our partnership distribution channel, as sales to our offshore customer segment were particularly affected by COVID-19 related border controls. These drivers also drove a 3% decline in ANP for the year ended 31 December 2020 compared to the year ended 31 December 2019. VONB margin reduced by 2.1 percentage points to 63.4% for the year ended 31 December 2020, as the reduction in the first half of the year ended 31 December 2020 primarily driven by acquisition expense overruns and a higher propotion of single premium unit-linked business was mostly offset in the second half of the year ended 31 December 2020, reflecting a positive shift in product mix and a reduction in acquisition expense overruns as new business volumes increased.

OPAT increased by 7% for the year ended 31 December 2020 compared to the year ended 31 December 2019, driven by a combination of growth in our in-force portfolio and positive operating experience.

Agency productivity increased in the year ended 31 December 2020, supported by widespread adoption of our new digital sales capabilities that enabled our agents to sell remotely even during strict lockdowns. As containment measures eased, a significant proportion of sales continued to be completed without an in-person meeting.

Year Ended 31 December 2019 Compared with Twelve Months Ended 31 December 2018

AIA Singapore reported VONB of US$352 million for the year ended 31 December 2019. ANP decreased by 2% to US$538 million for the year ended 31 December 2019 compared with the twelve months ended 31 December 2018, as growth in regular premium new business was offset by lower single premium sales in our partnership distribution channels. VONB margin remained consistent at 65.5% for the year ended 31 December 2019. OPAT increased by 4% to US$583 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, with underlying premium growth partly offset by continuing pressure on the profitability of our HealthShield portfolio.

We are committed to our Premier Agency strategy in Singapore with an ongoing focus on quality recruitment, professional career development and investing in next-generation integrated digital platforms. Continued execution of our strategic priorities has enabled AIA Singapore to maintain its market leadership in agency distribution with the largest number of MDRT registered members in Singapore. During the year ended 31 December 2019, we delivered an increase in the number of active agents which supported modest VONB growth from our agency.

Our strategic bancassurance partnership with Citibank delivered VONB growth for the year ended 31 December 2019, supported by an increase in both the number and productivity of insurance specialists in the mass affluent and retail customer segments. For the year ended 31 December 2019, overall VONB was lower from partnership distribution as we maintained our disciplined approach to the pricing of single premium high net worth products through our broker and non-exclusive bancassurance channels in the face of intensifying competition.

During the year ended 31 December 2019, AIA Singapore launched a first-in-market, bespoke wealth solution, which provides customers with a unique combination of protection cover and access to a selected group of leading global asset managers. We also launched two new critical illness products that provide new benefits for the Singapore market, including cover for mental illness and comprehensive protection across all stages of critical illness, including chronic conditions such as Type 2 Diabetes that are often early indicators of more serious illnesses. In addition to these new product launches, we also continued to focus on proactively mitigating the effects of rising medical claims costs on our HealthShield portfolio through the introduction of deductibles, active re-pricing and strengthened relationships with key medical providers in the market.

During the year ended 31 December 2019, we launched a new online platform enabling our agents to handle all customer requests digitally. We also rolled out major enhancements to our customer service application, My AIA SG, with full integration with our award-winning AIA Vitality wellness programme to provide a seamless digital customer experience. My AIA SG has been widely adopted by our customers and over 70% of customer service requests are now submitted and responded to digitally.

Malaysia

	Twelve months ended 31 December		
	2020	2019	2018
	(in US$ millions, except VONB margin)		
VONB(1)	222	258	247
VONB margin(2)	59.9%	63.1%	63.8%
ANP	369	406	382
TWPI	2,216	2,142	2,083
OPAT	326	333	320

(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.

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

AIA Malaysia's VONB and ANP for the year ended 31 December 2020 declined by 14% and 9%, respectively, mainly driven by strict COVID-19 related movement restrictions. VONB margin decreased from 63.1% for the year ended 31 December 2019 to 59.9% for the year ended 31 December 2020 due to acquisition expense overruns.

OPAT declined by 2% for the year ended 31 December 2020 compared to the year ended 31 December 2019, mostly due to a one-off provision for an industry-wide initiative to identify and pay accumulated unreported death claims. Excluding this provision, OPAT increased by 8% for the year ended 31 December 2020.

In the agency channel, our continued focus on quality recruitment helped deliver growth in the number of new recruits for the year ended 31 December 2020 compared to the year ended 31 December 2019. In the second half of the year ended 31 December 2020, the number of active agents and case productivity exceeded 2019 levels and the widespread adoption of our new mobile-enabled digital tools. introduced in the first half of the year ended 31 December 2020, supported performmance. In the partnership distribution channel, we worked with our exclusive bancassurance partner, Public Bank Berhad, to enhance and streamline in-branch activity management process, which helped to nearly double the VONB in the second half of the year ended 31 December 2020 compared with the first half of the year ended 31 December 2020.

Year Ended 31 December 2019 Compared with Twelve Months Ended 31 December 2018

AIA Malaysia reported 4% growth in VONB to US$258 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018. ANP increased by 6% to US$406 million for the year ended 31 December 2019, while VONB margin decreased by 0.7 percentage points to 63.1% as a positive product mix shift towards individual protection products was offset by regulatory changes to unit-linked products in the second half of the year ended 31 December 2019. Overall VONB growth was also supported by growth in our Takaful business, mainly driven by credit life sales from the bancassurance channel. OPAT increased by 4% to US$333 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 as underlying business growth was partially offset by higher medical claims driven by the greater incidence of seasonal infectious diseases in the second half of the year ended 31 December 2019.

Our agency delivered VONB growth for the year ended 31 December 2019, driven by the positive impact of a new quality recruitment platform launched in the first half of the year ended 31 December 2019. Recruits from this programme accounted for half of AIA Malaysia's total new agent recruits for the year ended 31 December 2019 and they were more active compared to our standard new agents, supporting ANP growth from new agents. The success of our quality recruitment initiative was enabled by our continuing investments in digital platforms. For example, our new digital recruitment tool enables agency leaders to track and manage the end-to-end recruitment process and is now used to process applications for all new agency recruits.

In partnership distribution, our strategic partnership with Public Bank Berhad delivered VONB growth during the year ended 31 December 2019 from in-branch distribution, which was supported by an increase in the number of active insurance specialists. However, this was offset by lower sales in our direct marketing channel and the impact of reduced VONB margins for our corporate solutions broker and direct sales force channels after we strengthened our persistency and claims assumptions. Direct marketing sales recorded a decline during the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 partly as a result of an increase in alleged fraudulent telephone activities generally across the country that adversely affected consumer confidence in direct selling through telemarketing.

AIA Malaysia continues to actively expand its range of health and wellness propositions and services for our customers. For the year ended 31 December 2019, we included a first-in-market mental health benefit in our award-winning health rider and launched new personal case management services through our regional partnership with Medix. Our campaign to upgrade our customers who have legacy medical riders to our new health rider has prompted eligible customers to upgrade their plans since the offer was launched. We continued to enhance our AIA Vitality programme for the year ended 31 December 2019.

Other Markets

Other Markets include AIA's operations in Australia (including New Zealand), Cambodia, Indonesia, South Korea, Sri Lanka, the Philippines, Taiwan (China), Vietnam and Myanmar (which began operations as a wholly owned foreign life insurer in November 2019), as well as our 49% shareholding in our joint venture in India. The financial results from our 49% shareholding in our joint venture with the Tata Group are included in OPAT on an equity accounted basis.

For the years ended 31 December 2020 and 2019, ANP and VONB for Other Markets included the contribution attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.

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

However, the TWPI does not include any contribution from Tata AIA Life because we account for the IFRS results of Tata AIA Life using the equity method of accounting. The IFRS results attributable to our 49% interest in Tata AIA Life are reflected in our consolidated income statement within the line item "Share of losses from associates and joint ventures" included in OPAT. Accordingly, OPAT set out below and elsewhere in this Offering Circular includes the contribution from Tata AIA Life.

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions, except VONB margin)		
VONB[(1)(2)]	514	535	435
VONB margin[(3)]	38.4%	41.9%	35.8%
ANP[(2)]	1,334	1,271	1,206
TWPI[(4)]	6,978	6,681	6,377
OPAT[(5)(6)]	687	772	826

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

(2) For the years ended 31 December 2020 and 2019, ANP and VONB included the contribution from Tata AIA Life attributable to our 49% interest in Tata AIA Life. Prior comparatives have not been restated and do not include any contribution from Tata AIA Life.
(3) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.
(4) TWPI excludes the contribution from Tata AIA Life.
(5) OPAT includes the contribution from Tata AIA Life.
(6) Prior to 1 January 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 1 January 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. While the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation, the comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable.

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

VONB for the Other Markets segment was lower by 4% for the year ended 31 December 2020 compared to the year ended 31 December 2019, following lower VONB in New Zealand, the Philippines and Indonesia. This was offset by positive VONB growth in the remaining markets in the Other Markets segment for the year ended 31 December 2020 compared to the year ended 31 December 2019, particularly from Vietnam, Taiwan (China) and India.

OPAT declined by 11% for the year ended 31 December 2020 compared to the year ended 31 December 2019, primarily due to a US$68 million decrease in OPAT from Australia for the year ended 31 December 2020 compared to the year ended 31 December 2019 as a result of lower profitability from disability insurance policies. Growth in OPAT in Taiwan (China) and Vietnam broadly offset lower OPAT from Indonesia, the Philippines and South Korea.

Australia & New Zealand: While there was positive growth in ANP for the year ended 31 December 2020, our business in Australia and New Zealand recorded a lower VONB due to acquisition expense overruns and a higher mix of group insurance business, with the onboarding of a new large group insurance scheme as well as several successful renewals. This was moderated by our long term bancassurance partnerships with Commonwealth Bank of Australia (CBA) and ASB Bank Limited (ASB), which generated a significant one-off contribution to VONB as both CBA and ASB purchased mortality cover on behalf of their existing home loan customers in the first half of the year ended 31 December 2020.

Cambodia: We continued to expand our distribution reach through geographical expansion outside of Phnom Penh, and opened multiple new agency offices and additional branches with our strategic distribution partners.

Indonesia: AIA Indonesia reported a decline in VONB in the year ended 31 December 2020 as the VONB growth in our bancassurance business driven by our strategic partnership with Bank Central Asia was more than offset by a decline in agency VONB due to COVID-19 social distancing restrictions. This was partly offset by an improvement in the second half of the year ended 31 December 2020 from higher activity and productivity of new agents.

Myanmar: Following the official launch of our Myanmar business at the end of November 2019, our focus for the year ended 31 December 2020 was on building a foundation for our multi-channel distribution platforms and awareness of the AIA brand. In addition, AIA Myanmar launched its first long-term bancassurance partnership.

Philippines: Our operations in the Philippines reported a decline in VONB for the year ended 31 December 2020 following the nationwide lockdown implemented since mid-March 2020. Community quarantine restrictions of varying levels remain in-force across the country, which has created sustained headwinds to both agency and bancassurance businesses.

South Korea: AIA Korea delivered VONB growth for the year ended 31 December 2020, supported by a strong performance in direct marketing. We launched an omni-channel distribution model in November 2020 with SK Telecom, SK holdings C&C, and our new strategic distribution partner, Samsung Card. Under this model, we use data analytics and digital marketing to embed our shared-value protection propositions into the customer journeys of the online and mobile ecosystems of our partners.

Sri Lanka: AIA Sri Lanka delivered VONB growth for the year ended 31 December 2020 as we implemented several new digital tools to support remote agency recruitment and training, as well as enhancing the buy, service and claim customer journeys. This supported a recovery in the second half of the year ended 31 December 2020, with increased agency recruitment and growth in the number of active agents.

Taiwan (China): AIA Taiwan delivered VONB growth for the year ended 31 December 2020, primarily driven by sales momentum in our broker channel. We continue to focus on delivering insurance solutions that meet targeted customer needs for retirement and legacy planning, and strengthening our relationships with key bancassurance and IFA partners.

Vietnam: AIA Vietnam delivered VONB growth for the year ended 31 December 2020 from both agency and partnership channels. Agency remained the primary distribution channel for AIA Vietnam and an increase in the number of active agents and recruitment momentum drove the continued expansion of our Premier Agency. VONB margin increased as a result of a shift towards higher-margin protection products following the introduction of a series of first-in-market features to our health and critical illness products.

India: Tata AIA Life delivered VONB growth through its differentiated multi-channel distribution platform and protection focus. Our highly-digitalised model was crucial in enabling business continuity and driving growth through the COVID-19 pandemic. Tata AIA Life maintained its leading position in the pure retail protection market, and our high-quality Premier Agency continued to be a leader in the industry in terms of agent productivity. The business renewed its distribution agreement with Indusind Bank Ltd. and we announced a long-term strategic partnership with Practo Pte. Ltd. Through this partnership, Tata AIA Life will become the exclusive provider of life insurance solutions to Practo's digital healthcare platform, which has 175 million unique users, and Tata AIA Life's customers will gain preferred access to Practo's leading digital healthcare platform.

Year Ended 31 December 2019 Compared with Twelve Months Ended 31 December 2018

As previously reported, Other Markets delivered 23% VONB growth for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, led by Australia, the Philippines and Vietnam. VONB growth for the segment was 10% excluding the contribution from Tata AIA Life's results. ANP grew by 5% to US$1,271 million and VONB margin increased by 6.1 percentage points to 41.9%, in each case for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018. OPAT was US$823 million for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 as the earnings contribution from strong new business growth was partially offset by a deterioration of operating experience in South Korea and higher operating expenses incurred by AIA Australia in response to various regulatory changes.

Australia: For the year ended 31 December 2019, AIA's business in the Australia segment overall delivered VONB growth despite a challenging operating environment. Total premiums for the life insurance industry overall in Australia declined as consumer sentiment for financial services remains subdued in the wake of the Financial Services Royal Commission and subsequent regulatory changes. The Retail Employees Superannuation Trust (REST), AIA Australia's largest in-force group scheme client, ran a competitive tender process during the year ended 31 December 2019 and decided to move their scheme to another provider after the pre-existing scheme expired in November 2019. In New Zealand, we introduced our AIA Vitality proposition to the market by integrating the programme with a new flagship protection product launched under the consolidated AIA brand in the second half of the year ended 31 December 2019.

On 1 November 2019, we executed the JCA with CBA in Australia that enabled AIA to exercise a level of direct management control of the CMLA businesses. We also extended our strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand to up to 25 years. We initiated sales through the bancassurance partnership with CBA in Australia in December 2019.

Cambodia: Our strategic priorities for AIA Cambodia remain focused on increasing scale with our multi-channel distribution strategy by expanding our agency force and building momentum with our strategic partners. For the year ended 31 December 2019, we increased the number of active agents.

Indonesia: VONB for our business in Indonesia declined for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 as we established a new quality agency recruitment platform while proactively reducing the number of unproductive agents. Our business returned to positive VONB growth in the second half of the year ended 31 December 2019 with VONB growth from our strategic partnership with BCA as new recruitment and activity management initiatives helped drive growth in the number of active in-branch insurance specialists.

Myanmar: In November 2019, AIA was granted a licence to operate a life insurance business in Myanmar through a 100% wholly-owned subsidiary. Since obtaining regulatory approval for this licence, we have made progress with the launch of a multi-channel distribution platform with a strong pipeline of agency recruits and an exclusive long-term strategic partnership with AYA Financial Group and Max Myanmar Group.

Philippines: Our Philippines operations delivered VONB growth in both our agency and bancassurance channels for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018. Agency VONB growth was supported by a shift in product mix towards a new traditional protection product with comprehensive critical illness benefits. Our joint venture with BPI achieved VONB growth, supported by growth in the number of active in-branch insurance specialists and a shift towards higher-margin regular premium unit-linked products.

South Korea: AIA Korea's VONB decreased for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, despite positive growth in ANP, as margins fell in the direct marketing channel following a regulatory mandated re-pricing exercise in the second quarter of the year ended 31 December 2019. OPAT also reduced for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018 due to a deterioration in claims and persistency experience in our in-force portfolio. During the year ended 31 December 2019. AIA Korea launched a new digital direct channel aimed at accelerating insurance sales to AIA Vitality members from our strategic partnership with SK Telecom, the nation's leading telecommunications provider by number of customers.

Sri Lanka: VONB growth for our Sri Lankan business was negative for the year ended 31 December 2019 as we faced difficult market conditions following a series of terrorist attacks in the first half of the year ended 31 December 2019 that dampened the macroeconomic outlook and negatively impacted consumer confidence.

Taiwan (China): AIA Taiwan delivered VONB growth for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018, primarily driven by strong bancassurance sales momentum. We continued to focus on offering insurance solutions that meet targeted customer needs for legacy planning and retirement, using effective marketing campaigns and delivering comprehensive sales support for our key bank and IFA partners.

Vietnam: Our business in Vietnam continued its strong performance track record with VONB growth for the year ended 31 December 2019 compared to the twelve months ended 31 December 2018. In agency, we delivered VONB growth by increasing productivity through a continuing focus on our Premier Agency strategy. Our bancassurance channel increased VONB as we increased the number of active insurance specialists in our strategic partnership with VP Bank and with our other domestic bank partners.

India: Tata AIA Life's multi-channel strategy means that both our agency and partnership distribution channels contributed to total VONB, which grew during the year ended 31 December 2019 compared to the twelve months ended 31 December 2018. Tata AIA Life differentiates itself in the Indian insurance market with a protection-focused product strategy, a commitment to growing a high-quality Premier Agency and further developing its multiple bank partnerships. For the year ended 31 December 2019, the business maintained its leading position in the pure retail protection market, and our agency force remained among the most productive in the industry.

EV EQUITY

The following table sets forth EV and EV Equity as of 31 December 2020, 2019 and 2018.

	As of 31 December		
	2020	2019	2018
	(in US$ millions)		
EV	**65,247**	**61,985**	**54,517**
Goodwill and other intangible assets[1]	1,938	1,920	1,686
EV Equity	**67,185**	**63,905**	**56,203**

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

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

EV Equity increased by US$3,280 million to US$67,185 million at 31 December 2020, an increase of 5% from US$63,905 million at 31 December 2019, mainly driven by EV operating profit of US$7,243 million and positive exchange rate movements of US$1,164 million, which were partly offset by negative investment return variances of US$1,868 million and the negative effect of reduced long-term economic assumptions of US$1,013 million.

EV Equity included goodwill and other intangible assets of US$1,938 million at 31 December 2020, compared with US$1,920 million at 31 December 2019. This increase was due to the purchase price adjustment of US$18 million arising from the acquisition of CMLA.

Year Ended 31 December 2019 Compared with Twelve Months Ended 31 December 2018

EV Equity increased by US$7,702 million to US$63,905 million at 31 December 2019, an increase of 14% from US$56,203 million at 31 December 2018, mainly driven by EV operating profit, positive investment return variances of US$517 million reflecting the effect of short-term equity and other capital market movements on our investment portfolio and statutory reserves compared with long-term expected returns, and the positive effect of foreign exchange movements of US$670 million, partly offset by the negative effect of economic assumption changes of US$254 million.

EV Equity included goodwill and other intangible assets of US$1,920 million at 31 December 2019, compared with US$1,686 million at 31 December 2018. The increase arose primarily from the net effect from the acquisition of CMLA, which comprised of the purchase price of US$1,454 million and the acquired EV of US$1,207 million.

Analysis of EV Movement

The following tables set forth the movement in EV for the years ended 31 December 2020, 2019 and 2018.

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

	Year ended 31 December 2019		
	Adjusted Net Worth	Value of In-Force Business	Embedded Value
		(in US$ millions)	
Opening EV	**24,637**	**29,880**	**54,517**
Purchase Price	(1,454)	-	(1,454)
Acquired EV	790	417	1,207
Effect of Acquisition	(664)	417	(247)
Value of new business	(702)	4,856	4,154
Expected return on EV	5,072	(967)	4,105
Operating experience variances	394	206	600
Operating assumption changes	(18)	52	34
Finance costs	(208)	-	(208)
EV operating profit	**4,538**	**4,147**	**8,685**
Investment return variances	(942)	1,459	517
Effect of changes in economic assumptions	65	(319)	(254)
Other non-operating variances	2,491	(2,569)	(78)
Total EV profit	**6,152**	**2,718**	**8,870**
Dividends	(1,961)	-	(1,961)
Other capital movements	136	-	136
Effect of changes in exchange rates	(59)	729	670
Closing EV	**28,241**	**33,744**	**61,985**

	Year ended 31 December 2018		
	Adjusted Net Worth	Value of In-Force Business	Embedded Value
		(in US$ millions)	
Opening EV	**20,974**	**29,805**	**50,779**
Purchase Price	(918)	-	(918)
Acquired EV	487	320	807
Effect of Acquisition	(431)	320	(111)
Value of new business	(660)	4,615	3,955
Expected return on EV	4,550	(657)	3,893
Operating experience variances	355	257	612
Operating assumption changes	29	(38)	(9)
Finance costs	(173)	-	(173)
EV operating profit	**4,101**	**4,177**	**8,278**
Investment return variances	(1,428)	(790)	(2,218)
Effect of changes in economic assumptions	(3)	50	47
Other non-operating variances	3,452	(3,182)	270
Total EV profit	**6,122**	**255**	**6,377**
Dividends	(1,589)	-	(1,589)
Other capital movements	98	-	98
Effect of changes in exchange rates	(537)	(500)	(1,037)
Closing EV	**24,637**	**29,880**	**54,517**

EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements are shown in the table below.

	EV as of 31 December 2020	Year ended 31 December 2020 VONB	EV as of 31 December 2019	Year ended 31 December 2019 VONB	EV as of 31 December 2018	Year ended 31 December 2018 VONB
			(in US$ millions)			
Central value	**65,247**	**2,765**	**61,985**	**4,154**	**54,517**	**3,955**
Impact of Equity price changes						
10% increase in equity prices……	1,099	n/a	968	n/a	736	n/a
10% decrease in equity prices	(1,095)	n/a	(967)	n/a	(731)	n/a
Impact of Interest rate changes						
50 basis points increase in interest rates	652	193	719	151	158	142
50 basis points decrease in interest rates	(1,294)	(298)	(797)	(207)	(249)	(184)

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

EV operating profit decreased by 17% to US$7,243 million at 31 December 2020 compared to 31 December 2019. This performance was the result of negative 33% growth in VONB to US$2,765 million, expected return on EV of US$4,176 million and positive operating variances of US$549 million. Expected return on EV grew at 2% to US$4,176 million, primarily due to the increased size of our in-force portfolio.

EV grew by US$3,262 million to US$65,247 million at 31 December 2020. The increase in EV was mainly driven by EV operating profit of US$7,243 million and positive exchange rate movements of US$1,164 million, which were partially offset by negative investment return variances of US$1,868 million and the impact of reduced long-term economic assumptions of US$1,013 million, both reflecting the sharp reduction in government bond yields, most notably in the United States and Thailand in the year ended 31 December 2020.

EV is shown after the payment of shareholder dividends of US$1,997 million and a deduction of US$18 million for the acquisition of CMLA due to the purchase price adjustment.

Year Ended 31 December 2019 Compared with Year Ended 31 December 2018

EV operating profit increased by 5% to US$8,685 million at 31 December 2019 compared to 31 December 2018. This performance was the result of 5% growth in VONB to US$4,154 million, expected return on EV of US$4,105 million and positive operating variances of US$634 million. Expected return on EV grew at 5% to US$4,105 million, primarily due to the depressed opening EV resulting from the negative investment return variance at 31 December 2018.

EV grew by US$7,468 million to US$61,985 million at 31 December 2019. The increase in EV was mainly driven by EV operating profit of US$8,685 million, positive investment return variances of US$517 million, reflecting the positive effect of short-term capital market movements on our investment portfolio and statutory reserves compared with long-term expected returns, and the positive effect of foreign exchange movements of US$670 million, partly offset by the negative effect of economic assumption changes of US$254 million.

EV is shown after the payment of shareholder dividends of US$1,961 million and a deduction of US$247 million for the net effect from the acquisition of CMLA, which comprised of the purchase price of US$1,454 million and the acquired EV of US$1,207 million.

LIQUIDITY AND CAPITAL RESOURCES

The Group's liquidity and capital resources are managed on a group-wide basis, working closely with our subsidiaries and branches. Our principal cash inflows come from insurance premiums, deposits, policy fees, management fees for our unit-linked insurance products and annuity sales. In the case of the Issuer, our principal capital inflows are dividends from the operating entities and our principal capital outflows are dividends to shareholders and payments on indebtedness.

The principal sources of funds generated by our insurance operations are generally affected by fluctuations in the level of policy surrenders, withdrawals, maturities, benefits and claims and guarantees to policyholders. The Group's operating units may face liquidity pressure in the form of unexpected cash demands that could arise from an increase in the level of policyholders terminating policies. We closely monitor and manage the level of surrenders in order to minimise this liquidity risk.

We are a holding company and depend upon dividends and other distributions and payments from the Group for our cash flow, and AIA Co. depends upon dividends and other distributions and payments from its operating subsidiaries and branches for substantially all of its cash flow. The payment of dividends and other distributions and payments by the Group's subsidiaries and branches is regulated by applicable insurance, foreign exchange and tax laws, rules and regulations. The amount and timing of certain dividends, distributions and other payments by our insurance subsidiaries or branches require regulatory approval. In particular, the payment of dividends, distributions and other payments to the Issuer by AIA Co. is subject to the oversight of the HKIA. For more information see *"Regulation"* and *"Risk Factors – Risks Relating to the Instruments issued under the Programme – Our ability to service payments on the Instruments and to meet our obligations depends on dividends and other distributions and payments from and among our operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations."* As a holding company, the ability of the Issuer to pay dividends and meet its other obligations depends on dividends and other distributions and payments from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations.

Working capital is comprised of debt and equity securities, deposits and cash and cash equivalents, net of obligations under repurchase agreements, held at the Group Corporate Centre. The Group Corporate Centre is primarily comprised of the Issuer, AIA Co. and AIA International, and excludes the branches of these entities. Working capital increased by 27% to US$17,169 million as of 31 December 2020 compared with US$13,471 million as of 31 December 2019.

Net remittances from business units decreased by US$1,054 million to US$2,676 million for the year ended 31 December 2020, compared with US$3,730 million for the year ended 31 December 2019, mainly due to capital contributions to Australia that resulted from the industry-wide impact of the COVID-19 pandemic on disability claims and increased local regulatory capital requirements, which were partially offset by positive remittances from Other Markets. Net remittances of US$3,730 million for the year ended 31 December 2019 included a remittance from Thailand that had been deferred from the year ended 31 December 2018 due to the timing of required regulatory approvals.

Borrowings increased by US$2,792 million from the proceeds of the issuance of medium term notes and securities of US$2,792 million. The total increase in working capital is reported after the payment of shareholder dividends of US$1,997 million.

The movements in working capital for the twelve months ended 31 December 2020, 2019 and 2018 are summarised as follows:

	Twelve months ended 31 December		
	2020	**2019**	**2018**
	(in US$ millions)		
Opening working capital	**13,471**	**10,296**	**9,714**
Group Corporate Centre operating results[(1)]	42	(3)	(85)
Capital flows from business units			
Mainland China	1,139	1,022	542
Hong Kong	643	986	1,054
Thailand	394	1,037	149
Singapore	332	295	267
Malaysia	97	176	185
Other Markets	71	214	556
Net funds remitted to Group Corporate Centre	**2,676**	**3,730**	**2,753**
Payment for acquisition of CMLA	(839)	(344)	-
Payment for acquisition of Sovereign	-	-	(918)
Increase in borrowings	2,792	797	1,001
Payment of dividends	(1,997)	(1,961)	(1,589)
Purchase of shares held by the employee share-based trusts	(16)	(21)	(11)
Change in fair value reserve and others[(1)]	1,040	977	(569)
Closing working capital	**17,169**	**13,471**	**10,296**

(1) Prior to 1 January 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 1 January 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. While the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation, the comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable.

During the twelve months ended 31 December 2020, AIA introduced a new disclosure that we believe provides better insight into the financial resources that are directly available for paying shareholder dividends, servicing the interest on our borrowings, and providing both financial support and investment into our businesses.

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

The movements in holding company financial resources for the twelve months ended 31 December 2020 and 2019 are summarised as follows:

	Twelve months ended 31 December	
	2020	**2019**
	(in US$ millions)	
Opening holding company financial resources	**8,630**	**8,339**
Capital flows from subsidiaries	2,354	2,603
Corporate activity including acquisitions	-	(1,450)
Net capital flows to holding company	**(225)**	**(207)**
Net increase in borrowings[1]	2,792	797
Interest payments on borrowings[1]	(245)	(228)
Investment income, mark-to-market movements in debt securities and others	854	530
Closing holding company financial resources before dividends	**14,385**	**10,591**
Dividends paid	(1,997)	(1,961)
Closing holding company financial resources	**12,388**	**8,630**

	As of 31 December	
	2020	**2019**
	(in US$ millions)	
Assets recoverable and liabilities repayable within 12 months:		
Loans to/amounts due from subsidiaries[2]	90	84
Medium term notes and securities[3]	(1,002)	-
Net other assets and other liabilities	(14)	(3)
Closing holding company financial resources available after 12 months	**11,462**	**8,711**

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

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

(3) As at 31 December 2020 and 2019, medium term notes and securities placed to the market were US$8,559 million and US$5,757 million, respectively. US$1,002 million and nil were repayable within 12 months after the years ended 31 December 2020 and 2019, respectively. Details of the medium term notes and securities placed to the market are included in note 30 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

Across the Group, liquidity is also available from our portfolio of investment assets. Our investments generally comprise highly liquid and marketable securities, which generally could be liquidated to meet cash needs. We seek to augment our liquidity by employing various liability management techniques, including staggering of maturities of term deposits and investing in marketable short-term securities. As of 31 December 2020, our investments in fixed maturity financial assets had a fair value of US$211,245 million. In some of the markets in which we invest, we are subject to market liquidity risk due to the significant size of our local currency denominated investments.

Our cash inflows and existing cash balances are used to pay liabilities under various traditional life, unit-linked and universal life, A&H and group insurance products, and to purchase investment assets. We also use our funds to pay operating expenses, income and other taxes and to meet our other obligations, including payments on our indebtedness and dividends that may be declared and payable to our shareholders.

The following table sets forth a maturity analysis presenting the estimated maturity of carrying amounts in our consolidated statement of financial position as of 31 December 2020.

	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity[(2)]
			(in US$ millions)			
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	8,940	1,997	1,013	580	1,793	3,557
Other receivables	2,574	2,477	50	13	-	34
Debt securities	195,478	3,973	21,353	31,072	139,080	-
Equity securities	30,950	-	-	-	-	30,950
Reinsurance receivables	671	671	-	-	-	-
Accrued investment income	1,757	1,756	1	-	-	-
Cash and cash equivalents	4,400	4,400	-	-	-	-
Derivative financial instruments	1,016	189	189	249	389	-
Subtotal	**245,786**	**15,463**	**22,606**	**31,914**	**141,262**	**34,541**
Financial assets (Unit-linked contracts and consolidated investment funds)	36,499	-	-	-	-	36,499 [(3)]
Total	**282,285**	**15,463**	**22,606**	**31,914**	**141,262**	**71,040**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	169,477	4,316	15,559	17,309	132,293	-
Borrowings	8,559	1,002	1,414[(1)]	2,548	3,595	-
Obligations under repurchase and securities lending agreements	1,664	1,664	-	-	-	-
Other liabilities excluding lease liabilities	4,025	2,305	240	150	171	1,159
Lease liabilities	539	177	325	35	2	-
Derivative financial instruments	991	135	534	109	213	-
Subtotal	**185,255**	**9,599**	**18,072**	**20,151**	**136,274**	**1,159**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	35,125	-	-	-	-	35,125
Total	**220,380**	**9,599**	**18,072**	**20,151**	**136,274**	**36,284**

(1) This includes borrowings of US$1,246 million that fall due after 2 years through 5 years.

(2) Financial assets with no fixed maturity are considered equities or receivables on demand which the Group has the choice to call. Similarly, financial liabilities with no fixed maturity are considered payable on demand as the counterparty has a choice of when the amount is paid.

(3) The total value of amounts within financial assets (unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (unit-linked contracts and consolidated investment funds). Included within financial assets (unit-linked contracts and consolidated investment funds) are debt securities of US$433 million due in one year or less, US$2,622 million due after 1 year through 5 years, US$1,934 million due after 5 years through 10 years and US$1,414 million due after 10 years, in accordance with the contractual terms of the financial investments.

Indebtedness

Borrowings

As of 31 December 2020, we had borrowings of US$8,559 million, which were in the form of outstanding notes and securities placed to the market under our medium term note and securities programme.

The following table summarises the Group's outstanding medium term notes and securities as of 31 December 2020:

Issue date	Nominal amount	Interest rate	Tenor
Senior Notes			
13 March 2013[(1)]	US$500 million	3.125%	10 years
11 March 2014[(1)]	US$500 million	4.875%	30 years
11 March 2015[(1)]	US$750 million	3.200%	10 years
16 March 2016[(1)]	US$750 million	4.500%	30 years

23 May 2017[2]	US$500 million	4.470%	30 years
6 April 2018[1]	US$500 million	3.900%	10 years
12 April 2018	HK$3,900 million	2.760%	3 years
20 September 2018[1]	US$500 million	3 months LIBOR + 0.52%	3 years
16 January 2019	HK$1,300 million	2.950%	3.5 years
16 January 2019	HK$1,100 million	3.680%	12 years
9 April 2019[1]	US$1 billion	3.60%	10 years
7 April 2020[1]	US$1 billion	3.375%	10 years
24 June 2020	A$90 million	2.950%	10 years
Subordinated Securities			
16 September 2020[1][3]	US$1,750 million	3.200%	20 years

(1) These medium term notes and securities are listed on The Stock Exchange of Hong Kong Limited.
(2) These medium term notes are listed on the Taipei Exchange, Taiwan (China).
(3) These medium term securities are subordinated instruments of the Issuer. The Issuer has the right to redeem these securities in the event of a tax event, regulatory event or a minimal outstanding amount, or to conduct a make-whole redemption, subject to the satisfaction of the applicable redemption conditions.

The Group has access to an aggregate of US$2,290 million unsecured committed credit facilities, which includes a US$100 million revolving three-year credit facility expiring in 2023 and a US$2,190 million five-year credit facility expiring in 2025, both subject to certain extension options. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 31 December 2020.

Historical cash flows

The table below shows our net cash flows from operating, investing and financing activities for the periods indicated:

	Year ended 31 December 2020	Year ended 31 December 2019	Thirteen months ended 31 December 2018[1]
		(in US$ millions)	
Net cash provided by operating activities	2,357	3,337	2,020
Net cash used in investing activities	(1,219)	(245)	(828)
Net cash provided by/(used in) financing activities	392	(1,520)	(784)
Net increase in cash and cash equivalents	**1,530**	**1,572**	**408**
Cash and cash equivalents at the beginning of the financial period	3,753	2,146	1,787
Effect of exchange rate changes on cash and cash equivalents	110	35	(49)
Cash and cash equivalents at the end of the financial period	**5,393**	**3,753**	**2,146**

(1) The 2018 audited consolidated financial statements reflect the adoption of a new year-end date for the thirteen months ended 31 December 2018. The 2020 and 2019 audited consolidated financial statements reflect a year-end date of 31 December. Consequently, the financial information for the years ended 31 December 2020 and 2019, respectively, are not directly comparable with the financial information for the thirteen months ended 31 December 2018. For additional information, see the notes to our audited consolidated financial statements as of and for the year ended 31 December 2019 included elsewhere in this Offering Circular and "Risk Factors – Certain amounts presented in this Offering Circular are for the thirteen months ended 31 December 2018, and such period may not be directly comparable to the years ended 31 December 2020 and 2019".

Year Ended 31 December 2020 Compared with Year Ended 31 December 2019

Our operating activities include our net purchases and sales of financial investments. Net cash provided by operating activities was US$2,357 million in the year ended 31 December 2020 compared with net cash provided by operating activities of US$3,337 million in the year ended 31 December 2019, primarily reflecting increased insurance and investment contract liabilities and cash outflow of financial investments.

Our investing activities consist of acquisitions of subsidiaries and associates, acquisitions and disposals of real estate and intangible assets. Net cash used in investing activities was US$1,219 million in the year ended 31 December 2020 compared with net cash used in investing activities of US$245 million in the year ended 31 December 2019. This increase was primarily due to the payments in relation to the acquisition of CMLA in the year ended 31 December 2019.

Our financing activities include our borrowings and repayments, as well as movements in capital and distribution of dividends to shareholders. Net cash provided by financing activities was US$392 million in the year ended 31 December 2020 compared with net cash used in financing activities of US$1,520 million in the year ended 31 December 2019, mainly representing the issuance of medium term notes and securities and payment of dividends during the year ended 31 December 2020.

Year Ended 31 December 2019 Compared with Thirteen Months Ended 31 December 2018

Net cash provided by operating activities was US$3,337 million in the year ended 31 December 2019 compared with net cash provided by operating activities of US$2,020 million in the thirteen months ended 31 December 2018, primarily reflecting higher dividends received and increased insurance and investment contract liabilities and cash outflow of financial investments.

Net cash used in investing activities was US$245 million in the year ended 31 December 2019 compared with net cash used in investing activities of US$828 million in the thirteen months ended 31 December 2018. This decrease was primarily due to the payments in relation to the acquisition of Sovereign in the thirteen months ended 31 December 2018.

Net cash used in financing activities was US$1,520 million in the year ended 31 December 2019 compared with net cash used in financing activities of US$784 million in the thirteen months ended 31 December 2018, mainly representing payment of dividends and the issuance of medium term notes during the year ended 31 December 2019.

Insurance Solvency Margin

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 Co. and AIA International levels is the HKIA, which requires that AIA Co. and AIA International meet the solvency margin requirements of the HKIO. The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. AIA has given a revised 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. For a discussion of our undertakings to the HKIA, see *"Regulation – Regulatory Framework – Hong Kong – Power of Intervention"*.

The information below sets forth the total available capital, regulatory minimum capital and solvency ratio for AIA Co. under the HKIO as of the dates indicated.

	As of 31 December		
	2020	**2019**	**2018**
	(in US$ millions, except ratios)		
Total available capital	9,780	11,856	9,208
Regulatory minimum capital	2,000	3,272	2,189
Solvency ratio	489%	362%	421%

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.

Group Local Capital Summation Method solvency position

Under our current understanding of the likely application of the GWS framework to the Group, AIA's 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 and required capital according to the regulatory requirements for each relevant regulated entity within the Group. The Local Capital Summation Method ("**LCSM**") surplus is the difference between the Group available capital and the Group minimum capital requirement. The Group LCSM Cover Ratio is the ratio of the Group available capital to the Group minimum capital requirement.

On this basis, at 31 December 2020, the Group LCSM surplus was US$43,817 million, with a Group LCSM Cover Ratio of 374%. The calculation of the Group LCSM surplus included US$1,735 million of subordinated securities issued in September 2020 that we expect will be eligible tier 2 debt capital. The following table summarises the position based on our current understanding of the likely application of the GWS framework to the Group:

	As of 31 December	
	2020	**2019**
	(in US$ millions, except ratios)	
Group available capital	59,830	51,751
Group minimum capital requirement	16,013	14,139
Group LCSM surplus	43,817	37,612
Group LCSM Cover Ratio................................	374%	366%

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, and the Group's other operating units perform similar annual filings with their respective local regulators.

Our ability to pay dividends to shareholders and to meet other obligations depends ultimately on dividends, remittances and other payments being received from our 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. The payment of dividends, distributions and other payments to shareholders are subject to the oversight of the HKIA.

We have given the HKIA an undertaking as summarised in *"Regulation – Regulatory Framework – Hong Kong – Power of Intervention"* and note 37 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

Contingencies

We are subject to regulation in each of the geographical markets in which we operate from insurance, securities, capital markets, pension, data privacy and other regulators and we are 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.

We are exposed to legal proceedings, complaints and other actions from our activities including those arising from commercial activities, sales practices, suitability of products, policies, claims and taxes.

We are the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. Due to a change in law, further cessions under this contract ended in July 2008. This reinsurance was fully retroceded to a subsidiary of American International Group, Inc. ("**AIG**") and this retrocession was terminated in February 2012 on a run-off basis. We are exposed to risk of losses in the event of the failure of the counterparty retrocessionaire to honour our outstanding obligations. This risk is mitigated by a trust agreement that was established after the aforementioned termination and a novation in September 2015 of the run-off obligations to another subsidiary within AIG, which in contrast to the prior retrocessionaire has an investment grade rating issued to it by credit rating agencies. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates was approximately US$479 million as of 31 December 2020 as compared with US$462 million as of 31 December 2019 and US$486 million as of 31 December 2018. We expect to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

Commitments and Contractual obligations

Investment and capital commitments

Our investment and capital commitments consist of commitments to invest in private equity partnerships and other assets. Our total future aggregate minimum investment commitments as of 31 December 2020 are as follows:

	(in US$ millions)
Not later than 1 year	2,504
Later than 1 year and not later than 5 years	174
Later than 5 years	16
Total investment and capital commitments...	**2,694**

Off-balance sheet arrangements

Except as described in "– *Contractual Obligations*", we have no other material off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of financial loss from adverse movements in the value of assets owing to market factors, including changes in interest and foreign exchange rates, as well as movements in the spread of credit instruments to corresponding government bonds, or credit spread risk, and in equity and property prices. See "*Business – Risk Management*".

Interest rate risk

Our 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.

We manage our 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.

	As of 31 December 2020			
	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	(in US$ millions)			
Financial assets:				
Loans and deposits	1,020	7,421	894	9,335
Other receivables	69	1	2,636	2,706
Debt securities	10,735	191,146	-	201,881
Equity securities	-	-	59,182	59,182
Reinsurance receivables	-	-	671	671
Accrued investment income	-	-	1,822	1,822
Cash and cash equivalents	4,071	-	1,548	5,619
Derivative financial instruments	-	-	1,069	1,069
Total financial assets	15,895	198,568	67,822	282,285
Financial liabilities:				
Investment contract liabilities	-	-	12,569	12,569
Borrowings	500	8,059	-	8,559
Obligations under repurchase and securities lending agreements	1,664	-	-	1,664
Other liabilities	409	503	6,885	7,797
Derivative financial instruments	-	-	1,003	1,003
Total financial liabilities	2,573	8,562	20,457	31,592

	As of 31 December 2019			
	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	(in US$ millions)			
Financial assets:				
Loans and deposits	1,042	8,238	806	10,086
Other receivables	2	1	2,677	2,680
Debt securities	8,229	163,755	-	171,984
Equity securities	-	-	50,322	50,322
Reinsurance receivables	-	-	683	683
Accrued investment income	-	-	1,710	1,710
Cash and cash equivalents	3,639	-	302	3,941
Derivative financial instruments	-	-	971	971
Total financial assets	**12,912**	**171,994**	**57,471**	**242,377**
Financial liabilities:				
Investment contract liabilities	-	-	11,906	11,906
Borrowings	500	5,257	-	5,757
Obligations under repurchase and securities lending agreements	1,826	-	-	1,826
Other liabilities	682	141	8,594	9,417
Derivative financial instruments	-	-	412	412
Total financial liabilities	**3,008**	**5,398**	**20,912**	**29,318**

	As of 31 December 2018			
	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	(in US$ millions)			
Financial assets:				
Loans and deposits	978	6,406	8	7,392
Other receivables	2	-	1,970	1,972

	As of 31 December 2018			
	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	(in US$ millions)			
Debt securities	6,499	133,722	-	140,221
Equity securities	-	-	38,099	38,099
Reinsurance receivables	-	-	539	539
Accrued investment income	-	-	1,604	1,604
Cash and cash equivalents	2,201	-	250	2,451
Derivative financial instruments	-	-	430	430
Total financial assets	**9,680**	**140,128**	**42,900**	**192,708**
Financial liabilities:				
Investment contract liabilities	-	-	7,456	7,456
Borrowings	500	4,454	-	4,954
Obligations under repurchase and securities lending agreements	1,683	-	-	1,683
Other liabilities	260	2	5,722	5,984
Derivative financial instruments	-	-	243	243
Total financial liabilities	**2,443**	**4,456**	**13,421**	**20,320**

Foreign exchange rate risk

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

	As of 31 December 2020(1)					
	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	Chinese Renminbi
	(In US$ millions)					
Equity analysed by original currency	35,400	4,617	6,445	(4,644)	2,516	5,862
Net currency derivative positions	(9,942)	650	3,457	4,239	135	-
Currency exposure	**25,458**	**5,267**	**9,902**	**(405)**	**2,651**	**5,862**
5% strengthening of original currency						
Impact on profit before tax	260	71	9	25	5	41
Impact on other comprehensive income	(286)	141	485	(45)	128	252
Impact on total equity	**(26)**	**212**	**494**	**(20)**	**133**	**293**
5% strengthening of the U.S. dollar						
Impact on profit before tax	260	(5)	(6)	(9)	(4)	(34)
Impact on other comprehensive income	(286)	(207)	(488)	29	(129)	(259)
Impact on total equity	**(26)**	**(212)**	**(494)**	**20**	**(133)**	**(293)**

	As of 31 December 2019 (as adjusted)[1]					
	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	Chinese Renminbi
	(In US$ millions)					
Equity analysed by original currency	29,978	3,483	6,703	(2,604)	2,312	4,612
Net currency derivative positions	(8,371)	592	3,349	3,274	(123)	(629)
Currency exposure	**21,607**	**4,075**	**10,052**	**670**	**2,189**	**3,983**
5% strengthening of original currency						
Impact on profit before tax	152	(2)	(17)	11	(8)	(25)
Impact on other comprehensive income	(180)	151	519	23	118	224
Impact on total equity	**(28)**	**149**	**502**	**34**	**110**	**199**
5% strengthening of the U.S. dollar						
Impact on profit before tax	152	46	20	4	9	26
Impact on other comprehensive income	(180)	(195)	(522)	(38)	(119)	(225)
Impact on total equity	**(28)**	**(149)**	**(502)**	**(34)**	**(110)**	**(199)**

	As of 31 December 2018					
	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	Chinese Renminbi
	(In US$ millions)					
Equity analysed by original currency	19,278	2,527	3,819	(1,821)	2,153	4,380
Net currency derivative positions	(8,448)	595	3,209	2,806	-	(560)
Currency exposure	**10,830**	**3,122**	**7,028**	**985**	**2,153**	**3,820**
5% strengthening of original currency						
Impact on profit before tax	100	(36)	7	12	3	(21)
Impact on other comprehensive income	(125)	158	344	37	105	212
Impact on total equity	**(25)**	**122**	**351**	**49**	**108**	**191**
5% strengthening of the U.S. dollar						
Impact on profit before tax	100	70	(5)	4	(2)	23
Impact on other comprehensive income	(125)	(192)	(346)	(53)	(106)	(214)
Impact on total equity	**(25)**	**(122)**	**(351)**	**(49)**	**(108)**	**(191)**

(1) For the twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

Equity price risk and interest rate 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 provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of our 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.

A 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, we have 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 our accounting policies lock in interest rate assumptions on policy inception and the 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.

	As of 31 December 2020[(1)]			As of 31 December 2019 (as adjusted)[(1)]			As of 31 December 2018		
	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)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
	(in US$ millions)								
Equity price risk:									
10% increase in equity prices	1,091	1,091	1,091	1,050	1,050	1,050	1,369	1,369	1,369
10% decrease in equity prices	(1,091)	(1,091)	(1,091)	(1,050)	(1,050)	(1,050)	(1,369)	(1,369)	(1,369)
Interest rate risk:									
+50 basis points shift in yield curves.	(550	(8,403)	(550)	(289)	(7,026)	(289)	(258)	(6,504)	(258)
-50 basis points shift in yield curves.	584	9,356	584	312	7,869	312	274	7,231	274

(1) For the twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

Liquidity risk

The liquidity principle adopted by the Board is "*We will maintain sufficient liquidity to meet our expected financial commitments as they fall due*" and as such AIA has defined liquidity risk as the risk of failure to meet current and future financial commitments as they fall due. This incorporates the risks arising from the timing mismatch of cash inflows and outflows in day-to-day operations, including collateral requirements, as well as the market liquidity of assets required for policyholder liabilities. AIA manages liquidity risk in accordance with the Group's liquidity framework. This framework contains the standards, procedures, and tools used by the Group to monitor and manage liquidity risk in base and stressed conditions across multiple time horizons from daily to twelve months. AIA further supports its liquidity by maintaining access to committed credit facilities, use of bond repurchase markets and debt markets via the Group's Global Medium-term Note and Securities Programme. The Group continues to monitor its liquidity and will take actions as appropriate.

The tables below summarise various maturities corresponding to our financial assets and financial and insurance contract liabilities as of the dates indicated.

	As of 31 December 2020[1]					
	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**
			(in US$ millions)			
Financial assets (Policyholder and Shareholder Investments)						
Loans and deposits	8,940	1,997	1,013	580	1,793	3,557
Other receivables	2,574	2,477	50	13	-	34
Debt securities	195,478	3,973	21,353	31,072	139,080	-
Equity securities	30,950	-	-	-	-	30,950
Reinsurance receivables	671	671	-	-	-	-
Accrued investment income	1,757	1,756	1	-	-	-
Cash and cash equivalents	4,400	4,400	-	-	-	-
Derivative financial instruments	1,016	189	189	249	389	-
Subtotal	**245,786**	**15,463**	**22,606**	**31,914**	**141,262**	**34,541**
Financial assets (Unit-linked contracts and consolidated investment funds)	36,499	-	-	-	-	36,499 [3]
Total	**282,285**	**15,463**	**22,606**	**31,914**	**141,262**	**71,040**
Financial and insurance contract liabilities (Policyholder and Shareholder Investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	169,477	4,316	15,559	17,309	132,293	-
Borrowings	8,559	1,002	1,414[2]	2,548	3,595	-
Obligations under repurchase and securities lending agreements	1,664	1,664	-	-	-	-
Other liabilities excluding lease liabilities	4,025	2,305	240	150	171	1,159
Lease liabilities	539	177	325	35	2	-
Derivative financial instruments	991	135	534	109	213	-
Subtotal	**185,255**	**9,599**	**18,072**	**20,151**	**136,274**	**1,159**
Financial and insurance contracts liabilities (Unit-linked contract and consolidated investment funds)	35,125	-	-	-	-	35,125
Total	**220,380**	**9,599**	**18,072**	**20,151**	**136,274**	**36,284**

(1) For the twelve months ended 31 December 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 financial information for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

(2) This includes borrowings of US$1,246 million that fall due after 2 years through 5 years.

(3) The total value of amounts within financial assets (unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (unit-linked contracts and consolidated investment funds). Included within financial assets (unit-linked contracts and consolidated investment funds) are debt securities of US$433 million due in one year or less, US$2,622 million due after 1 year through 5 years, US$1,934 million due after 5 years through 10 years and US$1,414 million due after 10 years, in accordance with the contractual terms of the financial investments.

	As of 31 December 2019 (as adjusted) [1]					
	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**
			(in US$ millions)			
Financial assets (Policyholder and Shareholder Investments)						
Loans and deposits	9,383	2,657	1,048	594	1,828	3,256
Other receivables	2,598	2,488	75	7	-	28
Debt securities	166,118	2,849	19,404	31,219	112,646	-
Equity securities	26,221	-	-	-	-	26,221
Reinsurance receivables	683	683	-	-	-	-
Accrued investment income	1,644	1,635	-	-	-	9
Cash and cash equivalents	3,189	3,189	-	-	-	-
Derivative financial instruments	937	167	189	196	385	-
Subtotal	**210,773**	**13,668**	**20,716**	**32,016**	**114,859**	**29,514**
Financial assets (Unit-linked contracts and consolidated investment funds)	31,604	-	-	-	-	31,604[3]
Total	**242,377**	**13,668**	**20,716**	**32,016**	**114,859**	**61,118**
Financial and insurance contract liabilities (Policyholder and Shareholder Investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	144,801	3,297	12,025	13,676	115,803	-
Borrowings	5,757	-	1,665[2]	2,233	1,859	-
Obligations under repurchase and securities lending 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 contracts liabilities (Unit-linked contract and consolidated investment funds)	31,098	-	-	-	-	31,098
Total	**192,200**	**11,209**	**14,457**	**16,205**	**118,008**	**32,321**

(1) For the twelve months ended 31 December 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 financial informaiton for the twelve months ended 31 December 2020 has been presented following the change in accounting policy, while the comparative information for the twelve months ended 31 December 2019 has been adjusted to conform to current period presentation. The comparative information for the twelve months ended 31 December 2018 has not been adjusted and may not be directly comparable. Please refer to note 2 and note 48 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for additional information.

(2) This includes borrowings of US$665 million that fall due after 2 years through 5 years.

(3) The total value of amounts within financial assets (unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (unit-linked contracts and consolidated investment funds). Included within financial assets (unit-linked contracts and consolidated investment funds) are debt securities of US$668 million due in one year or less, US$2,392 million due after 1 year through 5 years, US$1,792 million due after 5 years through 10 years and US$1,014 million due after 10 years, in accordance with the contractual terms of the financial investments.

	As of 31 December 2018					
	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
	(in US$ millions)					
Financial assets (Policyholder and Shareholder Investments)						
Loans and deposits	7,311	1,011	708	270	2,422	2,900
Other receivables	1,913	1,788	68	5	-	52
Debt securities	135,456	2,683	17,352	30,450	84,971	-
Equity securities	19,681	-	-	-	-	19,681
Reinsurance receivables	539	539	-	-	-	-
Accrued investment income	1,546	1,537	-	-	-	9
Cash and cash equivalents	1,779	1,779	-	-	-	-
Derivative financial instruments	428	121	85	164	58	-
Subtotal	**168,653**	**9,458**	**18,213**	**30,889**	**87,451**	**22,642**
Financial assets (Unit-linked contracts and consolidated investment funds)	24,055	-	-	-	-	24,055
Total	**192,708**	**9,458**	**18,213**	**30,889**	**87,451**	**46,697**
Financial and insurance contract liabilities (Policyholder and Shareholder Investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	122,563	2,914	10,824	11,965	96,860	-
Borrowings	4,954	500	1,496(1)	1,241	1,717	-
Obligations under repurchase and securities lending agreements	1,683	1,683	-	-	-	-
Other liabilities	4,754	3,526	126	5	2	1,095
Derivative financial instruments	243	54	98	53	38	-
Subtotal	**134,197**	**8,677**	**12,544**	**13,264**	**98,617**	**1,095**
Financial and insurance contracts liabilities (Unit-linked contract and consolidated investment funds)	24,073	-	-	-	-	24,073
Total	**158,270**	**8,677**	**12,544**	**13,264**	**98,617**	**25,168**

(1) These borrowings fall due after 2 years through 5 years.

Credit Risk

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

Our credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of business. A key to our credit risk management is adherence to a well-controlled underwriting process. Our credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating is recommended by the first lines of business. Our Risk Management function manages the internal ratings framework and reviews these recommendations and makes a final decision on the assigned ratings. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

BUSINESS

OVERVIEW

We are the holding company of the largest independent publicly listed pan-Asian life insurance group in the world. We trace our roots to 1919 when C.V. Starr, a young American entrepreneur, established a fire and marine insurance agency in Shanghai. From this beginning, we have built a long and established record that provides us with significant experience and expertise, enabling us to offer products and services across all classes of consumers, from the mass market to high net worth individuals and corporate clients, across our geographical markets. We are a market leader in the Asia Pacific region based on life insurance premiums and we hold leading positions across the majority of geographical markets in which we operate.[21] Our brand is widely known and highly respected in the markets we serve, and we believe our reputation is that of an industry leader in quality and service excellence.

We believe that our capital strength and robust balance sheet give us a significant advantage. As of 31 December 2020, the solvency ratio for AIA Co. on the HKIO basis remained strong at 489% and the Group Local Capital Summation Method Cover Ratio ("**Group LCSM Cover Ratio**") under the new Group-Wide Supervision ("**GWS**") framework was 374%.[22] As of 31 December 2020, we had total assets of US$326,121 million and total equity attributable to shareholders of the Issuer of US$63,200 million.

We meet the long-term savings and protection needs of individuals by offering a range of products and services, including life insurance, accident and health insurance and savings plans. We also provide employee benefits, credit life and pension services to corporate clients. As of 31 December 2020, our employees, partners and proprietary agency force served the holders of more than 36 million individual policies and over 16 million participating members of group insurance schemes.

We measure the scale and profitability of our business using various key performance indicators, including value of new business ("**VONB**"), annualised new premiums ("**ANP**"), total weighted premium income ("**TWPI**"), operating profit after tax attributable to shareholders of the Issuer ("**OPAT**") and equity attributable to shareholders of the Issuer on the embedded value basis ("**EV Equity**"). For the year ended 31 December 2020, VONB was US$2,765 million and OPAT was US$5,942 million. We have maintained a stable persistency rate of 95%, 95% and 96% for the twelve months ended 31 December 2020, 2019 and 2018, respectively. We had ANP of US$5,219 million and TWPI of US$35,408 million for the year ended 31 December 2020, with 86% of our TWPI consisting of renewal premiums. As of 31 December 2020, we had EV Equity of US$67,185 million. For an explanation and further discussion of our key performance indicators, see *"Summary – Summary Selected Consolidated Financial and Other Data – Other Data"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Key Performance Indicators"*.

We have a presence in 18 markets across the Asia Pacific region. Our business is geographically diversified. We operate wholly-owned subsidiaries or branches in 17 markets in Asia Pacific – our Key Segments, Australia (including New Zealand), Cambodia, Indonesia, South Korea, Sri Lanka, the Philippines, Taiwan (China), Vietnam and Myanmar (which began operations as a wholly owned foreign life insurer in November 2019). In addition, we have a 49% shareholding in our joint venture in India. Hong Kong, Mainland China and

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21 Based on gross premiums written. Market rankings are based on latest available data published by relevant regulatory and industry sources, as well as our own internal estimates where reasonable. In Mainland China, we are among the leading foreign life insurance companies based on gross premiums written.

22 The Hong Kong Insurance Authority is introducing the GWS framework for monitoring insurance groups under its supervision. In this Offering Circular, all references to the Group LCSM Cover Ratio are based on our current understanding of the GWS framework as it applies to the Group.

Thailand constitute our three largest markets in terms of OPAT, representing 35%, 21% and 17%, respectively, of our total OPAT for the year ended 31 December 2020. As of 31 December 2020, we had over 23,000 permanent employees and fixed term employees.

Our proprietary agency channel is our core distribution platform. In addition, through Partnership Distribution, we market products through bancassurance, direct marketing and other intermediated channels. We also continue to utilise and invest in other partnership channels, including private banks, IFAs, brokers and specialist advisers.

Our common shares are traded on the Main Board of the Hong Kong Stock Exchange under the stock code "1299" and are a constituent stock of the Hang Seng Index. We also have American Depositary Receipts (Level 1) traded on the over-the-counter market (ticker symbol: "AAGIY").

OUR COMPETITIVE STRENGTHS

Profitability and financial strength derived from geographical diversity, scale of operations

We have a track record of stable and profitable growth, which we consider to be evidence of the success of our business model and market leadership. As of 31 December 2020, AIA Co., our principal operating subsidiary, had a strong solvency position with a solvency ratio of 489% on the HKIO basis, and our Group LCSM Cover Ratio under the new GWS framework was 374%.[23] Internally generated cash flows from our extensive book of in-force business have created a stable revenue base with a high volume of renewal premiums. We derive earnings from across our markets, which we believe underscores our financial strength and profitability. We believe that the scale and efficiency of our operations across our markets give us a competitive advantage in pricing products and in funding growth.

Strong capital position

The strength of our financial position is one of our key points of differentiation and a competitive advantage. Our prudent, sustainable and progressive dividend policy allows for future growth opportunities and the financial flexibility of the Group. Internally generated cash flows from our extensive book of in-force business provide us with a stable revenue base that supports our ongoing efforts to capture the significant growth opportunities available by investing in new business at high internal rates of return.

Deep and historic roots in the Asia Pacific region

We were an early entrant to a number of our Key Segments and are distinguished in many markets by our consistent presence operating through wholly-owned subsidiaries and branches, which allows us to exert control over operations and strategy and ensure that value created is for the benefit of our shareholders. We play an important and continuing role in the development of the life insurance industry in these markets. In Hong Kong, Thailand and Singapore, we have sold life insurance products since the 1930s, and we were the first licensed non-Mainland life insurer to establish operations in Mainland China in 1992.

A broad footprint and market leadership in the Asia Pacific region

We are currently the only publicly-listed life insurance group that is headquartered in, established throughout and exclusively focused on the Asia Pacific region. We have a presence in 18 markets, which give us a broad geographical footprint in the Asia Pacific region. We are a market leader in the Asia Pacific region based on life insurance premiums

[23] The Hong Kong Insurance Authority is introducing the GWS framework for monitoring insurance groups under its supervision. In this Offering Circular, all references to the Group LCSM Cover Ratio are based on our current understanding of the GWS framework as it applies to the Group.

and we hold leading positions across the majority of geographical markets in which we operate.[24]

Mainland China opportunity

We are the first company with a wholly foreign owned life insurance subsidiary in Mainland China. During the year ended 31 December 2020, we received regulatory approvals and subsequently converted our Shanghai Branch into a wholly owned subsidiary. We also received approval from the CBIRC to begin preparations to establish a new branch in Sichuan, the fourth largest province in China by population. The branch would be our first since subsidiarisation and our first in Western China.

An extensive proprietary agency channel and an expanding multi-channel distribution platform

Developed over decades of operation, our proprietary agency channel is our core distribution platform, providing us with continuity of access to customers and the important opportunity to service their ongoing needs. Throughout our history, our agents have provided significant reach and consistent personal customer contact, enabling us to build and maintain long-term relationships with customers. We have a large number of top-tier agents ("**Premier Agents**") who have been a catalyst for our success. See "*– Distribution – Agency"*. In addition, we have also established other distribution channels that meet our profitability criteria.

A diversified suite of products and innovative product capabilities

We have a broad and diversified suite of products, including life insurance, accident and health insurance, savings plans, employee benefits, credit life and pension products, as well as our wellness programme, AIA Vitality, that are designed to meet customers' needs at different stages of their lives. We believe that our diversified product suite positions us well to capture evolving customer demand under a variety of market conditions. We are also able to transfer product knowledge and service expertise from our more developed markets to those markets at earlier stages of development.

Market-leading brand across the Asia Pacific region

We have offered customers financial security and the comfort of a constant presence throughout various economic, social and political changes in the Asia Pacific region. As a result, we believe that AIA is one of the strongest and most respected insurance brands in the industry.

Experienced management driving a comprehensive business growth strategy

Our management team has extensive experience and a track record for success in the Asia Pacific life insurance market. The group of individuals that make up our Group Executive Committee have on average over 22 years of experience in the insurance industry and over 25 years in the financial services industry. This experience gives our management a broad perspective on the industry that drives our business strategies and which we believe will enable us to respond quickly to changes in the life insurance markets in which we operate.

OUR STRATEGY

During the year ended 31 December 2020, we undertook a comprehensive strategic review by senior management, and adopted our new strategy which centres on AIA's purpose to help people live Healthier, Longer, Better Lives.

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[24] Based on gross premiums written. Market rankings are based on latest available data published by relevant regulatory and industry sources, as well as our own internal estimates where reasonable. In Mainland China, we are among the leading foreign life insurance companies based on gross premiums written.

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

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

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

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

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

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

Our strategic priorities are aligned with these structural growth drivers and build on our strong track record and substantial competitive advantages. AIA is 100% focused on Asia with 100% ownership of 17 of our 18 operations, including our business in Mainland China, where we are the first foreign company with a wholly-owned life insurance subsidiary.

We believe we have the right platform to capture the many opportunities that each of our markets offers. The specific fundamental areas of our sustainable growth model include:

Unrivalled Distribution – Scale capacity and productivity through digitalisation and advice-centric models

A key competitive strength for AIA is our unrivalled distribution platform, which we have built and developed over decades. This platform allows us to reach millions of individuals and companies across our markets with personalised advice and innovative solutions, helping them live Healthier, Longer, Better Lives. Our strategic priority is to further expand our distribution reach while focusing on increasing productivity of our distribution force.

Continue to extend leadership position in proprietary agency distribution

The core of our distribution is an unparalleled, proprietary Premier Agency platform which focuses on agent quality to deliver professional and personalised advice and to develop long-term relationships with our customers. AIA has been the number one MDRT company globally for the last six years, demonstrating the effectiveness of our Premier Agency strategy.

Our strategic priorities are market-dependent. In our developed markets, such as Hong Kong and Singapore, we continue to grow our Premier Agency through quality recruitment, training and development initiatives. In Mainland China, we have a unique growth opportunity for our agency as we expand our geographical presence. To meet the significant opportunities we see in South-East Asia and India, we will grow our active agents in our developing and emerging markets. In all of our markets, our agency strategy is built on quality and we increasingly use technology to support our agents and our next-generation agency leaders who are critical to our sustainable development.

Expand and broaden profitable next-generation partnerships

Complementing our agency is our partnership business, where we work with strategic partners including banks and other financial institutions, as well as non-traditional and digital partners across many of our markets. We have developed a panel of high-quality partners that provide us with access to hundreds of millions of potential customers, many without an existing insurance agent relationship.

Our strategic priority includes a digitally-led approach to better target in-branch customers with customised solutions and provide broader access to previously untapped online banking and credit card customers. Our omni-channel enables customers to choose how to purchase: fully online through to face-to-face advice with a specialist. We have also been testing different solutions and learning from the experience as we work with non-traditional and digital partners to access customers outside the reach of our other distribution channels and our usual demographics.

Compelling Propositions – be the leading provider of personalised advice and innovative solutions

Our aim is to be a market leader with innovative and profitable products that meet the changing needs of our customers for financial protection and efficient long-term regular savings as they go through their lives. We offer a comprehensive range of protection products to address the life, accident and health protection needs of our customers through their changing life stages, as well as comprehensive long-term savings products to provide for our customers' savings needs for education, retirement and different life goals. During the year ended 31 December 2020, our brand promise of helping people live Healthier, Longer, Better Lives was officially adopted as our purpose and our propositions lead the way in making that a reality for our customers.

Our proposition strategy is anchored around helping our customers meet their protection and long-term savings needs. For protection, our focus is on next-generation life and health products, fully integrated with AIA's health and wellness ecosystem of value-added services. For long-term savings, we leverage AIA's Regional Funds platform to deliver sustainable and superior long-term savings outcomes for customers.

Health and wellness ecosystem

Our unique health and wellness ecosystem provides AIA customers with affordable access to personalised value-added services curated through best-in-class service providers exclusive to AIA. These services range across the consumer wellness journeys from prediction and prevention through to diagnosis, treatment and recovery (our "PPDTR" framework) and help deliver improved health outcomes for our customers. We have anchored this ecosystem on four fundamental and exclusive components: AIA Vitality and wellness; our local network of telemedicine and healthcare providers; the AIA Regional Health Passport; and expert personal medical case management through our regional partnership with Medix.

AIA Vitality and wellness

The AIA Vitality and wellness ecosystem is the core engine for engaging with our customers by motivating them to adopt healthier lifestyles and drive long-term behavioural change. Total membership in our wellness programmes is now more than 1.8 million. We believe that our health improvement studies, based on the health assessments provided by AIA Vitality members, validate the effectiveness of our wellness programmes.

AIA Telemedicine

We are continuing to advance our diagnosis and healthcare provider services, including through provision of telemedicine services which are now available in a number of our markets. Deepening integration with providers has facilitated higher utilisation rates across both our corporate and individual customers recently, allowing individuals to receive health advice and monitoring remotely.

AIA Regional Health Passport

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

Personal Medical Case Management

Our expert personal medical case management centres on our exclusive regional partnership with Medix. This aims to provide AIA customers with the best possible diagnostic and treatment validation in the event of a particularly acute diagnosis.

Regional Funds Platform

Asia has the world's fastest-growing retirement population and our objective is to help them save more effectively through our long-term savings propositions. Our Regional Funds Platform helps us deliver innovative savings and retirement propositions, addressing the needs of our customers as they move through their life stages.

The Regional Funds Platform leverages our scale and distribution power to build relationships with leading external fund managers across the world and provide retail customers with tailored investment strategies exclusive to AIA. Through AIA's long-term professional stewardship, we aim to deliver long-term outperformance for our customers.

Leading Customer Experience – Seamless omni-channel customer experience with best-in-class engagement

Our ambition is for AIA's customers to have a best-in-class experience with personalised engagement delivering on three key principles: simplicity, timeliness and reliability. Using analytics, our aim is to deliver a distinctive, personalised and more meaningful experience for our customers, recommending the most suitable products with delivery through their preferred channels, underpinned by seamless processes and fast turnaround times.

We believe that the focus on further enhancing user experience and improving customer satisfaction will help us extend our leading Net Promoter Score ("**NPS**") positions we enjoy in many of our markets. Priorities include further simplification of policy materials and new business processes, enhancing ongoing policyholder communications and improving the overall claims experience.

Our new customer experience design principles are benchmarked to global best practice and are anchored in digitalisation and personalisation. Our benchmarking also indicates that these improvements can deliver significant improvements to customer satisfaction and NPS, increased sales leads, conversions, cross-sell and retention as well as delivering productivity gains through efficiency improvements.

Our large base of long-term existing customers offers significant cross-selling opportunities. Our existing customer marketing initiatives provide a growing source of VONB for the Group, and we intend to continue capitalising on these opportunities through our use of customer analytics and a broad range of complementary products. Servicing the needs of existing customers and the development of new customer relationships are complementary and critical drivers of success.

Therefore, our marketing efforts are directed at both acquiring new customers, which is an important source of growth as Asian economies expand and develop, and at servicing the expanding insurance needs of existing policyholders. We believe that our customer initiatives will continue to generate sustainable revenue growth through more new business referrals and additional sales to existing policyholders.

Technology, Digital and Analytics

A step change in technology, digital and analytics is at the heart of our strategy, enabling transformed experiences for our customers, distributors, partners and employees, while supporting growth and efficiency.

Technology

The foundation of this transformation is upgrading our technology to world-class modern architecture and systems to support the efficient scaling of our strategic initiatives. Our plans are to deliver scalable systems through migration to Cloud and modular architecture ensuring our technology needs are met in real-time.

Our aim is to increase automation throughout our business process which we measure through straight through processing rates across core customer journeys. Through the deployment of agile platforms, big data and artificial intelligence in our processes, we are deepening the understanding of our customers' needs and supporting better and faster decision making.

Digital enablement

Increasing the digital enablement of our customer, agent and partner channels is a key priority for the Group. Our targeted investments in digital enablement support our businesses in meeting the increasing expectations of customers, agents and partners for efficient and seamless experiences, driving increased engagement.

Across our agency, we continue to introduce enhancements to our recruitment, learning, activity management and sales and servicing tools.

Our partners benefit from integrated experiences for their customers, enabling us to access previously untapped customer segments, including credit card and online customers.

For our customers, digital enablement allows them to interact with us anytime, anywhere, through multiple channels across their learn, buy, service and claim journeys.

Analytics

Analytics help power our business decisions, providing deep and actionable insights across distribution, operations and other functions. With an increased use of analytics, we can deliver greater personalisation, improved customer experience, better decision making and increased operational efficiency. We do this by identifying and testing high-impact use cases in one of our markets and then industrialising across our other markets to quickly replicate success.

As we make a step change in our technology, digital and analytics, we have uplifted our data governance standards. We also continue to invest in a variety of cybersecurity measures to safeguard our data.

Organisation of the Future – Simpler, faster, more connected

Transforming our organisation

During the year ended 31 December 2020, we embarked on a long-term strategic initiative, known as Organisation of the Future, to support our strategic ambitions under our strategy and shape a Simpler, Faster and More Connected AIA.

Organisation of the Future

The core components of our Organisation of the Future initiative are to strengthen and simplify our organisational structures in support of our priorities under our strategy, the introduction of agile ways of working into parts of our business and the strengthening of our people and capabilities frameworks.

Through the Organisation of the Future initiative, we will support our people as they develop the careers they want, thereby enhancing AIA's status as an employer of choice.

In support of Organisation of the Future, new capability building programmes have been designed and rolled out in our pilot markets to further equip our people to lead change. Programmes include modules on organisation transformation, execution excellence, agile ways of working and Technology, Digital and Analytics.

Our plan is to test and learn within our pilot business units before scaling the Organisation of the Future programme to other business units throughout 2021 and beyond.

Modernising the way we work

We are continuously adapting the way we work by leveraging digital and technology. As well as improving operational efficiencies, these initiatives empower our managers with greater insights about their team and allow managers and employees to take control of their needs with "anytime anywhere" self-service transactions.

Employees have embraced new ways of working, such as providing more regular feedback and recognition to promote better performance and engagement. They can also explore and complete more self-paced online courses when it is appropriate for them.

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

OUR HISTORY

We trace our roots in Asia to 1919 when C.V. Starr, a young American entrepreneur, established a fire and marine insurance agency in Shanghai, a key commercial centre of the region at that time. In 1931, our principal operating subsidiary, AIA Co., was initially registered in Shanghai as a Hong Kong company under the name International Assurance Company, Limited ("**INTASCO**") to sell life insurance as part of Mr. Starr's growing group of insurance operations based in Shanghai. Within seven years, INTASCO's business had expanded into several other markets in the Asia Pacific region through the establishment of branches in Singapore (1931), Hong Kong (1931), Thailand (1938, for life insurance business) and Malaysia (1948), all of which remain key markets for us today.

Our Hong Kong base became the platform for a programme of post-war expansion with the geographical footprint of the Group expanding to include Brunei (1957), Australia (1972), New Zealand (1981), Macau (1982), Indonesia (1984), South Korea (1987), Taiwan (China) (1990), Vietnam (2000), India (2001), Sri Lanka (2012), Myanmar (2013) and Cambodia (2015). Hong Kong was also the gateway back to our roots in Mainland China in 1992, when we became the first foreign insurer to receive a licence to sell life insurance in Mainland China and opened a branch office in Shanghai.

As part of the global reorganisation of worldwide operations after the Second World War, it was decided that Mr. Starr's U.S. businesses would be managed and serviced from New York, while the non-U.S. businesses would be managed from Bermuda. In 1969, the shares of the group, now known as AIG, began trading on the over-the-counter market in the United States. In 1984, AIG's shares were listed on the New York Stock Exchange.

In May 2009, our then parent, AIG, announced that it would take steps to position AIA Group Limited as a separate entity and seek a public listing or sale of the Group, with the group's headquarters to be located in Hong Kong (the "**Group Office**"). On 29 October 2010, AIG completed a global offering and listing of our shares on the Hong Kong Stock Exchange. The stock listing was the third largest IPO ever globally at the time. In 2011, we became a constituent stock of the Hang Seng Index and also launched a sponsored Level 1 American Depositary Receipt Programme. In 2012, we marked the official end of our association with AIG, as AIG divested its remaining AIA shares.

OUR PRODUCTS

Our Key Product Lines

We meet the long-term savings and protection needs of individuals by offering a range of products and services, including life insurance, accident and health insurance and savings plans. We also provide employee benefits, credit life and pension services to corporate clients.

To serve the evolving needs of our customers, we have developed and continue to expand a broad and diversified product suite that is designed to respond to our customers' needs at each stage of their lives. We adjust our product offerings by market in order to respond to changing customer preferences, varying stages of economic and regulatory development and other specific market trends. Our key product lines are described below.

Traditional Life Insurance

We offer a wide variety of traditional life insurance products in three principal categories: term life, traditional basic participating and traditional basic non-participating. Our traditional life products, except general personal lines insurance, are typically designed so that accident and health ("**A&H**") and other protection riders may be attached to or embedded in the basic policy.

Term Life

Term life insurance provides life insurance protection for a defined period. The sum assured under the policy is paid to the beneficiary if death occurs during the period of coverage.

Traditional Basic Participating Life Insurance

Traditional basic participating life insurance products are contracts of insurance whereby the policyholders have a contractual right to receive additional benefits based on investment return or other factors, as a supplement to any guaranteed benefits. The Group may either have discretion as to the timing of the allocation of the additional benefits to the policyholders or may have discretion as to the timing and the amount of the additional benefits to the policyholders.

Traditional Basic Non-Participating Life Insurance

Traditional basic non-participating life insurance products are contracts of insurance whereby the policyholder has only a right to the guaranteed benefit, which is not at the contractual discretion of the insurer.

Unit-Linked and Universal Life Insurance

Our unit-linked and universal life products are typically designed such that A&H and other protection riders may be attached to the basic policy.

Unit-Linked Products

Unit-linked products are insurance products whereby the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property). Unit-linked products include variable life insurance products, variable universal life insurance products, equity-linked products and unit-linked products, the classification of which varies depending on local regulations. Unit-linked products remain central to our product strategy by providing our customers with the flexibility to adjust the balance between protection cover and wealth accumulation over the lifetime of the product. In general, the investment risk associated with the surrender value of such products is borne by the policyholder.

Universal Life Products

Universal life products are insurance products whereby the customer pays flexible premiums that are accumulated in an account balance that is credited with an investment return at the discretion of the insurer. The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

Accident & Health Insurance

A&H insurance products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover. A&H insurance products are sold both as stand-alone policies and as riders that can be attached to our individual life insurance products.

Wellness and Health Management

We have launched AIA Vitality in Hong Kong, Singapore, Thailand, Malaysia, South Korea, Macau, the Philippines, Australia, Vietnam, Indonesia, Cambodia, New Zealand and Sri Lanka, and a wellness programme in Mainland China. Wellness is a key component of AIA's commitment to promoting healthy living and differentiates our protection proposition to customers by rewarding healthy lifestyle choices.

Our regional partnership with Medix, a global health management solutions provider, provides AIA customers with expert personal medical case management services and diagnostic and treatment validation in the event of a particularly acute diagnosis. The partnership is currently live in eight markets and we believe it is delivering value to customers using the service through improved diagnosis and treatment optimisation, including the avoidance of unnecessary treatments.

Group Insurance

We provide group life and group A&H benefits to employees of SMEs and larger domestic and multinational companies. Our strategy is to develop dynamic and bespoke propositions for companies ranging from small to large multinational corporations through our agency channel and broker relationships. We are a leading provider of group insurance and credit life insurance across the Asia Pacific region, and a leading provider of life and disability insurance to superannuation funds in Australia. As of 31 December 2020, AIA group policies were protecting over 16 million members.

We believe that our unrivalled pan-Asian footprint and considerable group insurance experience give us a strategic advantage in the multinational company segment of our insurance market. The scale of our Premier Agency distribution also gives us an advantage in the rapidly expanding SME market.

Pension Products

We operate a pension products business in Hong Kong. Our subsidiary serves as a trustee of multi-investment manager platforms offering constituent funds with respect to both voluntary and mandatory pension schemes in Hong Kong.

DISTRIBUTION

We distribute our products through all major channels, including agents, banks, direct marketing, IFAs and brokers. We believe that our experience with a broad range of distribution channels across many geographical markets at different stages of economic development positions us well to respond to evolving customer needs and regulatory requirements and effectively transfer successful distribution strategies across markets.

Agency

Our proprietary agency channel is our core distribution platform. Agency generated US$2,333 million of VONB in the year ended 31 December 2020, representing 78% of our total VONB, making it our most profitable channel.

Since 2011, we have been selectively recruiting higher calibre, younger and better-educated agency candidates. Through the AIA Premier Academy, our education and development facility for the agency channel, we continue to drive quality recruitment, activity and productivity. The AIA Premier Academy has implemented training roadmaps designed for each local market to provide tailored and motivational development opportunities for new, experienced and Premier Agents. Training programmes have been deployed not only to give agents more advanced sales and advisory skills, but also to enhance the capabilities of agency leaders. In addition, we are committed to investing in technology and innovation to support our agents in meeting customer needs while delivering the best possible customer experience.

Partnership Distribution

Partnership Distribution is responsible for creating and expanding market opportunities through bancassurance, direct marketing and other intermediated distribution channels to provide an important source of additional profitable growth. We believe our broad Partnership Distribution platform provides a complementary and material source of competitive advantage by extending our reach in the fast-growing Asian insurance market. We have built on our strategic relationships with our partners in bancassurance, direct marketing and other intermediated distribution channels. Partnership Distribution continues to implement our strategy of improving the quality of service and products to meet the evolving needs of our customers and to improve the economic returns for both our partners and the Group. We pursue new growth opportunities that meet our profitability targets and broaden our distribution reach, resulting in the expansion of existing partnerships and the signing of a number of new partnership agreements around the region.

Our partnership business accounted for US$676 million of VONB, or 22% of our VONB for the year ended 31 December 2020.

Bancassurance

We seek to maintain strong new business growth through our disciplined approach to sales management in collaboration with highly regarded local and regional bancassurance partners, primarily through our successful in-branch insurance specialist model.

We have a partnership with Citibank pursuant to which we are Citibank’s exclusive provider of life insurance products for 15 years, now covering 12 markets in the Asia Pacific region. The 12 markets include our Key Segments. The partnership provides access to Citibank’s corporate clients, retail cardholders and banking customers. The agreement involves all retail distribution channels, including branches, telemarketing and online channels, covering both retail and group life insurance products. In connection with this partnership, we have made a significant investment in technology to enable cutting-edge front-end sales and service solutions for our clients, including continuing the integration of interactive Point of Sale (“**iPoS**”) with Citibank’s sales platforms to provide customers and relationship managers with a seamless financial planning and insurance sales experience. We have also built a regional sales management programme for bank relationship managers, organised joint branding campaigns across the markets and established telesales call centres for direct marketing of AIA products to Citibank's retail cardholders.

Other Partnership Channels

Our other channels include the IFA/brokerage channel and our corporate sales centres. We have developed considerable experience in direct marketing and continue to invest in and develop this channel. Through a targeted approach marketing product solutions specifically for affluent and high net worth customers, we continue to build our partnerships with private banks, IFAs, brokers and specialist advisers.

OUR GEOGRAPHICAL MARKETS

Our Hong Kong base is the hub of an insurance network that has a presence in 18 geographical markets. Our Key Segments are Mainland China, Hong Kong (including Macau), Thailand, Singapore (including Brunei) and Malaysia. Our Other Markets segment refers to Australia (including New Zealand), Cambodia, Indonesia, South Korea, Sri Lanka, the Philippines, Taiwan (China), Vietnam, Myanmar (which began operations as a wholly owned foreign life insurer in November 2019), and our interest in our joint venture in India

Mainland China

With roots in Mainland China dating back to 1919, we re-entered the Mainland China life insurance market in 1992, when AIA opened a branch in Shanghai. AIA's Mainland China business historically operated through branches and sub-branches of AIA Co., our Hong Kong-based subsidiary, which was the first licensed non-Mainland Chinese life insurer to establish operations in Mainland China in 1992.

On 1 October 2020, the business and operation of AIA Co.'s branches in Mainland China were transferred to AIA China, a wholly owned subsidiary of AIA Co. During the year ended 31 December 2020, we also received approval from the CBIRC to begin preparations to establish a new branch in Sichuan, the fourth largest province in China by population. The branch would be our first since subsidiarisation and our first in Western China.

Our Mainland China operations accounted for 32% of total VONB and 21% of total OPAT in the year ended 31 December 2020.

Distribution

AIA China maintains a multi-channel distribution network with agency its core distribution channel. Our success is underpinned by our Premier Agency strategy. We have continued to deliver growth in agency based on first-class recruitment and professional training to enable our agents to offer advice and products that help individuals and families meet their regular savings and protection goals.

AIA China also has a growing presence in the bancassurance channel.

Products and Customers

We provide a full line of life, accident and medical insurance. We have successfully positioned ourselves as a leader in the provision of comprehensive protection insurance products in Mainland China, a position we reinforced through launching new products for young families, including additional cover for childhood diseases and multiple claims for critical illnesses following our success with similar product designs in Hong Kong. In the face of increasing prevalence of non-communicable diseases, we have also launched a wellness programme to help our customers develop a healthy lifestyle through monitoring and tracking health conditions, providing health knowledge and advice, as well as rewards and incentives. In 2018, AIA formed a long-term strategic partnership with We Doctor Holdings Limited, a technology-enabled healthcare solutions platform, to provide quality health and wellness offerings, as well as financial protection solutions.

Hong Kong

We began conducting business in Hong Kong in 1931 when AIA Co. established a branch in Hong Kong, and have maintained a presence in Hong Kong for over 80 years, except for limited interruptions. Hong Kong is the location of our Group Office. Hong Kong accounted for 18% of total VONB and 35% of total OPAT in the year ended 31 December 2020.

Distribution

We maintain a multi-channel distribution network in Hong Kong. Our primary distribution channel is our agency force. We provide training and development programmes in conjunction with our AIA Premier Academy that are designed to improve agency productivity, with programmes such as our market-leading "Road to MDRT" training and mentoring programme aimed at recruiting and developing high-potential individuals new to the insurance industry.

Although agency is our largest distribution channel in Hong Kong, Partnership Distribution, including retail IFA and our bancassurance partnership with Citibank, also provides significant contribution to our new business results. We seek to grow these channels with our continued investments in service and infrastructure that enable our partners to offer targeted protection and long-term savings propositions that meet their customers' needs.

Products and Customers

Our large in-force customer base in Hong Kong is a strong source of profitable new business generation. We offer a wide range of products that include individual and group life and medical insurance, long-term participating savings, critical illness and pension.

AIA provides long-term savings and protection products to meet the needs of our customers in Hong Kong. We continue to maintain our focus on writing high-quality, profitable new business with nearly 75% of total ANP from policies having a premium payment term of at least five years. This contrasts with the local market average where lower margin, short-term products, often targeted at bank deposit replacement, make up more than half of regular premium business. AIA Vitality has continued to see membership growth in the year ended 31 December 2020.

Thailand

We began operations in Thailand in 1938, when AIA Co. established its first branch in Thailand. We were one of the first international life insurance companies to operate in Thailand and, in part as a result of our lengthy and uninterrupted operating history, AIA Thailand is the only wholly-owned branch of a foreign life insurance company operating in the market. Our Thailand operation accounted for 15% of total VONB and 17% of total OPAT in the year ended 31 December 2020.

Distribution

We have operated in Thailand for over 75 years and have developed a distinct nationwide agency network that has made us the leading life insurance company in the country. The cornerstone of our distribution strategy is our large network of agents, which has historically accounted for a high proportion of our business in Thailand. Our priority is to strengthen this competitive advantage through the execution of our Premier Agency strategy, including a renewed focus on high-quality recruitment and enhanced training. Our recruitment programmes are focused on bringing the right people into the industry, targeting young, highly-educated candidates. Our training and mentoring programmes are aimed at supporting our agents as they seek to offer high-quality advice to our customers, together with the right mix of products to meet their needs. The iPoS platform in Thailand has provided our agents and agency leaders with additional support, particularly in upcountry areas.

In addition to our agency network, we market our products through bancassurance arrangements and direct marketing. In March 2018, we launched a new 15-year strategic bancassurance partnership with Bangkok Bank. The agreement involves distribution of our protection and long-term savings products on an exclusive basis, providing access to one of the largest retail banking customer bases in Thailand with more than 16 million customer accounts and around 1,200 branches nationwide. Group insurance remains an important emerging growth opportunity for AIA in Thailand, particularly from potential sales within the SME segment through our agency force.

Products and Customers

We offer a wide range of insurance products and financial services, including life insurance, accident and health insurance, group insurance, credit life, annuity and unit-linked products, supplementary contracts, and provident fund management services. We design products to help our customers address their regular savings and protection goals. In Thailand, we were the first provider to offer regular premium unit-linked products combined with protection rider policies.

Singapore

We began conducting business in Singapore in 1931, when AIA Co. established a branch in Singapore. We have maintained a presence in Singapore for more than 80 years, except for limited interruptions, and were one of the first international insurers to operate in the country. In 2012, we transferred our insurance business in Singapore from a branch of AIA Co. to a Singapore-incorporated and wholly-owned subsidiary of the Group, AIA Singapore. Our Singapore operations accounted for 11% of total VONB and 10% of total OPAT in the year ended 31 December 2020. The business of AIA Co. Brunei Branch was transferred to AIA Singapore Brunei Branch with effect from 1 January 2020.

Distribution

AIA Singapore's agency channel has historically been the major contributor to AIA Singapore's sales production. As a complement to this, AIA Singapore's bancassurance channel provides access to Singapore's high net worth customer segment.

Our success in Singapore is underpinned by our Premier Agency strategy. We have continued to deliver growth in agency based on first-class recruitment and professional training to enable our agents to offer advice and products that help Singaporean families meet their regular savings and protection goals. We launched AIA Financial Advisers in 2017 to provide our customers with more choice and greater access to professional financial advice. As well as the broader implementation of our Premier Agency strategy, we have continued to develop our profitable Partnership Distribution channel with IFA and bancassurance distribution partners, including Citibank, and build on our market-leading position in group insurance.

Products and Customers

We offer a wide range of products, including protection, savings, investment and retirement for individuals and employee benefits. We have established ourselves as a leader in the protection insurance market in Singapore. As part of our continuing efforts to engage our customers in new ways and differentiate our products and services, in 2017 we established AIA Quality Healthcare Partners, which made us the first insurer in Singapore to establish direct partnerships with the medical community. Our commitment to delivering quality healthcare for our customers was reinforced by the launch of our exclusive partnership with Medix in 2018, the first-of-its-kind personal medical case management services in Singapore.

We continue to increase engagement with our customers through AIA Vitality since its launch in 2013, and have expanded its integration across our product suite.

Malaysia

We began conducting business in Malaysia in 1948. In 2008, our Malaysian branch operations were converted to a locally incorporated company. Our Malaysian operations accounted for 7% of total VONB and 5% of total OPAT in the year ended 31 December 2020.

Distribution

We distribute our products primarily through our agency force, as well as our bancassurance and direct marketing channels. Our unified structure for agency compensation is designed to drive quality recruitment and improve agency productivity, supporting our aim of promoting and rewarding full-time agents who are looking for a professional career with AIA.

In addition to agency distribution, we market our products through a strategic bancassurance partnership with Public Bank, a leading Malaysian banking group. In December 2017, the Group entered into a 15-year extension of the existing exclusive regional bancassurance agreement with Public Bank, extending the partnership from 2023 to 2037.

Products and Customers

We offer a complete range of life insurance products, including comprehensive life and general insurance, unit-linked, personal accident, group, credit life and personal lines products and Family Takaful products. Following the approval of our new single licence in June 2013, we launched an enhanced, single range of products under the AIA brand for distribution via our agency channel. To meet the increasing protection needs of Malaysians, we have continued to broaden our product suites, including coverage for pregnant women and newborns. In conjunction with AIA Vitality, our marketing campaigns focus on encouraging Malaysians to take control of their health and on raising awareness of the benefits of leading an active lifestyle.

Other Markets

Our Other Markets segment reports the combined results of Australia (including New Zealand), Cambodia, Indonesia, South Korea, Sri Lanka, the Philippines, Taiwan (China), Vietnam and Myanmar (which began operations as a wholly owned foreign life insurer in November 2019), as well as our interest in our joint venture in India. Our Other Markets operations accounted for 17% of total VONB and 12% of total OPAT in the year ended 31 December 2020. In addition, on 1 January 2018, AIA International completed the transfer of its insurance business in South Korea from a branch to a wholly-owned subsidiary, AIA Life Insurance Co. Ltd.

In September 2017, the Group reached agreement with CBA to acquire CBA's life insurance business in Australia ("**CMLA**") and life and health insurance businesses in New Zealand (subject to securing all necessary regulatory and governmental approvals, along with other conditions customary to a transaction of this size and complexity). The transaction included 20-year strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand. The transaction was expected to expand, and has expanded, the Group's distribution capabilities and customer reach in the Australia and New Zealand markets. On 2 July 2018, AIA completed the acquisition of Sovereign, and the strategic bancassurance partnership with ASB Bank Limited in New Zealand became effective.

In August 2019 the Group and CBA agreed an alternative completion structure and arrangements for the acquisition, and on 1 November 2019, AIA announced the execution of a JCA under the alternative completion structure and arrangements, which aim to replicate the expected strategic outcomes of the originally planned acquisition. The agreement allows for an agreed management and oversight structure to be implemented, enabling AIA to exercise a level of direct management control and oversight of the CMLA business while awaiting the final completion through either a share sale as originally contemplated or an asset transfer mechanism. Additionally, we extended our strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand to up to 25 years.

On 30 September 2020, we announced that AIA and CBA had entered into binding agreements to complete a portfolio transfer of CMLA's life insurance business to AIA Australia. It is anticipated that the portfolio transfer will be effective on 1 April 2021, or such other date as confirmed by the Federal Court of Australia, subject to the receipt of regulatory approvals.

The financial results for the Group for the years ended 31 December 2020 and 2019 included the full year contribution from AIA New Zealand and the contribution from CMLA since November 2019.

INVESTMENTS

Overview

We invest the premiums and other income generated from our insurance business. Our success in investment management contributes to the competitiveness of our products, our financial strength and our business reputation.

Our total investment portfolio was US$283,710 million as of 31 December 2020 as compared with US$244,198 million as of 31 December 2019 and US$195,275 million as of 31 December 2018. Our financial investments are managed under two distinct categories: (i) Policyholder and Shareholder Investments, which represented 87% of our total investment portfolio as of 31 December 2020, and (ii) investments related to unit-linked contracts and consolidated investment funds, which represented 13% of our total investment portfolio as of 31 December 2020.

The fixed income yield of our Policyholder and Shareholder Investments was 4.38%, 4.57% and 4.64% in the twelve months ended 31 December 2020, 2019 and 2018, respectively. The fixed income yield is the interest income from fixed income investments, as a percentage of average fixed income investments measured at amortised cost over the period. This excludes unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US$204,418 million at 31 December 2020 compared with US$175,501 million at 31 December 2019. The overall average credit rating of other government and government agency bonds, corporate bonds and structured securities of A- remained consistent with the position at 31 December 2019.

Investment Objectives and Processes

Policyholder and Shareholder Investments

The primary investment objectives of our Policyholder and Shareholder Investments are to achieve optimal levels of risk-adjusted return for policyholders and shareholders over the long-term, while preserving capital, maintaining adequate solvency and liquidity levels, meeting our risk management and asset-liability management ("**ALM**") objectives and ensuring full compliance with applicable regulations and internal policies.

Our investment objectives aim to ensure that the Group is able to meet future liabilities associated with the insurance products that we underwrite and produce stable and consistent income and returns. We do this mainly through investments in fixed income instruments. We also invest a portion of our portfolio in other asset classes, such as public equities, private equities and real estate, to generate higher returns in line with our strategic asset allocation ("**SAA**") guidelines.

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" is supported by segregated investment assets and explicit provisions for future surplus distribution though the division of surplus between policyholders and shareholders is not defined in regulations. We have enhanced our investment disclosures to reflect the nature and greater size of this business by grouping its assets together with participating business. Comparative information is also shown for 31 December 2019.

Unit-Linked Investments and Consolidated Investment Funds

Investment return associated with unit-linked contracts is reflected in the changing value of the underlying investments, which in turn changes the surrender value of the policies. As of 31 December 2020, we had no material exposure to variable annuity products.

Framework and Management

We have a comprehensive and integrated framework which we have enhanced to ensure investments are properly authorised, monitored and managed. Our investments are managed at both our Group Office level and local operating unit level, with investment strategies tailored to the business needs of, and regulatory requirements applicable to, each of our local operating units. In January 2017, we established our own asset management company incorporated in Singapore and, over the course of 2017, began to migrate the fixed income assets of our Group Office and certain local operating units to be managed by the asset management company. In addition, the asset management company performs certain services such as centralised dealing for specific local operating units. During the year ended 31 December 2019, we established an asset management company incorporated in Hong Kong to manage certain assets of our Hong Kong business. During the year ended 31 December 2020, we launched an asset management company incorporated in Thailand to enhance our unit-linked propositions. As of 31 December 2020, US$177 billion of assets are being managed by our asset management companies.

To meet our investment objectives for Policyholder and Shareholder Investments, we have established a structured framework consisting of the following elements: an SAA framework; a tactical asset allocation process ("**TAA**"); and a combination of internal and external investment management for individual asset classes where appropriate to enhance investment performance and risk characteristics.

- The SAA framework seeks to optimise long term risk adjusted returns, deliver consistent earnings and grow the EV of the Group.

- TAA is the mechanism for investment managers to tactically manage asset class allocations to capture upside opportunities and mitigate downside risks. The TAA process involves top-down macro analyses based on economic research, valuation comparison and technical analysis; and bottom-up securities research to select individual financial securities through fundamental, valuation and technical analyses to construct our investment portfolios.

- We manage our investment portfolios using a combination of internal and external managers, selected based on established criteria.

Investment Portfolio

The following table sets forth the composition of our investment portfolio as of the dates indicated.

Policyholder and Shareholder

	As of 31 December		
	2020	2019	2018
	(in US$ millions)		
Participating funds and Other participating business with distinct portfolios[(1)]			
Government bonds[(2)]	9,324	7,751	6,645
Other government and government agency bonds[(2)]	11,701	9,974	7,476
Corporate bonds	54,590	40,309	29,646
Structured securities	357	533	537
Loans and deposits	2,519	2,523	2,179
Subtotal – Fixed income investments	78,491	61,090	46,483
Equities	23,892	18,739	13,892
Investment property and property held for own use	1,054	1,065	888
Cash and cash equivalents	565	481	395
Derivatives	335	231	148
Subtotal Participating funds and Other participating business with distinct portfolios	**104,337**	**81,606**	**61,806**
Other Policyholder and Shareholder[(1)]			
Government bonds[(2)]	46,939	43,345	35,821
Other government and government agency bonds[(2)]	18,918	16,727	13,496
Corporate bonds[(2)]	52,239	46,418	41,380
Structured securities	1,410	1,061	455
Loans and deposits	6,421	6,860	5,132
Subtotal – Fixed income investments	125,927	114,411	96,284
Equities	7,058	7,482	5,789
Investment property and property held for own use	5,570	5,829	5,794
Cash and cash equivalents	3,835	2,708	1,384
Derivatives	681	706	280
Subtotal Other Policyholder and Shareholder	**143,071**	**131,136**	**109,531**
Total Policyholder and Shareholder	**247,408**	**212,742**	**171,337**

(1) Presentation of Participating funds and Other participating business with distinct portfolios and Other Policyholder and Shareholder is consistent with note 21 to the 2019 audited consolidated financial statements included elsewhere in this Offering Circular. The comparative information has been adjusted to conform to current period presentation.

(2) Presentation of Government bonds and Other government and government agency bonds is consistent with note 21 to the 2019 audited consolidated financial statements included elsewhere in this Offering Circular. The comparative information has been adjusted to conform to current period presentation.

Unit-Linked Contracts and Consolidated Investment Funds

	As of 31 December		
	2020	2019	2018
	(in US$ millions)		
Unit-linked contracts and consolidated investment funds			
Debt securities	6,403	5,866	4,765
Loans and deposits	395	703	81
Equities	28,232	24,101	18,418
Cash and cash equivalents	1,219	752	672
Derivatives	53	34	2
Total unit-linked contracts and consolidated investment funds	**36,302**	**31,456**	**23,938**

Total Investment Portfolio

	As of 31 December		
	2020	2019	2018
	(in US$ millions)		
Total Policyholder and Shareholder	247,408	212,742	171,337
Total unit-linked contracts and consolidated investment funds	36,302	31,456	23,938
Total investment portfolio	**283,710**	**244,198**	**195,275**

Fixed Income Securities

Overview

Our fixed income securities represented 83%, 83% and 83% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. The following table sets forth the carrying value of the subcategories of our fixed income securities in our investment portfolio as of the dates indicated.

	As of 31 December 2020				
	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Unit-Linked Investments and Consolidated Investment Funds	% of Total Unit-Linked Investments and Consolidated Investment Funds	Total
	(in US$ millions)				
Debt securities:					
Government bonds	56,263	23	1,846	5	58,109
Other government and government agency bonds	30,619	12	840	2	31,459
Corporate bonds	106,829	43	3,522	10	110,351
Structured securities	1,767	1	195	1	1,962
Subtotal	**195,478**	**79**	**6,403**	**18**	**201,881**
Loans and deposits:					
Policy loans	3,547	1	-	-	3,547
Mortgage loans on residential real estate	590	-	-	-	590
Mortgage loans on commercial real estate	49	-	-	-	49

	As of 31 December 2020				
	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Unit-Linked Investments and Consolidated Investment Funds	% of Total Unit-Linked Investments and Consolidated Investment Funds	Total
	(in US$ millions)				
Other loans	707	1	53	-	760
Allowance for loan losses	(14)	-	-	-	(14)
Subtotal	4,879	2	53	-	4,932
Term deposits	2,341	1	342	1	2,683
Promissory notes[(1)]	1,720	1	-	-	1,720
Total Fixed Income Securities	**204,418**	**83**	**6,798**	**19**	**211,216**

(1) Promissory notes are issued by a government.

	As of 31 December 2019				
	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Unit-Linked Investments and Consolidated Investment Funds	% of Total Unit-Linked Investments and Consolidated Investment Funds	Total
	(in US$ millions)				
Debt securities:					
Government bonds	51,096	25	1,600	5	52,696
Other government and government agency bonds	26,701	13	617	2	27,318
Corporate bonds	86,727	40	3,561	12	90,288
Structured securities	1,594	1	88	-	1,682
Subtotal	166,118	79	5,866	19	171,984
Loans and deposits:					
Policy loans	3,246	2	-	-	3,246
Mortgage loans on residential real estate	606	-	-	-	606
Mortgage loans on commercial real estate	49	-	-	-	49
Other loans	726	-	50	-	776
Allowance for loan losses	(13)	-	-	-	(13)
Subtotal	4,614	2	50	-	4,664
Term deposits	3,043	1	653	2	3,696
Promissory notes[(1)]	1,726	1	-	-	1,726
Total Fixed Income Securities	**175,501**	**83**	**6,569**	**21**	**182,070**

(1) Promissory notes are issued by a government.

	As of 31 December 2018				
	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Unit-Linked Investments and Consolidated Investment Funds	% of Total Unit-Linked Investments and Consolidated Investment Funds	Total
	(in US$ millions)				
Debt securities:					
Government bonds	42,466	25	1,326	6	43,792
Other government and government agency bonds	20,972	12	516	2	21,488
Corporate bonds	71,026	41	2,923	12	73,948
Structured securities	992	1	-	-	992
Subtotal	135,456	79	4,765	20	140,221
Loans and deposits:					
Policy loans	2,896	2	-	-	2,896
Mortgage loans on residential real estate	613	-	-	-	613
Mortgage loans on commercial real estate	46	-	-	-	46
Other loans	709	-	33	-	742
Allowance for loan losses	(12)	-	-	-	(12)
Subtotal	4,252	2	33	-	4,285
Term deposits	1,473	1	48	-	1,521
Promissory notes[1]	1,586	1	-	-	1,586
Total Fixed Income Securities	142,767	83	4,846	20	147,613

(1) Promissory notes are issued by a government.

Debt securities constitute the largest asset class in our Policyholder and Shareholder Investments, representing 79%, 79% and 79% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. The remaining asset classes within the fixed income investments portion of our investment portfolio include loans, term deposits and promissory notes issued by a government.

A large proportion of our investments in debt securities are in the form of government bonds and government agency bonds, which together comprised 35%, 38% and 37% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations. This allocation is driven primarily by ALM and capital management purposes as these assets tend to be capital efficient and provide longer maturities to enable us to better match our liability profiles. We maintain the principle of currency matching between assets and liabilities. We also hold a sizable portfolio of corporate bonds, comprising 43%, 40% and 41% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. Our corporate bond investments primarily consist of investment grade issues that generally offer yield enhancement over government bonds, while also providing duration matching for our liabilities.

In conducting our credit risk assessment of potential investment opportunities, we use an internal risk rating system which is conceptually similar to systems used by external credit rating agencies, such as Moody's and S&P. We use the following conventions for the credit ratings used in this Offering Circular for our investments in government bonds, government agency bonds, corporate bonds and structured securities. Where external ratings are not readily available, an internal rating methodology has been adopted. The following conventions have been adopted to conform the various ratings.

Reported as:	S&P	Moody's	Internal Ratings
AAA	AAA	Aaa	1
AA	AA+ to AA-	Aa1 to Aa3	2+ to 2-
A	A+ to A-	A1 to A3	3+ to 3-
BBB	BBB+ to BBB-	Baa1 to Baa3	4+ to 4-
Below investment grade)(1)	BB+ and below	Ba1 and below	5+ and below

(1) Unless otherwise identified individually.

A portion of our investment in fixed income securities is composed of government agency bonds, corporate bonds and structured securities that are below investment grade or not rated by international credit rating agencies. These investments, and the rationales for our investments in such securities, principally consist of:

- Government and government agency bonds whose ratings are capped by the sovereign debt rating ceiling issued by rating agencies and our internal rating system. These fixed income securities are held primarily for ALM purposes in countries that are rated below investment grade;

- Bonds and structured notes issued by issuers in local markets that do not seek credit ratings from international credit rating agencies. These fixed income securities are held for their credit spreads to enhance the yield of our portfolios;

- Bonds that were rated investment grade at time of purchase but have been subsequently downgraded. We reassess our holding of such securities upon a downgrade; and

- Certain below investment grade or non-rated emerging market bonds that offer yield enhancement opportunities.

Below investment grade or non-rated securities typically carry risks. Complementing our investment framework and the tools used in connection with our investment process, such as our internal risk rating system, certain aspects of our RMF help us manage the risks associated with such investments. These measures include the involvement of our Risk Committee and the policies and procedures described below in *"– Risk Management – Risk Categorisations – Principal Risks – Financial Risks – Credit Risk"* and *"– Risk Management – Risk Categorisations – Principal Risks – Financial Risks – Market Risk"*.

Government Bonds

Government bonds constituted 23%, 25% and 25% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively.

The following tables show the breakdown of government bonds issued in foreign and local currency by country.

	As of 31 December 2020				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments	%	Total
	(in US$ millions, except for percentages)				
Government bonds					
Mainland China	17,747	32	38	2	17,785
Thailand	16,524	29	-	-	16,524
South Korea	8,225	15	311	17	8,536
Singapore	4,984	9	867	47	5,851
Philippines	2,777	5	157	9	2,934
Malaysia	2,191	4	168	9	2,359
Indonesia	734	1	92	5	826
Other	3,081	5	213	12	3,294
Total	**56,263**	**100**	**1,846**	**100**	**58,109**

	As of 31 December 2019				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments	%	Total
	(in US$ millions, except for percentages)				
Government bonds					
Mainland China	14,993	29	74	5	15,067
Thailand	16,454	32	-	-	16,454
South Korea	7,607	15	280	18	7,887
Singapore	4,375	9	578	36	4,953
Philippines	2,558	5	145	9	2,703
Malaysia	1,898	4	69	4	1,967
Indonesia	773	1	102	6	875
Other	2,438	5	352	22	2,790
Total	**51,096**	**100**	**1,600**	**100**	**52,696**

	As of 31 December 2018				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments	%	Total
	(in US$ millions, except for percentages)				
Government bonds					
Mainland China	12,196	29	42	3	12,238
Thailand	13,108	31	-	-	13,108
South Korea	6,686	16	283	23	6,969
Singapore	3,912	9	602	48	4,514
Philippines	2,152	5	140	11	2,292
Malaysia	2,204	5	74	6	2,278
Indonesia	729	2	84	7	813
Other	1,479	3	24	2	1,503
Total	**42,466**	**100**	**1,249**	**100**	**43,715**

Other Government and Government Agency Bonds

Other government and government agency bonds constituted 12%, 13% and 12% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. These securities are primarily issued by government and government-sponsored institutions largely in the geographical markets in which we operate.

The following tables show the breakdown of our other government and government agency bond holdings by credit rating. The credit ratings of other government and government agency bonds are capped at the sovereign debt rating ceilings of the individual countries, some of which are rated below investment grade.

	As of 31 December 2020				
	Policyholder and Shareholder Investments	**%**	**Unit-Linked Investments and Consolidated Investment Funds**	**%**	**Total**
	(in US$ millions, except for percentages)				
Other government and government agency bonds					
AAA	9,051	30	183	22	9,234
AA	5,623	18	425	51	6,048
A	9,258	30	158	19	9,416
BBB	6,230	20	64	7	6,294
Below investment grade	457	2	6	1	463
Not rated	-	-	4	-	4
Total other government and government agency bonds	**30,619**	**100**	**840**	**100**	**31,459**

	As of 31 December 2019				
	Policyholder and Shareholder Investments	**%**	**Unit-Linked Investments and Consolidated Investment Funds**	**%**	**Total**
	(in US$ millions, except for percentages)				
Other government and government agency bonds					
AAA	7,963	30	82	13	8,045
AA	5,130	19	344	56	5,474
A	7,851	29	136	22	7,987
BBB	5,518	21	31	5	5,549
Below investment grade	239	1	20	3	259
Not rated	-	-	4	1	4
Total other government and government agency bonds	**26,701**	**100**	**617**	**100**	**27,318**

	As of 31 December 2018				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments and Consolidated Investment Funds	%	Total
	(in US$ millions, except for percentages)				
Other government and government agency bonds					
AAA	6,218	30	65	11	6,283
AA	4,688	22	362	61	5,050
A	6,263	30	129	22	6,392
BBB	3,575	17	27	5	3,602
Below investment grade	222	1	10	1	232
Not rated	6	-	-	-	6
Total other government and government agency bonds	**20,972**	**100**	**593**	**100**	**21,565**

Corporate Bonds

Corporate bonds constituted 43%, 40% and 41% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively.

The following tables show the breakdown of our corporate bond holdings by credit rating. Most of the credit ratings of corporate bonds are capped at the sovereign debt rating ceilings of the individual countries, some of which are rated below investment grade.

	As of 31 December 2020				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments and Consolidated Investment Funds	%	Total
	(in US$ millions, except for percentages)				
Corporate bonds:					
AAA	964	1	25	1	989
AA	5,812	5	325	9	6,137
A	46,292	43	1,555	44	47,847
BBB	50,839	48	1,287	37	52,126
Below investment grade	2,892	3	176	5	3,068
Not rated	30	-	154	4	184
Total corporate bonds	**106,829**	**100**	**3,522**	**100**	**110,351**

	As of 31 December 2019				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments and Consolidated Investment Funds	%	Total
	(in US$ millions, except for percentages)				
Corporate bonds:					
AAA	676	1	25	1	701
AA	4,314	5	407	11	4,721
A	38,685	45	1,683	47	40,368
BBB	40,428	46	1,191	34	41,619
Below investment grade	2,613	3	103	3	2,716
Not rated	11	-	152	4	163
Total corporate bonds	**86,727**	**100**	**3,561**	**100**	**90,288**

	As of 31 December 2018				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments and Consolidated Investment Funds	%	Total
	(in US$ millions, except for percentages)				
Corporate bonds:					
AAA	589	1	5	-	594
AA	3,925	6	382	13	4,307
A	31,429	44	1,493	51	32,922
BBB	32,625	46	782	27	33,407
Below investment grade	2,455	3	151	5	2,606
Not rated	3	-	110	4	113
Total corporate bonds	**71,026**	**100**	**2,923**	**100**	**73,949**

Structured Securities

Our fixed income investment asset class also includes structured securities, which consist of collateralised debt obligations, mortgage-backed securities and other asset-backed securities, constituting 1%, 1% and 1% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively.

Collateralised debt obligations of policyholder and shareholder investments amounted to US$1,024 million, US$914 million and US$745 million as of 31 December 2020, 2019 and 2018, respectively.

The following tables show the breakdown of our structured securities holdings by credit rating.

	As of 31 December 2020				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments and Consolidated Investment Funds	%	Total
	(in US$ millions, except for percentages)				
Structured securities:					
AAA	310	18	149	76	459
AA	176	10	-	-	176
A…	571	32	25	13	596
BBB	376	21	20	10	396
Below investment grade	12	1	-	-	12
Not rated	322	18	1	1	323
Total structured securities	**1,767**	**100**	**195**	**100**	**1,963**

	As of 31 December 2019				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments and Consolidated Investment Funds	%	Total
	(in US$ millions, except for percentages)				
Structured securities:					
AAA	185	12	60	68	245
AA	193	12	-	-	193
A…	507	32	25	28	532
BBB	429	27	-	-	429
Below investment grade	3	-	-	-	3
Not rated	277	17	3	4	280
Total structured securities	**1,594**	**100**	**88**	**100**	**1,682**

	As of 31 December 2018				
	Policyholder and Shareholder Investments	%	Unit-Linked Investments and Consolidated Investment Funds	%	Total
	(in US$ millions, except for percentages)				
Structured securities:					
AAA	10	1	-	-	10
AA	140	14	-	-	140
A…	350	35	-	-	350
BBB	452	46	-	-	452
Below investment grade	4	0	-	-	4
Not rated	36	4	-	-	36
Total structured securities	**992**	**100**	**-**	**-**	**992**

Loans

We extend loans to enhance yields on our fixed income investments asset class. These loans principally consist of policy loans and mortgage loans on residential and commercial real estate. Loans represented 2%, 2% and 2% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively.

We have lending policies that are based on a credit analysis process and underwriting guidelines that account for diverse factors, including market conditions, industry specific conditions, company cash flows and quality of collateral. We also have a monitoring programme in place whereby our credit teams review the status of the obligor on a regular basis to anticipate any credit issues. Policy loan amounts are restricted to the policy's cash surrender values and, as a result, we are not exposed to credit risk on policy loans. The loss on residential mortgage loans and other loans was insignificant in each of 2020, 2019 and 2018.

Term Deposits and Promissory Notes

Our term deposits constituted 1%, 1% and 1% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. Promissory notes constituted 1%, 1% and 1% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively.

Some of our 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 was US$2,057 million, US$1,951 million and US$1,782 million as of 31 December 2020, 2019 and 2018, respectively.

Equity Securities

Our equities portfolio includes investments in public equities, private equities and investment funds that may invest in private equities and other alternative asset classes. Our equities portfolio represented 13%, 12% and 11% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively.

The following table sets forth the carrying value of the subcategories of our equity securities in our investment portfolio as of the date indicated.

	As of 31 December 2020				
	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Unit-Linked Investments and Consolidated Investment Funds	% of Total Unit-Linked Investments and Consolidated Investment Funds	Total
	(in US$ millions, except for percentages)				
Equity shares	21,898	71	8,258	29	30,156
Interests in investment funds	9,052	29	19,974	71	29,026
Total equity securities	**30,950**	**100**	**28,232**	**100**	**59,182**

	As of 31 December 2019				
	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Unit-Linked Investments and Consolidated Investment Funds	% of Total Unit-Linked Investments and Consolidated Investment Funds	Total
	(in US$ millions, except for percentages)				
Equity shares	18,727	9	6,633	21	25,360
Interests in investment funds	7,494	3	17,468	56	24,962
Total equity securities	**26,221**	**12**	**24,101**	**77**	**50,322**

	As of 31 December 2018				
	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Unit-Linked Investments and Consolidated Investment Funds	% of Total Unit-Linked Investments and Consolidated Investment Funds	Total
	(in US$ millions, except for percentages)				
Equity shares	14,267	8	4,516	19	18,783
Interests in investment funds	5,414	3	13,902	58	19,316
Total equity securities	**19,681**	**11**	**18,418**	**77**	**38,099**

Cash and Cash Equivalents

Cash and cash equivalents represented 2%, 1% and 1% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively.

Derivatives

Derivative financial instruments, which include foreign exchange contracts, interest rate contracts and other derivatives, constituted less than 1%, 1% and 1% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. The following table sets forth our non-hedge derivative exposure for the dates indicated.

	As of 31 December 2020		
	Notional Amount	Assets	Liabilities
		(in US$ millions)	
Foreign exchange contracts			
Forwards	2,694	121	(17)
Cross-currency swaps	8,172	313	(158)
Foreign exchange futures	100	-	-
Interest rate contracts			
Interest rate swaps	8,510	561	(308)
Other			

	As of 31 December 2020		
	Notional Amount	Assets	Liabilities
		(in US$ millions)	
Warranties and options	1,342	51	(45)
Forward contracts	10,658	18	(469)
Swaps	1,267	5	(6)
Netting	(100)	-	-
Total derivatives financial instruments	**32,643**	**1,069**	**(1,003)**

	As of 31 December 2019		
	Notional Amount	Assets	Liabilities
		(in US$ millions)	
Foreign exchange contracts			
Forwards	4,973	62	(24)
Cross-currency swaps	8,338	396	(204)
Foreign exchange futures	98	-	-
Currency options	3	-	-
Interest rate contracts			
Interest rate swaps	8,740	487	(161)
Other			
Warranties and options	147	3	-
Forward contracts	1,843	14	(17)
Swaps	1,333	9	(6)
Netting	(98)	-	-
Total derivatives financial instruments	**25,377**	**971**	**(412)**

	As of 31 December 2018		
	Notional Amount	Assets	Liabilities
		(in US$ millions)	
Foreign exchange contracts			
Forwards	4,456	11	(42)
Cross-currency swaps	7,825	224	(159)
Foreign exchange futures	105	-	-
Currency options	6	-	-
Interest rate contracts			
Interest rate swaps	4,730	122	(42)
Other			
Warranties and options	4,211	57	-
Forward contracts	275	16	-
Netting	(105)	-	-
Total derivatives financial instruments	**21,503**	**430**	**(243)**

For a description of the derivative financial investments that we invest in, see note 22 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular.

Investment Property and Property Held for Own Use

We own a portfolio of investment properties used strictly for investment purposes. We also own real estate for operational use, but these are not reflected in our investment portfolio.

We also have property held for own use in AIA's business. Our investment property and property held for own use portfolio represented 2%, 3% and 5% of the total Policyholder and Shareholder Investments as of 31 December 2020, 2019 and 2018, respectively. Fair value of the investment properties (including land) decreased by 4% to US$4,639 million as of 31 December 2020 from US$4,834 million as of 31 December 2019. Fair value of the investment properties (including land) increased by 1% to US$4,834 million as of 31 December 2019 from US$4,794 million as of 31 December 2018.

Fair value of the property held for own use decreased by 4% to US$1,985 million as of 31 December 2020 from US$2,060 million as of 31 December 2019. Fair value of the property held for own use increased by 9% to US$2,060 million as of 31 December 2019 from US$1,888 million as of 31 December 2018.

Valuation of Financial Assets

We determine the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. We measure and classify assets recorded at fair value in the consolidated statement of financial position in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the market place used. The following sets out the investments carried at fair value according to their fair value hierarchy.

	As of 31 December 2020			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	(in US$ millions)			
Available for sale				
Debt securities...				
Participating funds and Other participating business with distinct portfolios	-	47,594	8	47,602
Other Policyholder and Shareholder	69	116,178	1,257	117,504
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios	14	27,426	930	28,370
Unit-linked and consolidated investment funds	14	6,386	3	6,403
Other Policyholder and Shareholder	1	1,697	304	2,002
Equity securities				
Participating funds and Other participating business with distinct portfolios	20,272	877	2,743	23,892
Unit-linked and consolidated investment funds	27,640	285	307	28,232
Other Policyholder and Shareholder	5,481	1,077	500	7,058
Derivative financial instruments				
Foreign exchange contracts............................	-	434	-	434
Interest rate contracts.....................................	-	561	-	561
Other contracts...	13	61	-	74
Total..	**53,504**	**202,576**	**6,052**	**262,132**
Total %..	**20**	**77**	**3**	**100**

	As of 31 December 2019			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	(in US$ millions)			
Available for sale				
Debt securities...				
Participating funds and Other participating business with distinct portfolios	72	33,153	230	33,455
Other Policyholder and Shareholder	133	104,220	1,044	105,397
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios	8	24,529	575	25,112
Unit-linked and consolidated investment funds	-	5,848	18	5,866
Other Policyholder and Shareholder	1	1,886	267	2,154
Equity securities				
Participating funds and Other participating business with distinct portfolios	16,108	896	1,735	18,739
Unit-linked and consolidated investment	23,559	244	298	24,101

	As of 31 December 2019			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	(in US$ millions)			
funds				
Other Policyholder and Shareholder	6,348	755	379	7,482
Derivative financial instruments				
Foreign exchange contracts...........................	-	458	-	458
Interest rate contracts....................................	-	487	-	487
Other contracts..	14	12	-	26
Total..	**46,243**	**172,488**	**4,546**	**223,277**
Total %..	**21**	**77**	**2**	**100**

	As of 31 December 2018			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	(in US$ millions)			
Available for sale				
Debt securities...				
Participating funds and Other participating business with distinct portfolios	27	21,645	309	21,981
Other Policyholder and Shareholder	-	89,591	913	90,504
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios	7	21,785	531	22,323
Unit-linked and consolidated investment funds	-	4,697	68	4,765
Other Policyholder and Shareholder	1	618	29	648
Equity securities				
Participating funds and Other participating business with distinct portfolios	12,124	710	1,058	13,892
Unit-linked and consolidated investment funds	18,223	195	-	18,418
Other Policyholder and Shareholder	4,859	655	275	5,789
Derivative financial instruments				
Foreign exchange contracts...........................	-	235	-	235
Interest rate contracts....................................	-	122	-	122
Other contracts..	2	71	-	73
Total..	**35,243**	**140,324**	**3,183**	**178,750**
Total %..	**20**	**78**	**2**	**100**

See note 23 to our 2020 audited consolidated financial statements included elsewhere in this Offering Circular for information regarding the valuation techniques and inputs by level within the three-level fair value hierarchy by major classes of financial assets.

Impairment

We carry out impairment reviews for available for sale securities and loans and receivables. In respect of available for sale debt securities, we recognised nil, nil and US$81 million of impairment losses for the twelve months ended 31 December 2020, 2019 and 2018, respectively.

The carrying amounts of available for sale debt securities that were individually determined to be impaired as of 31 December 2020, 2019 and 2018 was nil, nil and nil respectively.

RISK MANAGEMENT

Overview

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

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

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

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

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

Risk Governance

Three Lines of Defence

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

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

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

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

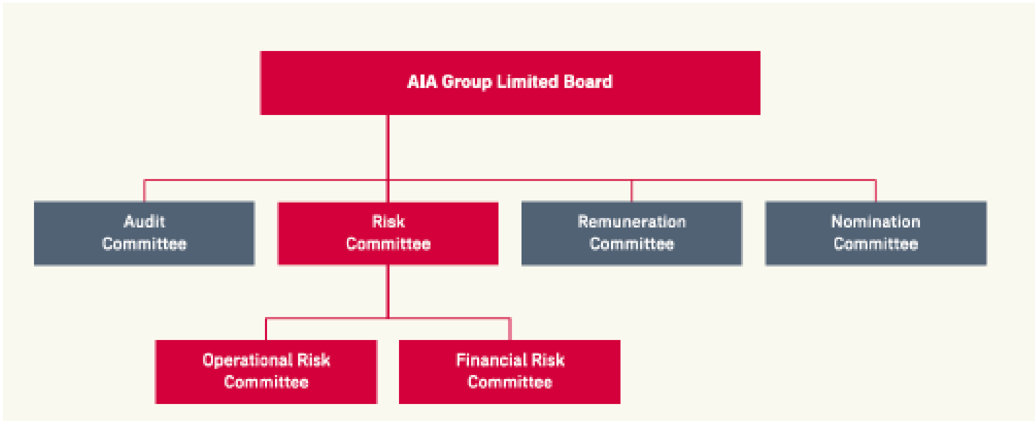
The Third Line is the Group Internal Audit ("**GIA**") function, which reports to the Audit Committee of the Board. GIA is responsible for providing independent assurance over the effectiveness of the RMF, including key internal controls, and makes recommendations based on the audit findings.

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

Risk Committee Structure

The Group's Risk Committee structure is designed to:

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



The Board

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

Risk Committee

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

Operational Risk and Financial Risk Committees

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

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

Risk Culture

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

Accountability

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

Remuneration

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

Risk Strategy

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

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

Risk Appetite Statement

The Group has adopted the following RAS:

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

Risk Principles and Risk Tolerances

The RAS is supported by five Risk Principles:

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

Business Practice	*"AIA will uphold high ethical standards and will implement sound internal controls to minimise the downside risk from the impact of any operational failures within reasonable tolerances."*

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

Risk Landscape

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

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

Risk Underwriting

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

Identification

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

Quantification

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

Underwriting Decisions

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

Review and Management

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

Risk Control

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

Risk Disclosure

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

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

Execution of the RMF

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

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

COMPETITION

We believe competition in the markets in which we operate is based on 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. The competitive landscape across the markets in which we operate differs widely by geographical market. Leading market participants are primarily either subsidiaries of large global life insurers or local domestic (including state-owned) entities. Almost all local domestic life insurers in the Asia Pacific region remain focused or dependent on their home market. Our key competitors across the region include AXA, Manulife and Prudential plc. Other competitors relevant in a few of our Key Segments include China Life and Ping An in Mainland China, China Life and HSBC Life in Hong Kong, FWD and Thai Life in Thailand, and Great Eastern in Singapore and Malaysia.

We expect that competition in the Asia Pacific region may increase, particularly in protection business, as life insurers increase their focus on meeting the growing protection needs of Asian consumers, supported by governments and regulators in the region. We expect global life insurance groups to continue to seek opportunities to expand their presence in the Asia Pacific region, and local domestic insurers to seek opportunities to diversify their operations outside of their home markets.

OPERATIONS

Our operations unit focuses on processing new business and servicing policies and policyholders.

Operations are currently structured as three separate departments, representing various functional responsibilities:

- Underwriting and New Business;
- Claims Management; and

- Customer Service and Contact Centre.

These departments are supported by our Marketing and Information Technology departments.

Underwriting and New Business

Underwriting

Our underwriting operations involve the evaluation of our insurance products by a professional staff of underwriters and actuaries who determine the type and the amount of risk that we are willing to accept. Underwriting is governed by detailed policies, guidelines and procedures to assist our underwriters to assess and quantify risks before issuing an insurance policy or contract to a qualified customer. Our geographical reach allows us to utilise our underwriting experience from more developed markets and apply it to developing markets with less historical underwriting data by sharing established best practice underwriting principles among markets. In this manner we are able to leverage our long history and experience in markets such as Thailand, and assess risk in geographical markets with limited statistical data, such as Vietnam.

In order to maintain high standards of underwriting quality and consistency, we use technology in the form of an expert underwriting system that ensures consistency and impartiality, while also having clear governance policies and a series of multilevel internal new business audits.

Reinsurance

We reinsure a portion of the underwriting risk that has been assumed in the insurance products written across the Group to reduce our exposure to loss and protect our capital resources. Reinsurance is also used to obtain product pricing expertise when entering new lines of business, products or markets. As a result of our history and scale, we have accumulated a substantial volume of experience and data which assists with setting our reinsurance strategy. Where there is inadequate data, such as when there is exposure to a new type of risk, a substantial portion of this risk may be reinsured. As the amount of experience data relating to the new risk increases, we may gradually retain more of the risk and reduce the use of related external reinsurance over time.

We use reinsurance solutions to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters. To limit our counterparty risk, we seek to cede reinsurance with highly-rated third-party reinsurance partners. Our criteria for admitting third-party reinsurers include terms and cost of coverage, financial strength, services provided and the efficiency of claims settlement. We monitor the financial condition of our third-party reinsurers on an ongoing basis and review our reinsurance arrangements periodically.

When we use internal reinsurance, one of our operating subsidiaries or branches cedes to another member of our Group a portion of the risk that the operating subsidiary or branch assumes under our insurance products. Under our internal reinsurance strategy, the member of our Group that acts as reinsurer will typically obtain external reinsurance in order to cede to a third-party reinsurer risk above certain defined risk limits.

We engage in limited external reinsurance. The majority of our ceded reinsurance comes from our group insurance in Australia. Our premiums ceded to third-party reinsurers for the twelve months ended 31 December 2020, 2019 and 2018 were US$2,452 million, US$2,166 million and US$1,842 million, respectively. Our third-party reinsurance partners are highly rated, with our top five third-party reinsurers, who collectively accounted for 75% of our external reinsurance premiums for the year ended 31 December 2020, all rated AA- or above by S&P as of 31 December 2020. Since 1 January 2018, we have not experienced any material third-party reinsurer or broker default.

Claims Management

Claims that we receive on our products are processed and investigated in a structured manner by the claims team in each of the geographical markets in which we operate. Claims are assessed in line with the policy conditions and history of the claimant.

Customer Service and Contact Centre

We seek to provide quality services to our customers and potential customers and to be responsive to their needs, both before and after issuing a policy or contract, through an extensive customer service network. We deliver customer services primarily through our customer service units at each of our local operating units via our contact centres and offices, agency force, internet platform and telephone services based on our guidelines.

Marketing

We believe that we have the leading Asian insurance brand and are one of the most recognised and trusted insurance companies in the industry. Our purpose-led brand promise, Healthier, Longer, Better Lives, exemplifies our commitment to become a lifelong partner to our customers. Our aim is to lead in the evolving market for regular savings and protection products, through our depth of understanding gained from our extensive customer experience programmes. These allow us to help inform and educate customers in the importance of planning for the future and tailor products to meet these evolving needs. AIA Vitality has been a major theme of our marketing. We have launched AIA Vitality in thirteen of our markets to date, including Hong Kong, Singapore, Thailand, Malaysia, South Korea, Macau, the Philippines, Australia, Vietnam, Indonesia, Cambodia, New Zealand and Sri Lanka, and we have a wellness programme in Mainland China.

Environmental, Social and Governance

Environmental, Social, and Governance ("**ESG**") issues have the potential to impact our business performance, whether through regulation or stakeholder perception, or by directly affecting the health and well-being of our customers. AIA seeks to understand these ESG issues, mitigate our impact on the environment and address the key health challenges facing our markets.

To provide effective governance on how we integrate and address ESG issues within our business, AIA's ESG Committee, comprised of the Group's senior executives and an independent non-executive director of the Board, meets on a quarterly basis and plays an integral role in overseeing the Company's ESG strategy, policies and reporting, including reporting to the Board on a biannual basis. The Group also publishes an annual ESG Report, describing our ESG impact and highlights through the year.

Through our investments we are able to obtain investment income and contribute to the social and economic development of our markets. AIA is aware of the impact that our investments have on people's lives and the importance of screening for ESG factors in our investment decisions to drive the creation of long term value. To outline our commitments, AIA published a Responsible Investment Policy in 2016.

AIA currently maintains a portfolio of six Leadership in Energy and Environmental Design (LEED) certified green buildings, providing resource efficient spaces to our employees and tenants. We have also provided support for the Paris Climate Change Agreement by becoming a signatory to the Task Force on Climate Related Financial Disclosures.

Technology and Operations

We continue to build upon improvements made to our technology and business processes across the Group, looking to drive greater process and technology consistency and cost effectiveness, supported by clear performance measurements. The greater focus on public cloud adoption now strongly underpin these drivers while we continue to introduce a series of strategic, organisational and operational initiatives to increase our operating efficiency, enhance the quality of our services and improve our engagement with customers, agents and distribution partners.

LEGAL AND REGULATORY MATTERS

Legal and Regulatory Proceedings

We are a party to legal actions and regulatory proceedings in most of our geographical markets arising out of our normal business operations, including as the plaintiff and defendant in arbitration and litigation matters related to contested insurance claims. While we cannot predict the outcome or impact of any pending or future arbitration, litigation or regulatory proceedings, we do not believe that any pending arbitration, litigation or regulatory proceedings will have a material adverse effect on our business, finan*cial condition or results of operations.*

Regulatory Matters

We are subject to extensive local regulatory oversight in each of the geographical markets in which we operate.

The main source of statutory regulation of the insurance market and insurance businesses in Hong Kong is the HKIO and its subsidiary regulations, which set out requirements for the authorisation, ongoing compliance and reporting obligations of insurers and insurance intermediaries. The HKIA is the regulatory body set up for the administration of the HKIO.

The HKIA regulates AIA Co. and AIA International as our primary insurance regulator, and these entities are subject to the requirements of the HKIO. The HKIA requires that AIA Co. and AIA International meet the solvency ratio requirements of the HKIO. The HKIO (among other matters) sets minimum solvency ratio requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The minimum solvency ratio under the HKIO is 100%. AIA has given a revised undertaking to the HKIA to ensure that each of AIA Co. and AIA International will maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement.

For more information on the regulations we are subject to, see *"Regulation"*.

EMPLOYEES

As of 31 December 2020, we had over 23,000 permanent and fixed term employees. We recognise that the quality and professionalism of our employees is paramount in ensuring that we are well positioned to fulfil our goals, meet customers' needs and deliver value to the shareholders.

We enter into employment agreements with individual employees covering matters such as salary, employee benefits, confidentiality obligations and termination of employment. We generally formulate our employees' compensation to include one or more elements such as salaries, allowances, bonuses, long-term incentives and benefits subject to applicable rules and regulations. Our compensation programmes are designed to remunerate our employees based on the Issuer's business performance as well as individual performance, roles and responsibilities, skills and competencies. We also perform market benchmarking with respect to our compensation programmes.

RELATED PARTY TRANSACTIONS

Our management believes that no Group entity is a party to any material transaction with a related party, other than salaries and benefits to officers and directors as set out in the notes to our audited consolidated financial statements included elsewhere in this Offering Circular.

RESERVES

IFRS Insurance Liabilities

In accordance with IFRS, our liabilities for financial reporting purposes are based on actuarially recognised methods for estimating future contract benefits.

We establish liabilities for obligations for future contract benefits on our products based on assumptions that are formulated with reference to experience and economic variables. Our assumptions include assumptions for mortality, morbidity, persistency, expenses and investment returns, as well as macroeconomic factors. Actual experience may deviate from these assumptions and, as a result, we cannot determine precisely the amounts which we will ultimately pay to settle the liabilities on our products or when these payments will need to be made. Actual amounts may vary from the estimated amounts, particularly when payments may not occur until well into the future. We evaluate our liabilities regularly, based on applicable assumptions used to establish the liabilities, as well as our actual experience. We expense changes in our liabilities in the period the liabilities are established or re-estimated. To the extent that actual experience and trends are less favourable than our underlying assumptions used in establishing these liabilities, we could be required to increase our liabilities. See *"Risk Factors – Risks Relating to our Business – Actual experience may differ from assumptions used in establishing insurance contract liabilities and in product pricing, which may adversely impact our profitability."*

We are required to report local operating unit reserves for regulatory purposes in many of the geographical markets in which we operate. These are reported in accordance with the local statutory reserve standards applicable to each of these geographical markets.

CREDIT RATING

As of the date of this Offering Circular, 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. 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.

The foregoing ratings reflect each rating agency's independent opinion of our financial strength, operating performance and ability to meet our obligations to policyholders, and are not evaluations directed towards our shareholders, and do not in any way reflect evaluations of the safety and security of our Instruments. You should not rely upon these ratings in making an investment decision regarding our Instruments. The ratings set forth above are subject to revision or withdrawal at any time by the assigning rating agency.

PENSIONS AND RETIREMENT BENEFITS

Defined Benefit Plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment in Hong Kong, Thailand, Singapore, Malaysia, South Korea, the Philippines, Indonesia, Taiwan (China), Vietnam and Sri Lanka. Based on the latest independent actuarial valuations of the plans, our obligations under these defined benefit retirement plans in the year ended 31 December 2020 equalled 39% (in the year ended 31 December 2019, 40%) covered by the plan assets held by the trustees. The fair value of plan assets as of 31 December 2020 at the date of valuation was US$96 million (as of 31 December 2019, US$88 million). The total expenses relating to these plans recognised in the consolidated income statement for the year ended 31 December 2020 was US$14 million (US$13 million for the year ended 31 December 2019).

Defined Contribution Plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans for the year ended 31 December 2020 was US$93 million (US$90 million for the year ended 31 December 2019). Employees and the employer are required to make monthly contributions equal to 1% to 22% of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

REGULATION

OVERVIEW

In each of the geographical markets in which we operate, we are licensed to conduct insurance business and subject to local regulatory oversight. The purpose of these regulations is primarily to protect our customers and the overall financial system. For example, regulators across our operations continue to propose and implement a variety of initiatives intended to align their respective regulatory frameworks with the broad principles recommended by the IAIS, including in relation to application of risk-based capital frameworks. We are involved in these initiatives across the region, and are an active participant in the international industry dialogue on a host of relevant issues, including formation of a common capital standard. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations or profitability. Financial market dislocations have produced, and are expected to continue to produce, changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses.

While the extent of such regulation varies among each of the Key Segments, most jurisdictions have laws and regulations regarding, among other things, capital requirements, reserve requirements, asset management requirements, statutory deposits and/or security deposit requirements, separate account requirements, restrictions on foreign insurers and restrictions on dividends and profit remittances. Our operations in our Other Markets are also subject to their respective local insurance regulatory requirements, including requirements regarding solvency, asset management, financial reporting and reinsurance. We are required to file reports, generally including detailed annual financial statements, with insurance regulatory authorities in each of the geographical markets in which we operate, and our operations and accounts are subject to periodic examination by such authorities.

REGULATION OF THE GROUP

The HKIA regulates AIA Co. and AIA International, and these entities are subject to HKIA regulation and the requirements of the HKIO. As a result, the regulatory framework in Hong Kong is relevant not only to our Hong Kong operations, but also applies to a substantial number of our local operating units that are branches of AIA Co. or AIA International. For further details of regulation at the Group level, see *"– Regulatory Framework – Hong Kong"*. The Bermuda Monetary Authority (the "**BMA**") also regulates the business of AIA International, including its branches. For further details of regulations in Bermuda, see *"– Regulatory Framework –Bermuda"*. The key operating business units of AIA Co. and AIA International, including those in Singapore, Malaysia, Australia, Indonesia, the Philippines, South Korea, Sri Lanka, Vietnam and Cambodia, and certain non-insurance subsidiaries in Hong Kong, are not subject to the direct supervision and regulation by the HKIA or the BMA.

REGULATORY FRAMEWORK – HONG KONG

Overview

The main source of statutory regulation of the insurance market and insurance businesses in Hong Kong is the HKIO and its subsidiary regulations, which set out requirements for the authorisation, ongoing compliance and reporting obligations of insurers and insurance intermediaries.

Our Group supervisor is the HKIA. The HKIA is the regulatory body that administers the HKIO. The principal functions of the HKIA are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry. The HKIA has the following major duties and powers: (a) authorisation of insurers to carry on insurance business in Hong Kong; (b) regulation of insurers' financial condition, primarily through the examination of the annual audited financial statements and business returns submitted by the insurers; and (c) development of legislation and guidelines on insurance supervision.

As at the date of this Offering Circular, the Group is primarily regulated in Hong Kong through AIA Co. and AIA International. Under the GWS framework, which is expected to become effective on 29 March 2021, the HKIA will exercise direct regulatory powers over Hong Kong-incorporated holding companies of insurance groups that are designated under the legislation. We expect to be formally designated as being subject to the GWS framework in May 2021. In respect of insurers which carry on insurance business in or from Hong Kong, the HKIA has various regulatory powers including powers to approve the appointment of a controller, a director and a key person, and powers to intervene, inspect and investigate. These powers may also be directly applied to Hong Kong incorporated holding companies of insurance groups pursuant to the GWS framework.

In addition to regulation by the HKIA, AIA International is a member of the Hong Kong Federation of Insurers (the "**HKFI**"), a self-regulatory industry body that maintains a frequent dialogue with the HKIA on legislative issues affecting the insurance industry and promotes best market practices to improve the professionalism of, and to strengthen public confidence in, the insurance industry. Certain types of products and services offered by the Group in Hong Kong are regulated under separate statutory regimes by regulatory bodies other than the HKIA. These include the AIA mandatory provident fund schemes ("**MPF**") governed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "**MPFSO**") and the AIA occupational retirement schemes governed by the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) (the "**ORSO**"), both regulated by the Mandatory Provident Fund Schemes Authority for compulsory MPF and voluntary occupational retirement schemes offered by AIA Company (Trustee) Limited ("**AIA-T**"), and investment-linked assurance schemes products governed by the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**"), administered by the Securities and Futures Commission (the "**SFC**"). See *" – Regulation under the MPFSO and ORSO" and " – Regulation in relation to Investment-Linked Assurance Schemes Products"*.

Hong Kong Insurance Regulatory Regime Developments

A number of developments relating to the Hong Kong insurance regulatory regime have recently become effective or have been proposed and are in various stages of study, consultation or legislative enactment, as summarised below:

- *GWS Framework:* Legislation setting out the GWS framework was enacted on 17 July 2020. On 31 December 2020, the Hong Kong SAR government gazetted 29 March 2021 as the commencement date of the legislation. Accordingly, 29 March 2021 is the date on which the GWS framework will become effective and the date on which the Insurance (Group Capital) Rules ("**Group Capital Rules**") will come into operation. However, the application of these rules remains under discussion with the HKIA and they will only become finalised when the Group is formally designated as being subject to them, which we expect to be in May 2021. The Group Capital Rules will set out the capital requirements of the Group under the GWS framework and will be based on a "Summation Approach". The Group's published total available and minimum capital requirements will be calculated as the sum of the available and required capital according to the regulatory requirements for each relevant regulated entity within the Group (the "**LCSM**"). With the implementation of the GWS framework, the HKIA will also adopt guidelines regarding the features of financial instruments that would be eligible to count towards group capital requirements.

- *Proposed RBC standard:* The existing solvency and capital adequacy regime for insurers in Hong Kong has been used since the 1980s and is based on a rule-based framework. The HKIA has been working on a new RBC framework to replace the current framework and concluded an initial consultation in December 2014. The consultation conclusions were published in September 2015 and there was general support for the move towards a risk-sensitive capital framework. The HKIA is now in the process of developing the detailed rules for the new requirements. Quantitative Impact Studies ("**QIS**") were conducted in 2017, 2018 and 2019. Based on the most recent information provided, our current expectation is that the regime will be effective from 1 January 2024.

- *Guideline on Enterprise Risk Management:* The HKIA published GL21 - Guideline on Enterprise Risk Management on 5 July 2019. The Guideline became effective on 1 January 2020 and is similar to those in other jurisdictions. We do not expect the Guideline to have a significant impact on our business.

- *HKIA administration of statutory licensing regime*: On 23 September 2019 the previous self-regulatory regimes for insurance intermediaries were replaced with a statutory licensing regime administered by the HKIA. The HKIA is empowered under the HKIO to grant five types of intermediary licences, including an insurance agency licence, an insurance broker company licence, an individual insurance agent licence, a technical representative (broker) licence and a technical representative (agent) licence. Any person which holds itself to carry on insurance-related regulated activities without a licence will be liable to a fine or imprisonment.

- *Proposed establishment of a Policyholders' Protection Fund (the "**PPF**"):* the Financial Services and Treasury Bureau has concluded a consultation exercise in 2012 regarding the establishment of the PPF, which will consist of two schemes: the "Life Scheme" and the "Non-Life Scheme", being compensation funds to pay insurance claims in the event of insurer insolvency. Compensation protection in relation to motor and employees' compensation is currently protected under separate compensation funds and will therefore be carved out from the PPF. Legislation is being prepared for the establishment of the PPF. A bill is expected to be introduced into the Legislative Council in the second half of 2021.

Licences Held by the Group in Hong Kong

The Group is authorised to carry on insurance business in Hong Kong through its subsidiaries AIA Co. and AIA International. AIA Co. is licensed as a composite insurer in respect of all classes of general and long-term business (as defined under the HKIO and described further below). AIA International is licensed in respect of all classes of long-term business and in respect of Classes 1 and 2 (which relate to A&H) for general business. In relation to the Group's MPF retirement scheme business in Hong Kong, AIA International, in addition to being an authorised insurer under the HKIO, is a registered MPFSO principal intermediary and the administrator of the AIA Retirement Fund Scheme and AIA MPF – Prime Value Choice. AIA-T is an approved trustee under the MPFSO and acts as trustee of ORSO schemes. AIA-PT is registered with the Mandatory Provident Fund Schemes Authority as an MPFSO subsidiary intermediary. AIA-PT is also a registered corporate insurance agent. AIA Investment Management HK Limited commenced operations in 2019 and is authorised by the SFC to carry on Type 4 and Type 9 regulated activities in Hong Kong.

Authorisation under the HKIO

Companies carrying on insurance business in or from Hong Kong must obtain authorisation from the HKIA. Authorisation will be granted only to insurers meeting certain requirements set out in section 8 of the HKIO, which focuses on, among other things, the following items:

- paid-up capital;

- solvency margin;

- fitness and properness of directors and controllers; and

- adequacy of reinsurance arrangements.

An insurer's authorisation may also be subject to additional conditions imposed by the HKIA. In addition, an insurer must meet certain other criteria contained in the authorisation guidelines issued by the HKIA, which are intended to ensure that the insurer is financially sound and competent to provide an adequate level of services to the insured public. These conditions continue to apply to an insurer after its authorisation.

Types of Insurance Business under the HKIO

The HKIO requirements vary depending on the type of insurance business being undertaken by an insurer. The HKIO defines two main types of business as follows:

- long-term business: covers those types of insurance business in which policies are typically in place for long periods and includes life and annuity, linked long-term, permanent health and retirement scheme management policies; and

- general business: covers all business other than long-term business, including accident and sickness, fire, property, motor vehicle, general liability, financial loss and legal expenses insurance.

Both types of business defined in the HKIO include reinsurance as well as direct insurance business. With the exception of certain capital requirements in the case of pure reinsurers who do not undertake any direct insurance business, the authorisation criteria are the same for both direct insurers and reinsurers.

An insurer that undertakes both long-term and general business is referred to by the HKIA as a composite business insurer.

In addition to these main types of business, the HKIO imposes further requirements on insurers conducting insurance business relating to liabilities or risks in respect of which persons are required by law to be insured ("**Statutory Business**"), including employees' compensation insurance and third-party insurance in respect of motor vehicles.

Minimum Paid-Up Capital Requirement

Section 8(3)(b) of the HKIO sets the following minimum paid up capital requirements for insurers depending on the type of business they intend to undertake:

- general business without Statutory Business: HK$10 million;

- general business including Statutory Business: HK$20 million;

- long-term business: HK$10 million; and

- composite business (with or without Statutory Business): HK$20 million.

Solvency Margin

Pursuant to sections 8(3)(a) and 35AA of the HKIO, an insurer is required to maintain at all times an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer's assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating results or the value of its assets and liabilities.

For long-term business insurers, the HKIO stipulates a minimum solvency margin of HK$2 million. Solvency margins are determined in accordance with the Insurance (Margin of Solvency) Rules (Chapter 41F of the Laws of Hong Kong), which sets out a series of calculations to be used depending on the particular class of long-term business involved, subject to a minimum solvency margin of HK$2 million.

To determine whether a long-term business insurer meets the solvency margin requirements, its assets and liabilities are valued in accordance with the Insurance (Determination of Long Term Liabilities) Rules (Chapter 41E of the Laws of Hong Kong), which sets out the bases for the determination of the amount of long-term business liabilities. An insurer is required to adopt prudent provisions and assumptions, particularly on interest rates, when valuing the amount of long-term business liabilities. Among other things, valuation methods are specified for calculating the yields on assets and the amount of future premiums payable under an insurance contract.

For general business insurers, the HKIO stipulates an absolute minimum solvency margin of HK$10 million, or HK$20 million in the case of insurers carrying on Statutory Business. Solvency margins are calculated on the basis of the greater of an insurer's relevant premium income (defined as the greater of gross premium income after deduction of reinsurance premium payments or 50% of gross premium income) or relevant outstanding claims (defined as the sum of unexpired risks plus the greater of 50% of claims outstanding before deduction of sums recoverable from reinsurers or the amount of claims outstanding after deduction of sums recoverable from reinsurers) as follows:

- 20% of premium income/outstanding claims up to HK$200 million; and

- 10% of premium income/outstanding claims in excess of HK$200 million,

subject to a minimum solvency margin of HK$10 million or HK$20 million, as the case may be.

To determine whether a general business insurer meets the solvency margin requirement, its assets are valued in accordance with the Insurance (General Business) (Valuation) Rules (Chapter 41G of the Laws of Hong Kong) (the "**Valuation Rules**"). The Valuation Rules prescribes the valuation methods for different types of assets commonly found on an insurer's balance sheet. To ensure a prudent diversification of investments, the Valuation Rules also stipulates admissibility limits for different categories of assets. The admissibility limits, however, do not apply to assets maintained in Hong Kong pursuant to section 25A of the HKIO as described below.

For composite insurers, the HKIO stipulates a minimum solvency margin based on the aggregate of the solvency margin required in respect of an insurer's general business and its long-term business, both calculated as described above.

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

Power of Intervention

The HKIA is empowered under Part V of the HKIO to intervene in an insurer's business and take appropriate actions in the following circumstances:

- where the HKIA considers that the exercise of this power is desirable for protecting the interests of existing and potential policyholders against the risk that the insurer may be unable to meet its liabilities or to fulfil the reasonable expectations of existing or potential policyholders;

- where it appears to the HKIA that the insurer or its corporate parent has failed to satisfy any of its obligations under the HKIO;

- where it appears to the HKIA that the insurer has provided misleading or inaccurate information to it for the purposes of the HKIO;

- where the HKIA is not satisfied as to the adequacy of the insurer's reinsurance arrangements;

- where the HKIA is not satisfied with the financial condition of the insurer or its compliance position with the prescribed regulatory benchmark or requirements in respect of, among other things, its assets and liabilities matching position, reserving level or financial protections; or

- where the insurer fails to comply with its ongoing authorisation conditions or requirements imposed by the HKIA, any financial undertakings provided by its corporate controller or any "fitness and properness" requirement on its directors and controllers.

The HKIA may also intervene in an insurer's business, whether or not any of the above circumstances exist, at any time during the five year period following authorisation of the insurer or a person becoming a controller of an insurer.

The actions that the HKIA may take in intervening in an insurer's business include:

- restrictions on the insurer effecting new business;

- limits on the amount of premium income an insurer may receive during a specified period in respect of certain classes of business;

- restrictions on types of investments an insurer may make, or requirements that the insurer realise certain types of investments within a specified period;

- requirements that an insurer maintain assets in Hong Kong equal to the whole or a specified portion of the liabilities arising from its Hong Kong business, and that these assets be held in the custody of a trustee approved by the HKIA;

- the appointment of a manager to assume control of an insurer; and

- requirements that the insurer has to conduct a special actuarial investigation on its long-term business to produce information and documents and to accelerate submission by the insurer.

Also, the HKIA is empowered under Part VA of the HKIO with more powers of intervention, including the following:

- power to conduct inspections (including entering the insurer's business premises, inspecting and making copies of the insurer's business records and making enquiries) for ascertaining whether the insurer has complied with the requirements under the HKIO;

- power to conduct investigations when the HKIA (a) has reasonable cause to believe that a provision of the HKIO may have been contravened; (b) has reasonable cause to believe that a person may have been involved in defalcation, fraud, misfeasance or other misconduct in relation to the carrying on of insurance business; (c) has reasonable cause to believe that a person has carried on, or is carrying on, insurance business in a manner that is not in the interests of policy holders or potential policy holders or the public interest; or (d) has reason to enquire if a person is, or was, guilty of misconduct or not fit and proper before considering if disciplinary sanctions should be imposed on the person; and

- disciplinary powers if the insurer is or was guilty of misconduct, or if it appears to the HKIA that a person is or was not fit and proper to hold the position of a director or controller of the insurer, including: (a) to revoke the authorisation of the authorised insurer in relation to all or any of its authorised classes of insurance business; (b) to suspend the authorisation of the authorised insurer in relation to all or any of its authorised classes of insurance business for a specified period; (c) to prohibit the authorised insurer from applying to be authorised to carry on a class of insurance business for a specified period; (d) to reprimand the authorised insurer publicly or privately; or (e) to order the authorised insurer to pay a pecuniary penalty.

The Issuer has given to the HKIA a revised undertaking that it will:

(i) ensure that each of AIA Co. and AIA International will maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement;

(ii) notify the HKIA in writing as soon as the Issuer becomes aware of any person (a) becoming a controller (within the meaning of section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the acquisition of the Issuer's shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the disposal of the Issuer's shares traded on the HKSE;

(iii) be subject to the supervision of the HKIA and the Issuer will be required to continually comply with the HKIA's guidance on the "fit and proper" standards of a controller pursuant to section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Group's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Group's corporate governance; the soundness of the Group's RMF; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and

(iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidance notes issued by the HKIA from time to time.

Other Requirements under the HKIO and/or imposed by HKIA and HKFI

We are subject to various other requirements under the HKIO and/or imposed by the HKIA and the HKFI, including:

- directors, controllers and key persons in control functions of an insurer must be and remain "fit and proper" persons to hold these positions;

- insurers are required to have adequate reinsurance arrangements in force in respect of the risks of those classes of insurance business they carry out;

- insurers carrying on long-term business are required to keep separate accounts for different classes of long-term businesses and to maintain certain levels of assets calculated on the basis of their solvency margins in respect of each class of business. Insurers carrying on general business are required to maintain assets in Hong Kong in respect of the liabilities arising from their business in Hong Kong;

- insurers are required to maintain proper books of accounts and to submit certain information to the HKIA on an annual basis. Insurers carrying on long-term business are also required to appoint an actuary to conduct an annual actuarial investigation and submit a report to the HKIA on their financial condition in respect of the long-term business;

- authorised insurers are expected to strictly observe certain minimum standards of corporate governance set out in the HKIA's guidelines on the corporate governance of authorised insurers;

- authorised insurers are expected to follow certain guidelines regarding asset management so they can control the risks associated with their investment activities, as set out in the HKIA's guidelines on asset management by authorised insurers;

- general insurance members and life insurance members of the HKFI are subject to the Code of Conduct for Insurers, published by the HKFI, (and any codes or guidelines published by the HKIA) which seeks to, among other things, describe the expected standard of good insurance practice in the establishment of insurance contracts and claims settling;

- the Insurance Complaints Bureau, which was implemented by the HKFI as a self-regulatory initiative to protect consumer interest, (and the HKIA and the Insurance Appeals Tribunal), may adjudicate insurance claims complaints, and mediate non-claims related disputes of a monetary nature, between insurers and their policyholders; and

- with respect to the regulation of insurance intermediaries, an insurance agent must be licensed with the HKIA (unless an applicable exemption applies), and an insurer is required to keep a register of appointed insurance agents.

The HKIA is also empowered to publish further rules, codes, guidelines or circulars under the HKIO.

Regulation under the MPFSO and ORSO

The approved trustees of MPF schemes in Hong Kong are regulated under the MPFSO. The Mandatory Provident Fund Schemes Authority is the body established to act as the regulatory authority under the MPFSO and is responsible for approving and supervising trustees who wish to administer MPF schemes. The Mandatory Provident Fund Schemes Authority shares responsibility with other regulatory bodies for supervision of the institutions, such as banks and insurance companies, which act as MPF intermediaries that provide MPF products to customers. The MPFSO includes rules on prudential management and the permissible investments that may be made using scheme funds, accounting and reporting requirements and the powers of the Mandatory Provident Fund Schemes Authority to intervene and terminate a trustee's administration of a scheme. Voluntary occupational retirement schemes are subject to regulation under the ORSO. The Mandatory Provident Fund Schemes Authority is also the supervisory body for occupational retirement schemes. The ORSO requires schemes to be registered with the Mandatory Provident Fund Schemes Authority and imposes reporting requirements and rules on the types of assets in which a scheme may invest. In addition, the marketing and promotion of MPF and occupational retirement scheme products may require SFC approval, as these products may involve fund specific information or investment in securities.

Regulation in relation to Investment-Linked Assurance Schemes Products

The marketing and promotion of investment-linked assurance schemes products that are offered to the public are subject to authorisation by the SFC in accordance with Part IV of the SFO and related codes and guidelines issued by the SFC that require certain information to be disclosed to potential investors and impose restrictions on the content of advertisements and the claims that can be made with respect to risks and potential returns on an investment. The SFC provides guidance from time to time with regards to the regulation of investment-linked assurance schemes products. Amongst others:

- In May 2013 the SFC issued a circular to issuers of SFC-authorised investment-linked assurance schemes, which requires certain enhanced disclosure requirements for existing and new investment-linked assurance schemes products.

- In November 2013, the SFC issued a circular to introduce certain streamlined measures for enhancing the processing of applications for the approval of scheme changes and the authorisation of revised offering documents in respect of investment-linked assurance schemes.

- In March 2016, the SFC issued a circular (replacing the older version of the circular issued in April 2014) to introduce a set of guidance on the internal product approval process applicable to product providers in respect of SFC authorised products, including investment-linked assurance schemes.

- The SFC updated its code on Investment-Linked Assurance Schemes, which took effect from 1 January 2019.

Separately, the HKIA issued guidelines with respect to insurers underwriting investment-linked assurance schemes products. Additional requirements for the sale of investment-linked assurance schemes products have been introduced which include, among others, the use of an Important Facts Statement, post-sale audio-recorded telephone confirmation calls and enhanced disclosure of intermediaries' remuneration if asked by a client.

RBC

Hong Kong has undertaken a study of an appropriate model for a RBC framework for Hong Kong's regulated insurers. See *"Risk Factors – Risks Relating to Our Industry – Compliance with solvency and capital requirements may force us to raise additional capital, change our business strategy or reduce our growth."*

FIRO

The FIRO was passed by the Legislative Council on 22 June 2016 and came into force on 7 July 2017. The objectives of the resolution regime include promoting and maintaining the stability and effective working of the Hong Kong financial system, protecting depositors and policyholders, minimising the need for recourse to public funds and containing costs of resolution. The FIRO applies to an authorised insurer that is designated as a global systemically important insurer by the Financial Stability Board or a within scope financial institution by the Financial Secretary under section 6 of the FIRO. The Financial Secretary has not yet designated an insurer as a within scope financial institution. The SFC, the HKMA and the HKIA are the resolution authorities ("**RAs**") of the securities, banking, and insurance sectors respectively, and the FIRO provides for certain preparatory and resolution powers to RAs. The FIRO also provides for certain safeguarding and resolution funding mechanisms, as well as a statutory framework which enables cross-border resolution. See *"Risk Factors – Risks Relating to Our Industry – Government measures and regulations in response to financial and other crises may materially and adversely affect our business."*

REGULATORY FRAMEWORK – BERMUDA

Overview

AIA International is regulated in respect of its branches and its business in Bermuda by the BMA. The Insurance Act 1978 and related regulations (the "**Insurance Act of Bermuda**") govern the conduct of insurance business in or from within Bermuda and provide for a system of registration for insurers administered by the BMA. The Insurance Act of Bermuda also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies. The Insurance Act of Bermuda imposes solvency and liquidity standards, as well as auditing and reporting requirements on Bermuda insurance companies.

Licences Held by AIA International

AIA International is registered in Bermuda as a Class 3 general business and as a Class E long-term insurer under the Insurance Act of Bermuda and, as such, has the authority to conduct both general and long-term insurance business as a composite insurer. AIA International has held its general business and long-term insurance licences since 1 January 1996. AIA International is classified as a "Section 24(6) composite" under the Insurance Act of Bermuda.

Regulation by the BMA under the Insurance Act of Bermuda

The Insurance Act of Bermuda requires all insurers to maintain certain minimum solvency and liquidity standards and imposes auditing and reporting requirements on Bermuda insurance companies. In respect of insurers carrying on long-term business, the Insurance Act of Bermuda also imposes certain restrictions and conditions on the transfer of business by, and winding-up of, long-term insurers.

The Insurance Act of Bermuda gives the BMA broad powers to supervise, investigate and intervene in the affairs of an insurer if it appears to the BMA that the insurer is in breach of a provision of the Insurance Act of Bermuda or there is significant risk of that insurer becoming insolvent. The BMA may appoint one or more competent persons to investigate the affairs of an insurer if it believes that an investigation is required in the interests of the insurer's policyholders or persons who may become policyholders. If it appears to the BMA that there is a significant risk that an insurer will become insolvent, the BMA may also direct that such insurer not effect further contracts of insurance, vary any insurance contract if the effect would be to increase the insurer's liabilities or make certain types of investments. The BMA may also direct such an insurer to realise certain of the investments it holds, maintain assets in Bermuda or transfer assets to the custody of a specified bank or limit its premium income, or remove a controller or officer.

The BMA may cancel an insurer's registration on grounds specified in the Insurance Act of Bermuda, including (a) the failure of that insurer to comply with its obligations under the Insurance Act of Bermuda; or (b) the failure of that insurer in the opinion of the BMA to carry on its business in accordance with sound insurance principles. The BMA may present a petition for the winding-up of an insurer on the ground that (a) it is unable to pay its debts, (b) it has failed to satisfy an obligation under the Insurance Act of Bermuda, or (c) it has failed to produce or file statutory financial statements and that the BMA is unable to ascertain its financial position.

Capital Requirements

Class 3 general business and Class E long-term composite insurers are required to maintain fully paid up share capital of at least US$370,000. In addition, the Insurance Act of Bermuda provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin.

With respect to its general business, a Class 3 insurer is required to maintain a minimum solvency margin equal to the greatest of:

- US$1,000,000;
- 20% of net premiums written, up to US$6,000,000, plus 15% of net premiums written over US$6,000,000; and
- 15% of loss and other insurance reserves.

With respect to its long-term business, a Class E insurer is required to maintain a minimum solvency margin equal to the greater of US$8,000,000, 2% of the first US$500,000,000 of assets plus 1.5% of assets above US$500,000,000 or 25% of its enhanced capital requirement ("**ECR**"). Assets are defined as the total assets reported on an insurer's balance sheet in the relevant year less the amount held in a segregated account.

As a Section 24(6) composite insurer, AIA International is required to maintain a minimum liquidity ratio whereby the value of its relevant assets are required to be not less than 100% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, and reinsurance balances receivable. There are certain categories of assets, which, unless specifically permitted by the BMA, do not qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates, and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and certain other liabilities.

Financial Reporting Requirements

All insurers are required to prepare and file with the BMA annual financial statements and returns in respect of their insurance business as stipulated in the Insurance Act of Bermuda, including an income statement, a balance sheet, a statement of capital and surplus, an independent auditor's report and a declaration of statutory ratios and a certificate of solvency in the prescribed form. Composite insurers are also required to submit with their statutory financial returns, a capital and solvency return, a general business solvency certificate, a long-term business solvency certificate, an opinion from an approved loss reserve specialist in respect of their general business loss and loss expense provisions and an opinion from an approved actuary in respect of their outstanding liabilities on account of their long-term business.

In 2016, Bermuda's prudential framework for insurance was deemed to be equivalent to the regulatory standards applied to European insurers in accordance with the requirements of the Solvency II Directive. Under the enhanced commercial prudential return regime, the BMA has instituted a number of changes to its statutory and prudential reporting requirements, including the need for commercial insurers to prepare an economic balance sheet. These regulatory requirements were first applied to AIA's financial year ending 30 November 2017 and AIA continues to participate in the development and refinement of these initiatives.

Certain Other Bermuda Law Considerations

Although AIA International is incorporated in Bermuda, it is classified as a non-resident of Bermuda for foreign exchange control purposes by the BMA. Pursuant to its non-resident status, AIA International may engage in transactions in currencies other than Bermuda dollars, and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to persons non-resident in Bermuda who are holders of its common shares.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place of business in Bermuda. As an "exempted" company, AIA International may not, without the express authorisation of the Bermuda legislature or under a licence or consent granted by the Minister of Finance, participate in certain business transactions, including: (i) the acquisition or holding of land in Bermuda (except that held by way of lease or tenancy agreement which is required for its business and held for a term not exceeding 50 years, or which is used to provide accommodation or recreational facilities for its officers and employees and held with the consent of the Minister of Finance, for a term not exceeding 21 years); (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of US$50,000; or (iii) the carrying on of business of any kind for which it is not licensed in Bermuda, except in certain limited circumstances, such as doing business with another exempted undertaking in furtherance of the company's business carried on outside Bermuda. AIA International is a licensed insurer in Bermuda, and so may carry on activities from Bermuda that are related to and in support of its insurance business.

Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda, which regulates the sale of securities in Bermuda.

In addition, the BMA must approve all issuances and transfers of securities of a Bermuda exempted company.

The Bermuda government actively encourages foreign investment in “exempted” entities (like AIA International) that are based in Bermuda, but which do not operate in competition with local businesses. AIA International is not currently subject to taxes computed on profits or income or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax or to any foreign exchange controls in Bermuda.

AIA International is also subject to various other requirements under Bermuda law, including:

- maintaining a principal office in Bermuda and appointing and maintaining a principal representative in Bermuda who has a duty to notify the BMA if he or she believes certain events are likely;

- appointing and maintaining an independent auditor and an actuary approved by the BMA;

- submitting an opinion of an approved loss reserve specialist with its statutory financial return in respect of its loss and loss expense provisions;

- being prohibited from declaring or paying any dividends during any financial year if it is, or by virtue of paying such dividends would be, in breach of its minimum general business solvency margin, minimum long-term business solvency margin, general business minimum liquidity ratio or ECR;

- notifying and receiving a statement of no objection from the BMA before becoming a controller of any description of a Bermuda registered insurer;

- complying with the prescribed duties and standards in the Insurance Code of Conduct to ensure sound corporate governance, risk management and internal controls are implemented; and

- disclosing of certain information to the BMA.

MANAGEMENT

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

The members of our Board and Executive Committee as of the date of this Offering Circular are as follows:

Name	Age	Position
TSE Edmund Sze-Wing	83	Independent Non-executive Chairman and Independent Non-executive Director
LEE Yuan Siong	55	Executive Director and Group Chief Executive and President
SO Jack Chak-Kwong	76	Independent Non-executive Director
CHOW Chung-Kong	70	Independent Non-executive Director
HARRISON John Barrie	64	Independent Non-executive Director
YEO George Yong-Boon	66	Independent Non-executive Director
LAU Lawrence Juen-Yee	76	Independent Non-executive Director
TEO Swee-Lian	61	Independent Non-executive Director
AKRASANEE Narongchai	75	Independent Non-executive Director
PURISIMA Cesar Velasquez	60	Independent Non-executive Director

INDEPENDENT NON-EXECUTIVE CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Edmund Sze-Wing Tse

Aged 83, is the Independent Non-executive Chairman and an Independent Non-executive Director. He was appointed Non-executive Director on 27 September 2010 and elected Non-executive Chairman on 1 January 2011. He was re-designated as the Independent Non-executive Chairman and an Independent Non-executive Director on 23 March 2017. Mr. Tse is also the Chairman of the Nomination Committee and a member of the Remuneration Committee and the Risk Committee. He is a director of AIA Foundation.

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

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE AND PRESIDENT

Mr. Lee Yuan Siong

Aged 55, is an Executive Director and the Group Chief Executive and President, having been appointed on 1 June 2020. Mr. Lee is also a member of the Risk Committee. He joined the Group in March 2020 and has more than 30 years of experience in the insurance sector. He is a director of various companies within the Group including acting as Chairman and Chief Executive Officer of AIA Co.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jack Chak-Kwong So

Aged 76, is an Independent Non-executive Director. He was appointed a Non-executive Director on 28 September 2010 and re-designated as an Independent Non-executive Director on 26 September 2012. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee.

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

Mr. Chung-Kong Chow

Aged 70, is an Independent Non-executive Director, having been appointed on 28 September 2010. He is also the Chairman of the Risk Committee and a member of the Nomination Committee.

Mr. Chow was appointed a non-official member of the Executive Council of Hong Kong SAR on 1 July 2012 and was further appointed for a new term of office from 1 July 2017. Mr. Chow was also appointed as the Chairman of the Advisory Committee on Admission of Quality Migrants and Professionals of the Hong Kong SAR from 1 July 2016, a director of the Community Chest of Hong Kong from 19 June 2017, a member of the Financial Leaders Forum set up by the Hong Kong SAR government from 18 August 2017, a non-official member of the Human Resources Planning Commission of the Hong Kong SAR government from 1 April 2018, a member of the InnoHK Steering Committee from 4 February 2019 and the Chairman of the Urban Renewal Authority Board from 1 May 2019. Mr. Chow was knighted in the United Kingdom for his contribution to industry in 2000 and was awarded the Gold Bauhinia Star by the Hong Kong SAR government in 2015. Mr. Chow was a Steward of The Hong Kong Jockey Club from 2011 to 2020, the Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption from 2013 to 2018, the

Chairman of Hong Kong Exchanges and Clearing Limited (listed on the Hong Kong Stock Exchange) from 2012 to 2018, Chief Executive Officer of MTR Corporation Limited (listed on the Hong Kong Stock Exchange) from 2003 to 2011, Chief Executive Officer of Brambles Industries plc, a global support services company, from 2001 to 2003, and Chief Executive of GKN plc, a leading industrial company based in the United Kingdom, from 1997 to 2001. He was an independent non-executive director of Anglo American plc from 2008 to 2014, independent non-executive director of Standard Chartered plc from 1997 to 2008 and the Chairman of the Hong Kong General Chamber of Commerce from 2012 to June 2014.

Mr. John Barrie Harrison

Aged 64, is an Independent Non-executive Director, having been appointed on 1 July 2011. He is also the Chairman of the Audit Committee and a member of the Nomination Committee and the Risk Committee.

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

Mr. George Yong-Boon Yeo

Aged 66, is an Independent Non-executive Director, having been appointed on 2 November 2012. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee.

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

Professor Lawrence Juen-Yee Lau

Aged 76, is an Independent Non-executive Director, having been appointed on 18 September 2014. He is also a member of the Nomination Committee and the Risk Committee.

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

Ms. Swee-Lian Teo

Aged 61, is an Independent Non-executive Director, having been appointed on 14 August 2015. She is also a member of the Nomination Committee and the Risk Committee.

Ms. Teo currently serves as a non-executive and independent director and a member of the corporate governance and nominations committee and executive resource and compensation committee and chairs the risk committee of Singapore Telecommunications Limited (listed on the Singapore Exchange). She is also the Chairman of the board and non-executive independent director of CapitaLand Integrated Commercial Trust Management Limited (listed on the Singapore Exchange) and a non-executive director and chairs the audit and risk committee of Avanda Investment Management Pte Ltd., a Singapore-based fund management company. Ms. Teo is a member of the board of directors of the Dubai Financial Services Authority and a director of Clifford Capital Pte. Ltd. and Clifford Capital Holdings Pte. Ltd. Ms. Teo has over 27 years of experience with the Monetary Authority of Singapore

(MAS). During her time at the MAS, she worked in foreign reserves management, financial sector development, strategic planning and financial supervision. She was the Deputy Managing Director in charge of Financial Supervision, overseeing the regulation and supervision of the banking, insurance and capital markets industries and macroeconomic surveillance, and also represented the MAS on various international fora, including the Basel Committee on Banking Supervision, and on various committees and working groups of the Financial Stability Board. She retired from the MAS as Special Advisor in the Managing Director's office in June 2015. In addition to the MAS, Ms. Teo also served on the board of the Civil Aviation Authority of Singapore from 2002 to 2010. Ms. Teo received her B.Sc. (First) in Mathematics from the Imperial College of Science and Technology, University of London in 1981 and her M.Sc. in Applied Statistics from the University of Oxford in 1982. She was also awarded the Public Administration Medal (Gold) (Bar) at the Singapore National Day Awards in 2012.

Dr. Narongchai Akrasanee

Aged 75, is an Independent Non-executive Director, having been appointed on 15 January 2016. He is also a member of the Audit Committee and the Nomination Committee and the Chairman of advisory board of AIA Thailand.

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

Mr. Cesar Velasquez Purisima

Aged 60, is an Independent Non-executive Director, having been appointed on 1 September 2017. He is also a member of the Audit Committee and the Nomination Committee.

Mr. Purisima currently serves as an independent director of Ayala Land, Inc., Universal Robina Corporation and Jollibee Foods Corporation, all of which are listed on The Philippine Stock Exchange. He is also a founding partner of Ikhlas Capital Singapore Pte. Ltd, a member of the Global Advisory Council of Sumitomo Mitsui Banking Corporation, and a member of Singapore Management University's International Advisory Council in the Republic of the Philippines (the Philippines). He is also a member of the board of trustees of the World Wildlife Fund – Philippines, De La Salle University, and the International School of Manila. He is an Asia Fellow at the Milken Institute, a global, non-profit, non-partisan think tank. Mr. Purisima served in the government of the Philippines as Secretary of Finance from July 2010 to June 2016 and as Secretary of Trade and Industry from January 2004 to February 2005.

He also previously served on the boards of a number of government institutions, including as a member of the Monetary Board of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines), Governor of the World Bank Group for the Philippines, Governor of the Asian Development Bank for the Philippines, Alternate Governor of the International Monetary Fund for the Philippines and Chairman of Land Bank of the Philippines. He was conferred the Chevalier dans l'Ordre national de la Légion d'Honneur (Knight of the National Order of the Legion of Honour) by the President of the French Republic in 2017, the Order of Lakandula, Rank of Grand Cross (Bayani) by the President of the Philippines in 2016 and the Chevalier de l'Ordre national du Mérite (Knight of the National Order of Merit) by the President of the French Republic in 2001. Mr. Purisima is a certified public accountant. He has extensive experience in public accounting both in the Philippines and abroad. He was Chairman and Managing Partner of SyCip, Gorres, Velayo & Co. (a member firm of Andersen Worldwide until 2002 when it became a member firm of Ernst & Young Global Limited) from 1999 until 2004. During the period, Mr. Purisima was also the Asia-Pacific Area Managing Partner for Assurance and Business Advisory Services of Andersen Worldwide from 2001 to 2002 and Regional Managing Partner for the ASEAN Practice of Andersen Worldwide from 2000 to 2001. Mr. Purisima obtained his Bachelor of Science in Commerce (Majors in Accounting & Management of Financial Institutions) degree from De La Salle University (Manila) in 1979, Master of Management degree from J. L. Kellogg Graduate School of Management, Northwestern University in 1983 and Doctor of Humanities honoris causa degree from Angeles University Foundation (the Philippines) in 2012.

EXECUTIVE COMMITTEE

Mr. Lee Yuan Siong

Mr. Lee's biography is set out above.

Mr. Garth Brian Jones

Aged 58, is the Group Chief Financial Officer responsible for leading the Group in all aspects of capital and financial management, as well as managing relationships with key external stakeholders, including independent auditors and actuaries, rating agencies and international accounting and regulatory bodies. He is a director of various companies within the Group, including AIA Co. and AIA International. He joined the Group in April 2011.

Prior to joining the Group, Mr. Jones was the Executive Vice President of China Pacific Life Insurance Co., Ltd., the life insurance arm of China Pacific Insurance (Group) Co., Ltd. He also held a number of senior management positions during 12 years with Prudential Corporation Asia Limited, including Chief Financial Officer of the Asian life insurance operations. Prior to joining Prudential, Mr. Jones led the development of Swiss Re's Asia life business. Mr. Jones is a Fellow of the Institute and Faculty of Actuaries. On 1 June 2016, he was appointed a member of the industry advisory committee on long term business, which advises the Insurance Authority in Hong Kong. Mr. Jones is also a member of the IFRS Advisory Council of the IASB.

Mr. William Lisle

Aged 55, is the Regional Chief Executive and Group Chief Distribution Officer responsible for the Group's businesses operating in Thailand, Vietnam, Australia and New Zealand, India and Sri Lanka as well as the Group's agency distribution, partnership distribution and corporate solutions. Mr. Lisle was Chief Executive Officer of AIA's operation in Malaysia from December 2012 to May 2015, including leading the large- scale and successful integration of ING Malaysia after its acquisition by the Group in 2012. He is a director of various companies within the Group, including AIA Co., AIA Australia Limited and AIA New Zealand. He is also a director of Tata AIA Life Insurance Company Limited, a joint venture between the Group and Tata Sons Limited in India. Mr. Lisle joined the Group in January 2011 as Group Chief Distribution Officer.

Prior to joining the Group, Mr. Lisle was the Managing Director, South Asia for Aviva from May 2009 until 2010. Prior to joining Aviva, Mr. Lisle held a number of senior positions at Prudential Corporation Asia Limited, including Chief Executive Officer in Malaysia from 2008 to 2009, Chief Executive Officer in Korea from 2005 to 2008, Chief Agency Officer for ICICI Prudential from 2002 to 2004 and Director of Agency Development, South Asia in 2001.

Mr. Wing-Shing Chan (Jacky)

Aged 57, is the Regional Chief Executive responsible for the Group's businesses operating in Hong Kong SAR, Mainland China, the Philippines, South Korea, Taiwan (China) and Macau SAR.

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

Mr. Hak Leh Tan

Aged 55, is the Regional Chief Executive and Group Chief Life Operations Officer responsible for the Group's businesses operating in Singapore and Brunei, Malaysia, Cambodia, Indonesia and Myanmar, as well as Group Operations and Operations Shared Services in Malaysia. He is a director of various companies within the Group. Mr. Tan was Chief Executive Officer of AIA's operation in Thailand from 2016 to 2019, Group Chief Risk Officer in 2015 and Chief Executive Officer of AIA's operation in Singapore from 2011 to 2015.

Prior to joining the Group, Mr. Tan was Chief Executive Officer of Great Eastern Life, Singapore. Prior to joining Great Eastern Life, Mr. Tan was Director of the Insurance Department of the Monetary Authority of Singapore. Mr. Tan has played an active role in the life insurance industry since 2005. His appointments include: President of the Life Insurance Association (LIA), Singapore from 2010 to 2013, Vice Chair of Singapore College of Insurance from 2011 to 2013 and Vice President of Thailand Life Assurance Association from 2017 to 2018. He was also a Board member of Financial Industry Disputes Resolution Centre Ltd from 2008 to 2015.

Mr. Mitchell David New

Aged 57, is the Group General Counsel responsible for the provision of legal services for the Group and providing leadership to legal and corporate governance functions within country operations. He has previously also acted as Group Chief Risk Officer. He is a director of various companies within the Group including AIA International Limited, AIA Singapore and AIA Reinsurance Limited.

He joined the Group in April 2011. Prior to joining the Group, Mr. New was a member of the law firm Fasken Martineau and occupied various senior roles with Manulife Financial, including Senior Vice President and Chief Legal Officer for Asia and Japan, based in Hong Kong and Senior Vice President and General Counsel to Manulife's Canadian division. He is a qualified barrister and solicitor and member of the Law Society of Upper Canada and holds a Bachelor of Commerce Degree and Master's Degree in Business Administration from McMaster University and a Bachelor of Laws Degree from the University of Western Ontario.

Mr. Mark Vincent Thomas Saunders

Aged 57, is the Group Chief Strategy and Corporate Development Officer responsible for strategy and corporate transactions for the Group. He joined the Group in April 2014 and is a director of various companies within the Group. He previously served as Group Chief Strategy and Marketing Officer and has also held responsibility for the Group's Health Insurance and Corporate Solutions business.

Prior to joining the Group, Mr. Saunders was Managing Director of Towers Watson for the Asia-Pacific Insurance Sector, as well as Managing Director for the firm's Hong Kong business and a board member of various entities. Prior to his time at Towers Watson, and working in Hong Kong since 1989, he was Asian Regional Leader, Hong Kong Chief Executive Officer and Executive Director and Board Member of the Isle of Man-based international life insurance operations of Clerical Medical and its joint venture life insurer in Korea (Coryo-CM). He is a Fellow of the Institute and Faculty of Actuaries and Fellow of five other professional actuarial bodies.

Dr. Mark Konyn

Aged 59, is the Group Chief Investment Officer responsible for providing oversight of the management of the investment portfolios of the Group as well as supervising and supporting the many investment professionals throughout the Group. He is a director of various companies within the Group including Chairman of AIA Investment Management Private Limited and AIA Investment Management HK Limited. He joined the Group in September 2015.

Dr. Konyn joined AIA from Cathay Conning Asset Management, where he was Chief Executive Officer responsible for the company's investment business and strategic expansion in the region. He had held senior positions at Allianz Global Investors (where he was Asia-Pacific CEO for RCM Global Investors), Fidelity Investments and Prudential UK. He is a Fellow of the Royal Statistical Society, and holds a Diploma from the London Business School in Investment Management, having previously completed his Ph.D. in Operational Research sponsored by the UK Government.

Ms. Pek-San Ang (Cara)

Aged 52, is the Group Chief Human Resources Officer responsible for the development of overall human capital strategies and their implementation across the Group, as well as leading and providing support to the human resources functions in country market operations. She joined the Group as the Chief Human Resources Officer for AIA Singapore in May 2016.

Prior to joining AIA, Ms. Ang was the Head of Human Resources of Standard Chartered Bank Singapore. During her time with Standard Chartered, she spent more than 10 years in a variety of country, regional and global HR leadership roles based in Singapore and Thailand. Prior to joining Standard Chartered Bank Singapore, Ms. Ang was the Senior Vice President and Head of Human Resources for Marsh Asia.

Mr. Biswa Prakash Misra

Aged 43, is the Group Chief Technology Officer responsible for providing leadership to the Group's technology, digital and analytics areas. He is a director of various companies within the Group. He joined the Group in June 2013.

Prior to joining the Group, Mr. Misra served as the Regional Chief Technology Officer for ING Insurance Asia Pacific. Previously, he spent six years with information technology consulting firm Capgemini, leading the company's insurance practice for Asia. Mr. Misra holds a degree in electrical engineering from the National Institute of Technology, Surat, India.

Mr. Stuart Anthony Spencer

Aged 55, is the Group Chief Marketing Officer responsible for the Group's customer engagement, propositions, branding, AIA Vitality, communications, sponsorships, events, digital platforms and healthcare. He is a director of various companies within the Group.

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

Ms. Jayne Lynn Plunkett

Aged 51, is the Group Chief Risk Officer responsible for the Group's risk and compliance functions. She is a director of various Group companies, including AIA Singapore and Philam Life. Ms. Plunkett joined AIA in November 2019 from Swiss Re, where she was most recently Chief Executive Officer Reinsurance Asia, Regional President Asia and member of the Group Executive Committee.

During her time with Swiss Re, she had held several senior positions including Head of Casualty Underwriting for Asia and Division Head Casualty Reinsurance. Prior to that, she was with GE Insurance Solutions. Ms. Plunkett holds a Bachelor of Science in Business Administration from Drake University. She is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

COMMITTEES OF THE BOARD

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

Further details of the roles and functions and the composition of the Board committees are set out below.

Audit Committee

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

The duties performed by the Audit Committee include overseeing the Group's financial reporting system; reviewing risk management and internal control systems; monitoring the integrity of the preparation of the Issuer's financial information, including quarterly business highlights and interim and annual results of the Group; reviewing the Group's financial and accounting policies and practices as well as its whistle-blowing programme; and monitoring the adequacy of resources for and effectiveness of the internal audit function. The Audit Committee also provides oversight for and management of the relationship with the Group's external auditor, including reviewing and monitoring the external auditor's independence and objectivity, and the effectiveness of the audit process in accordance with applicable standards.

Nomination Committee

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

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

Remuneration Committee

The Remuneration Committee consists of three members, all of whom are Independent Non-executive Directors. They are Mr. So, who serves as chairman of the Remuneration Committee, Mr. Yeo and Mr. Tse.

The duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policy covering the Directors and senior management of the Group and to review and approve remuneration offered to the Executive Director and senior management of the Group.

Risk Committee

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

The duties performed by the Risk Committee include providing advice to the Board on the risk profile and risk management strategy of the Group; considering and reviewing disclosures in interim and annual reports, risk management related policies and guidelines, statutory solvency positions, risk appetite and metrics; overseeing the risk management and compliance framework; reviewing the risk management and internal control systems; endorsing the Issuer's risk governance structure; and reviewing major risks.

Remuneration of Directors and Key Management Personnel

The aggregate compensation accrued by us for all members of our Board and key management personnel (which have been identified as the members of the Executive Committee) for services rendered during the relevant period in all capacities was approximately US$65 million for the year ended 31 December 2020, US$45 million for the year ended 31 December 2019 and US$49 million for the thirteen months ended 31 December 2018.

DIRECTORS' AND OTHER PERSONS' INTERESTS

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

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

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

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

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

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

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

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

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

Capacity	Number of shares or underlying shares	Number of shares or underlying shares

	(Long Position)	(Short Position)
Interest of controlled corporations	1,096,258,164	301,796,828

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

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

As of 31 December 2020, our Directors' and Chief Executive's interests and short positions in our shares, underlying shares and debentures and our associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to us and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Interests and short positions in our shares and underlying shares:

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

(1) Based on 12,094,939,139 shares of the Issuer in issue as at 31 December 2020.

(2) The interests include 316,766 ordinary shares of the Issuer, 1,197,133 share options under the Share Option Scheme adopted by the Issuer on 28 September 2010, 2,204,701 restricted share units under the Restricted Share Unit Scheme adopted by the Issuer on 28 September 2010 and 599 matching restricted stock purchase units under the Employee Share Purchase Plan adopted by the Issuer on 25 July 2011 and the Employee Share Purchase Plan adopted by the Issuer on 1 August 2020.

(3) The interests were in the shares of the Issuer.

(4) The 200,000 shares were held by Edmund & Peggy Tse Foundation Limited, one-third interest of which is beneficially held by Mr. Edmund Sze-Wing Tse.

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

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

(7) The 160,000 shares were held by Ms. Ayesha Abbas Macpherson, the spouse of Professor Lawrence Juen-Yee Lau, as beneficial owner.

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

Directors' Benefits from Rights to Acquire Shares or Debentures

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

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

The Dealers have, in an amended and restated dealer agreement dated 1 March 2017, as supplemented by a first supplemental dealer agreement dated 1 March 2018, a second supplemental dealer agreement dated 15 March 2019, a third supplemental dealer agreement dated 13 March 2020 and a fourth supplemental dealer agreement dated 16 March 2021 (the "**Dealer Agreement**"), agreed with us a basis upon which they or any of them may from time to time agree to purchase Instruments. Any such agreement will extend to those matters stated under "*Book-entry Clearance Systems*", "*Terms and Conditions of the Notes*" and "*Terms and Conditions of the Securities*". We will pay each relevant Dealer an agreed commission in respect of Instruments subscribed by it. We have agreed to reimburse the Arranger for certain of our expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Instruments on a syndicated basis may be stated in the relevant Pricing Supplement. We, as well as the relevant Dealer(s), may also in relation to any Tranche of Instruments, agree to pay private banks or other selling agents a commission in order to facilitate the offering of the Instruments.

We have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Instruments in certain circumstances prior to payment for such Instruments being made to us. In order to facilitate the offering of any Tranche of the Instruments, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Instruments during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Instruments for their own account by selling more Instruments than have been sold to them by us. Such persons may also elect to cover any such short position by purchasing Instruments in the open market. In addition, such persons may stabilise or maintain the price of the Instruments by bidding for or purchasing Instruments in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Instruments are reclaimed if Instruments previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Instruments at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Instruments to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilising activities may only be carried on by the Stabilising Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilising Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Instruments.

The Dealers and certain of their affiliates may have performed certain investment banking, commercial banking and advisory services for us, our subsidiaries and/or our respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for us, our subsidiaries and/or our respective affiliates in the ordinary course of their business.

For example, in December 2013 we announced a partnership with Citibank pursuant to which we have become Citibank's exclusive provider of life insurance products for 15 years, now covering 12 markets in the Asia Pacific region. The partnership provides access to Citibank's corporate clients, retail cardholders and banking customers. In addition, the Dealers or their respective affiliates are, or may in the future be, lenders to us, our subsidiaries and/or our respective affiliates.

In connection with each Tranche of Instruments issued under the Programme, the Dealers may offer and sell the Instruments through certain of their affiliates. Additionally, the Dealers or certain of their affiliates may purchase Instruments and be allocated Instruments for asset management and/or proprietary purposes but not with a view to distribution (and such purchase and/or allocation may be material). Further, the Dealers or their respective affiliates may purchase Instruments for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Instruments and/or our other securities or the securities of our subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Instruments or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Instruments to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Instruments).

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Dealer (as described in the Offering Circular) or any affiliate of a Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the issuer in such jurisdiction.

SELLING RESTRICTIONS

United States

The Instruments have not been and will not be registered under the Securities Act or the securities laws of any U.S. state. Accordingly, the Instruments may not be offered or sold within the United States, or to or for the account or benefit of, U.S. persons, except (i) to QIBs in reliance on Rule 144A; (ii) in accordance with Regulation S under the Securities Act; or (iii) pursuant to another exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bearer Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Until 40 days after the commencement of the offering of any Series of Instruments, an offer or sale of such Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from the requirements of the Securities Act.

Dealers may arrange for the resale of Instruments to QIBs pursuant to Rule 144A and each such purchaser of Instruments is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Instruments which may be purchased by a QIB pursuant to Rule 144A is US$100,000 (or the approximate equivalent thereof in any other currency).

To the extent that we are not subject to or do not comply with the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, we have agreed to furnish to holders of Instruments and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as we and the relevant Dealer may agree as a term of the issue and purchase of such Instruments, which additional selling restrictions shall be set out in the applicable Pricing Supplement. The relevant Dealer agrees that it shall offer, sell and deliver such Instruments only in compliance with such additional U.S. selling restrictions.

European Economic Area

Unless the Pricing Supplement in respect of any Instruments specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments.

If the relevant Pricing Supplement in respect of any Instruments specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area, each Dealer has represented, warranted and agreed that it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Instruments to the public in that Member State:

(a) *Approved prospectus*: if the Pricing Supplement in relation to the Instruments specifies that an offer of those Instruments may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Instruments which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers*: at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation, provided that no such offer of Instruments referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Instruments specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

   (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or

   (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or

   (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA; and

(b) the expression an "offer" includes the communication in any form and by any means of
sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments.

If the relevant Pricing Supplement in respect of any Instruments specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed that it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Instruments to the public in the United Kingdom:

(a) *Approved prospectus*: if the Pricing Supplement in relation (a) to the Instruments specifies that an offer of those Instruments may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Instruments which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(c) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers*: at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Instruments referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe for the Instruments and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

China

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Instruments are not being offered or sold and may not be offered or sold, directly or indirectly, in China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of China.

Hong Kong

In relation to each Tranche of Instruments to be issued by the Issuer under the Programme, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Instruments, except for Instruments which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**SFO**”) other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “Prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “**Companies Ordinance**”) or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Instruments, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Instruments which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “**FIEA**”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

Taiwan

Each Dealer has represented and agreed that the Instruments may be made available outside Taiwan for purchase outside Taiwan by investors resident or domiciled in Taiwan but are not permitted to be offered or sold in Taiwan. Each Dealer has represented and agreed that no person or entity in Taiwan has been authorised to offer or sell the Instruments in Taiwan.

Singapore

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that this Offering Circular has not been and will not be registered as a prospectus with the MAS. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Instruments or caused such Instruments to be made the subject of an invitation for subscription or purchase and will not offer or sell such Instruments or cause such Instruments to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Instruments, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, (Chapter 289) of Singapore, as modified or amended from time to time (the “**SFA**”)) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Instruments are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities based-derivatives contracts (each term as defined in Section 2 (1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Instruments pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Selling Restrictions Addressing Additional Netherlands Securities Laws

The Instruments have not been and will not be offered in The Netherlands other than to legal entities which are qualified investors as defined in the Prospectus Directive (as defined under "*Public Offer Selling Restriction under the Prospectus Directive*" above).

Zero Coupon Instruments (as defined below) in definitive form of the Issuer may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either the Issuer or a member firm of Euronext Amsterdam N.V. admitted on one or more systems held or operated by Euronext Amsterdam N.V. in full compliance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended) and its implementing regulations. No such mediation is required: (a) in respect of the transfer and acceptance of rights representing an interest in a Zero Coupon Note in global form, or (b) in respect of the initial issue of Zero Coupon Instruments in definitive form to the first holders thereof, or (c) in respect of the transfer and acceptance of Zero Coupon Instruments in definitive form between individuals not acting in the conduct of a business or profession, or (d) in respect of the transfer and acceptance of such Zero Coupon Instruments within, from or into The Netherlands if all Zero Coupon Instruments (either in definitive form or as rights representing an interest in a Zero Coupon Instrument in global form) of any particular Series are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter. As used herein "**Zero Coupon Instruments**" are Instruments that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

Canada

The Instruments have not been, and will not be, qualified for distribution to the public under the securities laws of Canada or any province or territory thereof. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Instruments have not been and will not be offered, sold, distributed or delivered, directly or indirectly, in Canada or to, or for the account or benefit of, any person resident in Canada in contravention of the securities laws of Canada or any province or territory thereof and also without the consent of the Issuer. Each Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree, not to distribute or deliver this Offering Circular or any other offering material or advertisement in connection with the Instruments, in Canada in contravention of the securities laws of Canada or any province or territory thereof and also without the consent of the Issuer.

GENERAL

None of the Issuer or the Dealers represent that Instruments may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. These selling restrictions may be modified by the agreement of the Issuer and the relevant Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Instruments to which it relates or in a supplement to this Offering Circular.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Instruments, or possession or distribution of this Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

TRANSFER RESTRICTIONS

RESTRICTED INSTRUMENTS

You, as purchaser of Restricted Instruments, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

1. You are (a) a QIB, (b) acquiring such Restricted Instruments for your own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of the Restricted Instruments has been advised, that the sale of the Restricted Instruments to you is being made in reliance on Rule 144A.

2. (a) The Restricted Instruments have not been and will not be registered under the Securities Act, or the securities laws of any U.S. state, and may not be offered, sold, pledged or otherwise transferred except (i) in accordance with Rule 144A to a person that you, and any person acting on your behalf, reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs, (ii) to, or for the account or benefit of, a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) in each case in accordance with any applicable securities laws of any State of the United States, and (b) you will, and each subsequent holder of the Restricted Instruments is required to, notify any purchaser of the Restricted Instruments from you or it of the resale restrictions on the Restricted Instruments.

3. You understand that the Restricted Instruments, unless we determine otherwise in accordance with applicable law, will bear a legend (the "**Rule 144A Legend**") in or substantially in the following form:

   "THIS INSTRUMENT HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A PROMULGATED UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ACQUIRING THIS INSTRUMENT FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) TO, OR FOR THE ACCOUNT OR BENEFIT OF, A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S PROMULGATED UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 PROMULGATED UNDER THE SECURITIES ACT ("**RULE 144**"), IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS INSTRUMENT."

4. You represent by your purchase and holding of the Instruments that either (a) you are not and for so long as you hold an Instrument (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the Code, (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 of the Code (each of the entities described in clauses (i), (ii) and (iii) are herein referred to as "**Benefit Plan Investors**") or (iv) a governmental or other benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Other Plan Law**"), or (b) your purchase and holding of the Instruments will not constitute or result in a prohibited transaction under Section 406 of

ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any Other Plan Law) for which an exemption is not available.

You understand that the Restricted Instruments will bear a legend in or substantially in the following form:

"BY ITS PURCHASE AND HOLDING OF THIS INSTRUMENT (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS INSTRUMENT (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE (SUCH ENTITIES DESCRIBED IN CLAUSES (I), (II) AND (III) COLLECTIVELY, THE "**BENEFIT PLAN INVESTORS**"), OR (IV) A GOVERNMENTAL OR OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, OR LOCAL LAW, OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**OTHER PLAN LAW**"), OR (B) ITS PURCHASE AND HOLDING OF THIS INSTRUMENT WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, ANY OTHER PLAN LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

MOREOVER, EACH PURCHASER OR HOLDER OF THIS INSTRUMENT THAT IS A BENEFIT PLAN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE OR ACQUISITION OF THE INSTRUMENT THAT (1) NONE OF THE ISSUER, THE ARRANGER, THE DEALERS OR ANY OF THEIR RESPECTIVE AFFILIATES (COLLECTIVELY, THE "**TRANSACTION PARTIES**") HAS THROUGH THE OFFERING CIRCULAR PROVIDED ANY INVESTMENT ADVICE WITHIN THE MEANING OF SECTION 3(21) OF ERISA TO THE BENEFIT PLAN INVESTOR OR ANY FIDUCIARY OR OTHER PERSON INVESTING THE ASSETS OF THE BENEFIT PLAN INVESTOR IN CONNECTION WITH THE DECISION TO PURCHASE OR ACQUIRSE THIS INSTRUMENT AND (2) THE INFORMATION PROVIDED IN THE OFFERING CIRCULAR WILL NOT BY ITSELF MAKE A TRANSACTION PARTY A FIDUCIARY TO THE BENEFIT PLAN INVESTOR."

5. If you are using assets of any Benefit Plan Investor to acquire or hold an Instrument, you will be deemed to have represented by your purchase or acquisition of the Instrument that (a) none of us, the Arranger, any of the Dealers or our or their respective affiliates (collectively, the "**Transaction Parties**") has through this Offering Circular provided any investment advice within the meaning of Section 3(21) of ERISA to the Benefit Plan Investor or any fiduciary or other person investing the assets of the Benefit Plan Investor in connection with the decision to purchase or acquire such Instrument and (b) the information provided in this Offering Circular will not by itself make a Transaction Party a fiduciary to the Benefit Plan Investor.

6. You understand that we, each Registrar, the relevant Dealer(s) and our or their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If you are acquiring any Restricted Instruments for the account of one or more QIBs, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

7. You understand that the Restricted Instruments will be represented by a Restricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold,

pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate or as the case may be, Global Instrument, you will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

You are hereby notified that sellers of the Instruments may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

UNRESTRICTED INSTRUMENTS

You, as purchaser of Unrestricted Instruments and each subsequent purchaser of such Unrestricted Instruments in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Unrestricted Instruments, will be deemed to have represented, agreed and acknowledged that:

1. You are, or at the time Unrestricted Instruments are purchased will be, the beneficial owner of such Unrestricted Instruments and (a) you are not a U.S. person and you are located outside the United States (within the meaning of Regulation S) and (b) you are not our affiliate or a person acting on behalf of such an affiliate.

2. You understand that such Unrestricted Instruments have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, you will not offer, sell, pledge or otherwise transfer such Unrestricted Instruments except (a) in accordance with Rule 144A under the Securities Act to a person that you and any person acting on your behalf reasonably believe is a QIB purchasing for its own account, or for the account of one or more QIBs or (b) to, or for the account or benefit of, a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

3. You understand that the Unrestricted Instruments, unless otherwise determined by us in accordance with applicable law, will, during the distribution compliance period, bear a legend in or substantially in the following form:

   "THIS INSTRUMENT HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT".

4. You represent by your purchase and holding of the Instruments that either (a) you are not and for so long as you hold an Instrument (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the Code, (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 of the Code or (iv) a governmental or other benefit plan which is subject to any Other Plan Law, or (b) your purchase and holding of the Instruments will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any Other Plan Law) for which an exemption is not available.

   You understand that the Unrestricted Instruments will bear a legend in or substantially in the following form:

   "BY ITS PURCHASE AND HOLDING OF THIS INSTRUMENT (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS INSTRUMENT (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN

"EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE (SUCH ENTITIES DESCRIBED IN CLAUSES (I), (II) AND (III) COLLECTIVELY, THE "**BENEFIT PLAN INVESTORS**"), OR (IV) A GOVERNMENTAL OR OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, OR LOCAL LAW, OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**OTHER PLAN LAW**"), OR (B) ITS PURCHASE AND HOLDING OF THIS INSTRUMENT WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, ANY OTHER PLAN LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

MOREOVER, EACH PURCHASER OR HOLDER OF THIS INSTRUMENT THAT IS A BENEFIT PLAN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE OR ACQUISITION OF THE INSTRUMENT THAT (1) NONE OF THE ISSUER, THE ARRANGER, THE DEALERS OR ANY OF THEIR RESPECTIVE AFFILIATES (COLLECTIVELY, THE "**TRANSACTION PARTIES**") HAS THROUGH THE OFFERING CIRCULAR PROVIDED ANY INVESTMENT ADVICE WITHIN THE MEANING OF SECTION 3(21) OF ERISA TO THE BENEFIT PLAN INVESTOR OR ANY FIDUCIARY OR OTHER PERSON INVESTING THE ASSETS OF THE BENEFIT PLAN INVESTOR IN CONNECTION WITH THE DECISION TO PURCHASE OR ACQUIRSE THIS INSTRUMENT AND (2) THE INFORMATION PROVIDED IN THE OFFERING CIRCULAR WILL NOT BY ITSELF MAKE A TRANSACTION PARTY A FIDUCIARY TO THE BENEFIT PLAN INVESTOR."

5. If you are using assets of any Benefit Plan Investor to acquire or hold an Instrument, you will be deemed to have represented by your purchase or acquisition of the Instrument that (a) none of the Transaction Parties has through this Offering Circular provided any investment advice within the meaning of Section 3(21) of ERISA to the Benefit Plan Investor or any fiduciary or other person investing the assets of the Plan in connection with the decision to purchase or acquire such Instrument and (b) the information provided in this Offering Circular will not by itself make a Transaction Party a fiduciary to the Plan.

6. You understand that we, each Registrar, the relevant Dealer(s) and our or their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

7. You understand that the Unrestricted Instruments will be represented by an Unrestricted Global Certificate, or as the case may be, a Global Instrument. Prior to the expiration of the distribution compliance period, before any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, you will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg or the CMU Service (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Instruments held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

BOOK-ENTRY SYSTEMS

DTC

DTC has advised us as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "*banking organisation*" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "*clearing corporation*" within the meaning of the New York Uniform Commercial Code and a "*clearing agency*" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU Service

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (the "**CMU Members**") of capital markets instruments (the "**CMU Instruments**") which are specified in the CMU Service Reference Manual as capable of being held within the CMU Service. CMU Instruments may be denominated in Hong Kong dollars or other currencies.

The CMU Service is only available for CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU Service is open to all members of the Hong

Kong Capital Markets Association and “authorised institutions” under the Banking Ordinance (Cap. 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest, distribution or principal) under, or notices pursuant to the notice provisions of, CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest, distribution or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The lodging CMU Member will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any CMU Instruments will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

BOOK-ENTRY OWNERSHIP

Bearer Instruments

We may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Instruments. We may also apply to have Bearer Instruments accepted for clearance through the CMU Service. In respect of Bearer Instruments, a temporary Global Instrument and/or a permanent Global Instrument in bearer form without coupons may be deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg or a sub-custodian for the CMU Service or an Alternative Clearing System as agreed between us and the relevant Dealer. Transfers of interests in such temporary Global Instruments or permanent Global Instruments will be made in accordance with the normal Euromarket debt securities operating procedures of the CMU Service, Euroclear and Clearstream, Luxembourg or, if appropriate, the Alternative Clearing System.

Registered Instruments

We may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Instruments to be represented by an Unrestricted Global Certificate. Each Unrestricted Global Certificate deposited with a common depositary for, and registered in the name of, a nominee of Euroclear and/or Clearstream, Luxembourg will have an ISIN and a Common Code.

We, and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant, may make application to DTC for acceptance in its book-entry settlement system of the Registered Instruments represented by a Restricted Global Certificate and a DTC Unrestricted Global Certificate. Each such Restricted Global Certificate and DTC Unrestricted Global Certificate will have a CUSIP number. Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “*Transfer Restrictions*”. In certain circumstances, as described below in “– *Transfers of Registered Instruments*”, transfers of interests in a Restricted Global Certificate may be made as a result of which such legend may no longer be required.

In the case of a Tranche of Registered Instruments to be cleared through the facilities of DTC, the Custodian, with whom the Restricted Global Certificates and the DTC Unrestricted Global Certificates are deposited, and DTC will electronically record the nominal amount of the Restricted Instruments and DTC Unrestricted Instruments held within the DTC system.

Investors may hold their beneficial interests in a Restricted Global Certificate and a DTC Unrestricted Global Certificate directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest or distribution on, each Restricted Global Certificate and each DTC Unrestricted Global Certificate registered in the name of DTC's nominee will be to, or to the order of, its nominee as the registered owner of such Restricted Global Certificate and DTC Unrestricted Global Certificate. We expect that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Restricted Global Certificate and DTC Unrestricted Global Certificate as shown on the records of DTC or the nominee. We also expect that payments by DTC participants to owners of beneficial interests in such Restricted Global Certificate and DTC Unrestricted Global Certificate held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither we nor any Paying Agent or any Transfer Agent will have any responsibility or liability for any aspect of the records relating, to or payments made on account of, ownership interests in any Restricted Global Certificate and DTC Unrestricted Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Instruments will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Instruments initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Pricing Supplement.

Payments through DTC

Payments in U.S. dollars of principal, interest and distribution in respect of a Restricted Global Certificate and DTC Unrestricted Global Certificate registered in the name of a nominee of DTC will be made to the order of such nominee as the registered holder of such Instrument. Payments of principal, interest and distribution in a currency other than U.S. dollars in respect of Instruments evidenced by a Restricted Global Certificate and DTC Unrestricted Global Certificate registered in the name of a nominee of DTC will be made or procured to be made by the Paying Agent in such currency in accordance with the following provisions. The amounts in such currency payable by the Paying Agent or its agent to DTC with respect to Instruments held by DTC or its nominee will be received from the Issuer by the Paying Agent who will make payments in such currency by wire transfer of same day funds to the designated bank account in such currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest or distribution, on or prior to the third business day in New York City after the Record Date for the relevant payment of interest or distribution and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in such currency. The Paying Agent will convert amounts in such currency into U.S. dollars and deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such currency. The Agency Agreement sets out the manner in which such conversions are to be made.

Transfers of Registered Instruments

Transfers of interests in Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in an Unrestricted Global Certificate may only be held through Euroclear, Clearstream, Luxembourg or DTC. In the case of Registered Instruments to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through a Restricted Global Certificate for the same Series of Instruments provided that any such transfer made on or prior to the expiration of the distribution compliance period (as used in "*Subscription and Sale*") relating to the Instruments represented by such Unrestricted Global Certificate will only be made upon receipt by any Transfer Agent of a written certificate from Euroclear, Clearstream, Luxembourg or DTC, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Instruments represented by such Unrestricted Global Certificate will only be made upon request through Euroclear, Clearstream, Luxembourg or DTC by the holder of an interest in the Unrestricted Global Certificate to the Fiscal Agent of details of that account at DTC to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Registered Instruments described above and under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear, Clearstream, Luxembourg or DTC accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Fiscal Agent.

On or after the Issue Date for any Series, transfers of Instruments of such Series between accountholders in Euroclear, Clearstream, Luxembourg or DTC and transfers of Instruments of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Certificates will be effected through the Fiscal Agent, the Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee.

Transfers will be effected on the later of (a) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (b) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Instruments, see "*Transfer Restrictions*".

DTC has advised us that it will take any action permitted to be taken by a holder of Registered Instruments (including, without limitation, the presentation of Restricted Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Restricted Global Certificates or DTC Unrestricted Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Restricted Global Certificates or DTC Unrestricted Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Restricted Global Certificates or DTC Unrestricted Global Certificates for exchange for Individual Certificates (which will, in the case of Restricted Instruments, bear the legend applicable to transfers pursuant to Rule 144A).

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we, nor any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg, the CMU Service or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Certificate is lodged with DTC or the Custodian, Restricted Instruments represented by Individual Certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Certificates

Registration of title to Registered Instruments in a name other than a depositary or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only (a) in the case of Restricted Global Certificates in the circumstances set forth in *"Summary of Provisions Relating to the Instruments while in Global Form – Exchange – Permanent Global Certificates – Restricted Global Certificates"* or (b) in the case of Unrestricted Global Certificates in the circumstances set forth in *"Summary of Provisions Relating to the Instruments while in Global Form – Exchange – Permanent Global Certificates – Unrestricted Global Certificates"*. In such circumstances, we will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Instrumentholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

(i) a written order containing instructions and such other information as we and the Registrar may require to complete, execute and deliver such Individual Certificates; and

(ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Pre-issue Trades Settlement

It is expected that delivery of Instruments will be made against payment therefor on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the U.S. secondary market generally are required to settle within two business days ("**T+2**"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than two business days following the relevant date of pricing, purchasers who wish to trade Registered Instruments in the United States between the date of pricing and the date that is two business days prior to the relevant Issue Date will be required, by virtue of the fact that such Instruments initially will settle beyond T+2, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Instruments may be affected by such local settlement practices and, in the event that an Issue Date is more than two business days following the relevant date of pricing, purchasers of Instruments who wish to trade Instruments between the date of pricing and the date that is three business days prior to the relevant Issue Date should consult their own adviser.

TAXATION

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS[25]

The following is a general discussion of certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the Notes by U.S. Holders (as defined below) that purchase the Notes in an offering of Notes at their issue price (determined as set forth below) and hold the Notes as capital assets within the meaning of section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"). This discussion does not address all of the U.S. federal income tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances (including U.S. Holders that are directly or indirectly related to us and accrual method U.S. Holders that have an "applicable financial statement") or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as banks, insurance companies, dealers in securities or other U.S. Holders that generally mark their securities to market for U.S. federal income tax purposes, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, U.S. Holders that hold a Note as part of a straddle, hedge, conversion or other integrated transaction or U.S. Holders that have a "functional currency" other than the U.S. dollar). This discussion does not address any U.S. federal income tax considerations relating to the purchase, ownership or disposition of the Securities by U.S. Holders and any materially different considerations relating to such Securities will be described in the applicable Pricing Supplement if such Securities are offered to U.S. investors. This discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

This discussion is based on the Code, the U.S. Treasury Regulations promulgated or proposed thereunder and administrative and judicial pronouncements, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect or to differing interpretations. This discussion does not describe the U.S. federal income tax considerations relating to the purchase, ownership or disposition of a Note that is a Dual Currency Note, an Index Linked Interest Note, an Index Linked Redemption Note or otherwise treated as a "contingent payment debt instrument" (under applicable U.S. Treasury Regulations); a Note that is one of certain categories of "variable rate debt instrument" (as described below under *"– Interest on the Notes and Original Issue Discount*"); a Partly Paid Note; a Bearer Note; or a Note with a maturity later than 30 years from its date of issuance. A general discussion of any materially different U.S. federal income tax considerations relating to any such Note will be included in the applicable Pricing Supplement if such Note is offered to U.S. investors.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of a Note that, for U.S. federal income tax purposes, is (a) an individual who is a citizen or resident of the United States, (b) a corporation created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (d) a trust (i) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If an entity treated as a partnership for U.S. federal income tax purposes invests in a Note, the U.S. federal income tax considerations relating to such investment will depend in part upon the status and activities of such entity and the particular partner. Any such entity should consult its own tax adviser regarding the U.S. federal income tax considerations applicable to it and its partners relating to the purchase, ownership and disposition of a Note.

[25] This U.S. tax disclosure is limited to certain Notes. The U.S. tax considerations relevant to Security and other types of Notes (e.g., Notes, treated as equity) will be described in relevant Pricing Supplement.

The determination of whether a particular series of Notes should be classified as indebtedness or equity for U.S. federal income tax purposes depends on the terms of such Notes. Unless otherwise specified in the applicable Pricing Supplement, we agree that the Notes should be classified as indebtedness for U.S. federal income tax purposes, and by acquiring an interest in a Note each beneficial owner of a Note agrees to treat such Notes as indebtedness for U.S. federal income tax purposes. It is possible, however, that the U.S. Internal Revenue Service (the "**IRS**") could attempt to treat a particular series of Notes as equity for such purposes. If any Notes were so treated as equity, the U.S. federal income tax considerations relating to the purchase, ownership and disposition of such Notes could differ from those described below with respect to timing and character. The remainder of this discussion assumes the Notes will be treated as indebtedness for U.S. federal income tax purposes.

EACH PERSON CONSIDERING AN INVESTMENT IN THE NOTES SHOULD CONSULT ITS OWN TAX ADVISER REGARDING THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. INCOME, ESTATE AND OTHER TAX CONSIDERATIONS RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES IN LIGHT OF ITS PARTICULAR CIRCUMSTANCES.

Interest on the Notes and Original Issue Discount

Each U.S. Holder of a Note must include in income payments of "qualified stated interest" (as described below) in respect of such Note in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes as ordinary interest income. In general, if the issue price of a Note, determined by the first price at which a substantial amount of the Notes of a series is sold (ignoring sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers), is less than the "stated redemption price at maturity" (as described below) of such Note by an amount that is equal to or more than a *de minimis* amount, a U.S. Holder will be considered to have purchased such Note with OID. In general, the *de minimis* amount is equal to ¼ of 1% of the stated redemption price at maturity of a Note multiplied by the number of complete years to maturity (or, in the case of a Note providing for the payment of any amount other than qualified stated interest prior to maturity, multiplied by the weighted average maturity of the Note). If a U.S. Holder acquires a Note with OID, then regardless of such U.S. Holder's method of accounting for U.S. federal income tax purposes, such U.S. Holder generally will be required to accrue its *pro rata* share of OID on such Note on a constant-yield basis and include such accruals in gross income, whether or not such U.S. Holder will have received any cash payment on such Note. Any amount not treated as OID because it is *de minimis* generally must be included in income (generally as gain from the sale of a Note) as principal payments are received in the proportion that each such payment bears to the original principal amount of the Note. Special rules apply to Notes with a fixed maturity of one year or less. See "*– Short-Term Notes*".

"Stated redemption price at maturity" generally means the sum of all payments to be made on a Note other than payments of "qualified stated interest". "Qualified stated interest" generally means stated interest that is unconditionally payable during the entire term of the Note at least annually at a single fixed rate, or in the case of a variable rate debt instrument (as defined below), at a single qualified floating rate or single objective rate (each as defined below). If a Note is a variable rate debt instrument but interest is payable at a rate other than a single qualified floating rate or a single objective rate, the special rules that apply to such Note will be described in the applicable Pricing Supplement.

In the case of a Note that is a variable rate debt instrument, the amount of qualified stated interest and the amount of OID, if any, that accrues during an accrual period is generally determined by assuming that the variable rate is a fixed rate equal to (a) in the case of a qualified floating rate or qualified inverse floating rate (as defined below), the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate or (b) in the case of an objective rate (and other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the debt instrument, and the qualified stated interest (or, if there is no qualified stated interest, OID) allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period pursuant to clause (a) or (b), as applicable. Special rules that apply to a variable rate debt instrument that provides for stated interest at a fixed rate under certain circumstances will be described in the applicable Pricing Supplement.

A “variable rate debt instrument” is a debt instrument that (a) has an issue price that does not exceed the total noncontingent principal payments by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of such total noncontingent principal payments and the number of complete years to maturity of the instrument (or, in the case of a Note providing for the payment of any amount other than qualified stated interest prior to maturity, multiplied by the weighted average maturity of the Note) or (ii) 15% of the total noncontingent principal payments, (b) provides for stated interest (compounded or paid at least annually) at the current value of (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) does not provide for any principal payments that are contingent. The current value of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A “qualified floating rate” is generally a floating rate under which variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which a debt instrument is denominated. A multiple of a qualified floating rate is not a qualified floating rate unless the relevant multiplier is (a) fixed at a number that is greater than 0.65 but not more than 1.35 or (b) fixed at a number that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. A variable rate is not considered a qualified floating rate if the variable rate is subject to a cap, floor, governor (i.e., a restriction on the amount of increase or decrease in the stated interest rate) or similar restriction that is reasonably expected as of the issue date to cause the yield on the Note to be significantly more or less than the expected yield determined without the restriction (other than a cap, floor, governor or similar restriction that is fixed throughout the term of the Note).

An “objective rate” is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information. However, an objective rate does not include a rate based on information that is within the control of the issuer (or certain related parties of the issuer) or that is unique to the circumstances of the issuer (or certain related parties of the issuer), such as dividends, profits or the value of the issuer’s stock. A “qualified inverse floating rate” is an objective rate (a) that is equal to a fixed rate minus a qualified floating rate and (b) the variations in which can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate (disregarding any caps, floors, governors or similar restrictions that would not, as described above, cause a rate to fail to be a qualified floating rate). Notwithstanding the first sentence of this paragraph, a rate is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Note’s term. The IRS may designate rates other than those specified above that will be treated as objective rates. As of the date of this Offering Circular, no other rates have been designated.

If interest on a Note is stated at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate, as the case may be. A fixed rate and a variable rate will be conclusively presumed to meet the requirements of the preceding sentence if the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 0.25 percentage points (25 basis points).

If a Floating Rate Note does not qualify as a variable rate debt instrument or otherwise provides for contingent payments, or if a Fixed Rate Note provides for contingent payments, such Note may constitute a “contingent payment debt instrument”. Interest payable on a contingent payment debt instrument is not treated as qualified stated interest. If such a Note is offered to U.S. Holders, special rules applicable to contingent payment debt instruments will be described in the applicable Pricing Supplement.

In general, the following rules apply if (a) a Note provides for one or more alternative payment schedules applicable upon the occurrence of a contingency or contingencies and the timing and amounts of the payments that comprise each payment schedule are known as of the issue date and (b) either a single payment schedule is significantly more likely than not to occur or the Note provides us or a Noteholder with an unconditional option or options exercisable on one or more dates during the term of the Note that, if exercised, require payments to be made on the Notes under an alternative payment schedule or schedules. If based on all the facts and circumstances as of the issue date a single payment schedule for a debt instrument, including the stated payment schedule, is significantly more likely than not to occur, then, in general, the yield and maturity of the Note are computed based on this payment schedule. If we have or a Noteholder has an unconditional option or options that, if exercised, would require payments to be made on the Note under an alternative payment schedule or schedules, then (i) in the case of an option or options exercisable by us, we will be deemed to exercise or not exercise an option or combination of options in the manner that minimises the yield on the Note and (ii) in the case of an option or options of the Noteholder, the Noteholder will be deemed to exercise or not exercise an option or combination of options in the manner that maximises the yield on the Note. Notes subject to the above rules will not be treated as contingent payment debt instruments as a result of the contingencies described above. If a contingency (including the exercise of an option) actually occurs or does not occur contrary to an assumption made according to the above rules (a “**Change in Circumstances**”), then, except to the extent that a portion of the Note is repaid as a result of a Change in Circumstances and solely for purposes of the accrual of OID, the Note is treated as retired and then reissued on the date of the Change in Circumstances for an amount equal to the Note’s adjusted issue price on that date.

A U.S. Holder may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method. For purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. The election must be made for the taxable year in which a U.S. Holder acquires a Note, and may not be revoked without the consent of the IRS.

Premium

If the amount paid by a U.S. Holder for a Note exceeds the stated redemption price at maturity of such Note, such U.S. Holder generally will be considered to have purchased such Note at a premium equal in amount to such excess. In this event, such U.S. Holder may elect to amortise such premium, based generally on a constant-yield basis, as an offset to interest income over the remaining term of such Note. In the case of a Note that may be redeemed prior to maturity, the premium amortisation and redemption date are calculated assuming that we and the U.S. Holder will exercise or not exercise redemption rights in a manner that maximises the U.S. Holder’s yield. It is unclear how premium amortisation is calculated when the redemption date or the amount of any redemption premium is uncertain. The election to amortise bond premium, once made, will apply to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Short-Term Notes

Notes that have a fixed maturity of one year or less (“**Short-Term Notes**”) will be treated as issued with OID. For purposes of determining the amount of OID, all interest payments on a Short-Term Note are included in the Short-Term Note’s stated redemption price at maturity. In general, an individual or other U.S. Holder that uses the cash method of accounting is not required to accrue such OID unless such U.S. Holder elects to do so. If such an election is not made, any gain recognised by such U.S. Holder on the sale, exchange, retirement or other disposition of a Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of sale, exchange, retirement or other disposition, and a portion of the deduction otherwise allowable to such U.S. Holder for interest on borrowings allocable to the Short-Term Note will be deferred until a corresponding amount of income on such Note is realised. U.S. Holders who report income for U.S. federal income tax purposes under the accrual method of accounting and certain other holders are required to accrue OID related to a Short-Term Note as ordinary income on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding).

Sale, Exchange, Retirement or Other Disposition of Notes

In general, a U.S. Holder of a Note will have a tax basis in such Note equal to the cost of such Note to such U.S. Holder, increased by any amount includible in income by such U.S. Holder as OID and reduced by any amortised premium and any payments received with respect to the Note other than payments of qualified stated interest. Upon a sale, exchange, retirement or other disposition of a Note, a U.S. Holder will generally recognise gain or loss equal to the difference between the amount realised on the sale, exchange, retirement or other disposition (less any amount that is attributable to accrued but unpaid qualified stated interest, which will constitute ordinary interest income if not previously included in income) and such U.S. Holder's tax basis in such Note. Subject to the rules described below under "– *Foreign Currency Notes*", such gain or loss generally will be long-term capital gain or loss if such U.S. Holder will have held such Note for more than one year at the time of disposition. Certain non-corporate U.S. Holders are entitled to preferential treatment for net long-term capital gains. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Such gain or loss generally will be from sources within the United States.

Foreign Currency Notes

The following discussion generally describes special rules that apply, in addition to the rules described above, to Notes that are denominated in, or provide for payments determined by reference to, a currency other than the U.S. dollar ("**Foreign Currency Notes**"). The amount of qualified stated interest paid with respect to a Foreign Currency Note that is includible in income by a U.S. Holder that uses the cash method of accounting for U.S. federal income tax purposes is the U.S. dollar value of the amount paid, as determined on the date of actual or constructive receipt by such U.S. Holder, using the spot rate of exchange on such date regardless of whether the payment is in fact converted into U.S. dollars at the time. In the case of qualified stated interest on a Foreign Currency Note held by a U.S. Holder that uses the accrual method of accounting, and in the case of OID (other than OID on a Short-Term Note that is not required to be accrued) for every U.S. Holder, such U.S. Holder is required to include the U.S. dollar value of the amount of such interest income or OID (which is determined in the non-U.S. currency) that accrued during the accrual period. The U.S. dollar value of such accrued interest income or OID generally is determined by translating such income at the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate of exchange for the partial period within the taxable year). Alternatively, such U.S. Holder may elect to translate such income at the spot rate of exchange on the last day of the accrual period (or, with respect to an accrual period that spans two taxable years, at the spot rate of exchange in effect on the last day of the accrual period in the taxable year). If the last day of the accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder that has made such election may translate accrued interest using the spot rate of exchange in effect on the date of receipt. The above election will apply to all debt obligations held by such U.S. Holder and may not be changed without the consent of the IRS. A U.S. Holder will recognise, as ordinary income or loss, foreign currency exchange gain or loss with respect to such accrued interest income or OID on the date the interest or OID is actually or constructively received, reflecting fluctuations in currency exchange rates between the spot rate of exchange used to determine the accrued interest income or OID for the relevant accrual period and the spot rate of exchange on the date such interest or OID is actually or constructively received.

A U.S. Holder will calculate the amortisation of bond premium for a Foreign Currency Note in the applicable non-U.S. currency. Amortisation deductions attributable to a period will reduce interest payments in respect of that period, and therefore are translated into U.S. dollars at the spot rate of exchange used for those interest payments. Foreign currency exchange gain or loss will be realised with respect to amortised premium on a Foreign Currency Note based on the difference between the spot rate of exchange at which the amortisation deductions were translated into U.S. dollars and the spot rate of exchange on the date such U.S. Holder acquired the Foreign Currency Note.

The amount realised with respect to a sale, exchange, retirement or other disposition of a Foreign Currency Note generally will be the U.S. dollar value of the payment received (less any amount that is attributable to accrued but unpaid qualified stated interest, which will constitute ordinary interest income if not previously included in income), determined on the date of disposition of such Foreign Currency Note using the spot rate of exchange on such date. However, with respect to Foreign Currency Notes that are treated as traded on an established securities market, such amount realised will be determined using the spot rate of exchange on the settlement date in the case of (a) a U.S. Holder that is a cash method taxpayer or (b) a U.S. Holder that is an accrual method taxpayer that elects such treatment. This election may not be changed without the consent of the IRS. Gain or loss that is recognised generally will be ordinary income or loss to the extent it is attributable to fluctuations in currency exchange rates between the date of purchase of the Foreign Currency Note and the date of sale, exchange, retirement or other disposition. Such foreign currency gain (or loss), together with any foreign currency gain (or loss) realised on such disposition in respect of accrued interest or OID, will be recognised only to the extent of the total gain (or loss) realised by such U.S. Holder on the sale, exchange, retirement or other disposition of the Foreign Currency Note. Any gain (or loss) realised by a U.S. Holder not treated as foreign currency gain (or loss) generally will be capital gain or loss from sources within the United States (subject to the discussion above regarding Short-Term Notes).

A U.S. Holder that determines its amount realised in connection with the sale, exchange, retirement or other disposition of a Foreign Currency Note by reference to the spot rate of exchange on the date of such sale, exchange, retirement or other disposition (rather than on the settlement date) may recognise additional foreign currency gain or loss upon receipt of non-U.S. currency from such sale, exchange, retirement or other disposition. Any gain or loss on a subsequent conversion or other disposition of such non-U.S. currency by such U.S. Holder generally will be treated as ordinary income or loss from sources within the United States.

A U.S. Holder will recognise an amount of foreign currency gain or loss on a sale or other disposition of any non-U.S. currency equal to the difference between (a) the amount of U.S. dollars, or the fair market value in U.S. dollars of any other property, received in such sale or other disposition and (b) the tax basis of such non-U.S. currency. A U.S. Holder generally will have a tax basis in non-U.S. currency received from a sale, exchange, retirement or other disposition of a Foreign Currency Note equal to the U.S. dollar value of such non-U.S. currency on the date of receipt.

A Note that provides for payments in more than one currency, such as a Dual Currency Note, generally will be treated as a "contingent payment debt instrument", and the special rules applicable to such instruments will be described in the applicable Pricing Supplement.

Further Issues of Notes

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

Aggregation Rules

The U.S. Treasury Regulations relating to OID contain special aggregation rules stating in general that, subject to certain exceptions, debt instruments issued in the same transaction or related transactions to a single purchaser may be treated as a single debt instrument with a single issue price, maturity date, yield to maturity and stated redemption price at maturity for purposes of the OID rules. Under certain circumstances, these provisions could apply to a U.S. Holder that purchases Notes from more than one series of Notes.

Medicare Tax

In addition to regular U.S. federal income tax, certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8% tax on all or a portion of their "net investment income," which may include all or a portion of their interest income (including accrued OID) on a Note and net gain from the sale, exchange, retirement or other disposition of a Note.

Information Reporting and Backup Withholding

Under certain circumstances, information reporting and/or backup withholding may apply to a U.S. Holder with respect to payments of interest (and accruals of OID) on, and proceeds from the sale, exchange, retirement or other disposition of, a Note, unless an applicable exemption is satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a credit or a refund against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by such U.S. Holder on a timely basis to the IRS.

Reportable Transactions

A U.S. Holder that participates in any "reportable transaction" (as defined in U.S. Treasury Regulations) must attach to its U.S. federal income tax return a disclosure statement on IRS Form 8886. U.S. Holders should consult their own tax advisers as to the possible obligation to file IRS Form 8886 reporting foreign currency exchange loss arising from the Notes or any amounts received with respect to the Notes.

Disclosure Requirements for Specified Foreign Financial Assets

Individual U.S. Holders (and certain U.S. entities specified in U.S. Treasury Regulations) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their U.S. federal income tax returns certain information on IRS Form 8938 if the aggregate value of all such assets exceeds certain specified amounts. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include the Notes if they are not held in an account maintained with a financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. U.S. Holders should consult their own tax advisers as to the possible application to them of this filing requirement.

CERTAIN HONG KONG TAX CONSIDERATIONS

The following summary of certain Hong Kong tax consequences of the purchase, ownership and disposition of the Instruments is based upon laws, regulations, decisions and practice now in effect, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Instruments and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Instruments should consult their own tax advisers concerning the application of Hong Kong tax laws to their particular situation as well as any consequences of the purchase, ownership and disposition of the Instruments arising under the laws of any other taxing jurisdiction.

Withholding Tax

Under current Hong Kong legislation, no tax in Hong Kong is required to be withheld from or chargeable on payments of principal or interest in respect of the Instruments or in respect of any capital gains arising from the sale of the Instruments.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112 of the Law of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Instruments is not subject to Hong Kong profits tax except under the following circumstances:

(a) interest on the Instruments derived from Hong Kong is received by or accrues to a corporation (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(b) interest on the Instruments derived from Hong Kong is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(c) interest on the Instruments is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(d) interest on the Instruments is received by or accrues to a corporation (other than a financial institution) and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance).

Depending on the specific features of the Instruments, payments on the Instruments may or may not be regarded as interest for tax purposes. Investors should consult their own advisers on the related implications.

Sums derived from the sale, disposal or redemption of Instruments (other than capital gains) will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Instruments are acquired and disposed of, including where such activities were undertaken.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Instruments will be subject to profits tax.

Sums received by or accrued to a corporation (other than a financial institution) by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance) from the sale, disposal and redemption of Instruments will be subject to profits tax.

In certain circumstances, Hong Kong profits tax exemptions may be available to certain qualifying investors. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual positions.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Instruments provided that either:

(a) in the case of Notes, they are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) in the case of Instruments, they constitute loan capital (as defined in the Stamp Duty Ordinance (Cap.117) of Hong Kong).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Instruments at a rate of 3% of the market value of the Instruments at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Instruments.

No stamp duty is payable on the issue of Registered Instruments. Stamp duty may be payable on any sale and purchase, or change in beneficial ownership of Registered Instruments if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any sale and purchase, or change in beneficial ownership of Registered Instruments provided that either:

(a) in the case of Notes, they are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) in the case of Instruments, they constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the sale and purchase of Registered Instruments it will be payable at the rate of 0.1% by the seller and 0.1% by the buyer, by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Instruments if the relevant transfer is required to be registered in Hong Kong.

Estate Duty

Estates of persons who pass away on or after 11 February 2006 are not subject to Hong Kong estate duty.

CERTAIN UK AND INTERNATIONAL INFORMATION REPORTING REGIMES

The paying agent operates in the United Kingdom. This may result in the paying agent or any other person in the United Kingdom through whom interest is paid to, or by whom interest is received on behalf of, a holder of Instruments being required to provide information in relation to the payment to HM Revenue & Customs, the UK tax authority, pursuant to certain domestic and international reporting and transparency regimes. The information that is disclosed may include (but is not limited to) information relating to the value of the Instruments, amounts paid or credited with respect to the Instruments, details of the holders or the beneficial owners of the Instruments (or the persons for whom the Instruments are held), details of the persons who exercise control over entities that are, or are treated as, holders of the Instruments, details of the persons to whom payments derived from the Instruments are or may be paid and information and documents in connection with transactions relating to the Instruments. These provisions will apply irrespective of whether or not the holder is resident in the United Kingdom for UK tax purposes. In certain circumstances, HM Revenue & Customs may communicate this information to the tax authorities of certain other jurisdictions.

CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes fiduciary standards and certain other requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds, separate accounts and other entities or accounts whose underlying assets are treated as the assets of such plans pursuant to the U.S. Department of Labor ("**DOL**") "plan assets" regulation 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (such regulation, the "**Plan Assets Regulation**", and such employee benefit plans collectively, "**ERISA Plans**"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA, but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Instruments are acquired by a Plan with respect to which we or the Dealers or any of our or their respective affiliates are a party in interest or a disqualified person. The types of transactions between Plans and parties in interest that are prohibited include: (a) sales, exchanges or leases of property, (b) loans or other extensions of credit and (c) the furnishing of goods and services. Certain parties in interest that participate in a non-exempt prohibited transaction may be subject to an excise taxes or other liabilities under ERISA or the Code.

Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire an Instrument and the circumstances under which such decision is made. Included among these exemptions are (but are not limited to) Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions with certain service providers) and Prohibited Transaction Class Exemption ("**PTCE**") 95-60 (relating to investments by insurance company general accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "**qualified professional asset manager**"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by an in-house asset manager). There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving the Instruments or that, if an exemption is available, it will cover all aspects of any particular transaction.

Governmental plans and certain church and various other plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state, local, or other federal or non-U.S. laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Instruments.

As a result of the foregoing restrictions, the Instruments may not be purchased or held by any Plan, or any person investing "plan assets" of any Plan, unless that purchase and holding will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or is covered by an applicable exemption. By its purchase of any Instruments, the purchaser or holder of the Instruments or any interest therein will be deemed to have represented and agreed either that: (a) it is not and for so long as it holds Instruments will not be (and is not acquiring the Instruments directly or indirectly with the assets of a person who is or while the Instruments are held will be) an ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan, or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Other Plan Law**"); or (b) its purchase and holding of the Instruments will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, Other Plan Law). Additionally, if you are using assets of any Benefit Plan Investor to acquire or hold an Instrument, you will be deemed to have represented and agreed by your purchase or acquisition of the Instrument that (a) none of us, the Arranger, any of the Dealers or our or their respective affiliates (collectively, the "**Transaction Parties**") has through this Offering Circular provided any investment advice within the meaning of Section 3(21) of ERISA to the Benefit Plan Investor or any fiduciary or other person investing the assets of the Benefit Plan Investor in connection with the decision to purchase or acquire such Instrument and (b) the information provided in this Offering Circular will not by itself make a Transaction Party a fiduciary to the Benefit Plan Investor.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Benefit Plan Investor fiduciary who proposes to cause a Benefit Plan Investor to purchase any Instruments should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code (or in the case of governmental or other employee benefit plans not subject to ERISA or Section 4975 of the Code, any Other Plan Law) to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA or section 4975 of the Code (or any Other Plan Law, as applicable).

The sale of Instruments to a Benefit Plan Investor is in no respect a representation by us or the Dealers that such an investment meets all relevant legal requirements with respect to investments by Benefit Plan Investors generally or any particular Benefit Plan Investor, or that such an investment is appropriate for Benefit Plan Investors generally or any particular Benefit Plan Investor.

GENERAL INFORMATION

1. LISTING

Application will be made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during a 12-month period after the date of the Offering Circular on the Hong Kong Stock Exchange. The issue price of Instruments listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Instruments, commence on or about the next business day following the date of listing of the relevant Instruments. Instruments listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

2. AUTHORISATION

The amendments and update of the Programme and any issue of the Instruments thereunder were authorised by a meeting of our Board held on 11 March 2021 and by written resolutions of our Board dated 11 March 2021. We have obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments.

3. LEGAL AND ARBITRATION PROCEEDINGS

Neither of the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer or the Group.

4. SIGNIFICANT/MATERIAL CHANGE

Since 31 December 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.

5. AUDITOR

PricewaterhouseCoopers (Certified Public Accountants), our independent auditor, has audited and rendered unqualified audit reports on our consolidated financial statements as of and for the years ended 31 December 2020 and 2019, and has audited and rendered an unqualified audit report on the Group's supplementary embedded value results for the years ended 31 December 2020 and 2019.

6. DOCUMENTS ON DISPLAY

Copies of the following documents may be inspected by the Instrumentholders upon prior written request and satisfactory proof of holding during normal business hours on any weekday (Saturdays and public holidays excepted) at the specified office of the Fiscal Agent at One Canada Square, Canary Wharf, London, E14 5AL, United Kingdom for so long as the Instruments are capable of being issued under the Programme:

(i) our audited consolidated financial statements for the year ended 31 December 2020;

(ii) copies of our latest annual report and audited consolidated financial statements, and any unaudited interim condensed consolidated financial statements published subsequently to such audited consolidated financial statements;

(iii) each Pricing Supplement;

(iv) the Agency Agreement (which contains the forms of the Instruments in global and definitive form); and

(v) the Deed of Covenant given by us.

7. CLEARING OF THE INSTRUMENTS

The Instruments have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). We may also apply to have Instruments accepted for clearance through the CMU Service. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. In addition, we may make an application for any Restricted Instruments or DTC Unrestricted Instruments to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Instruments will be confirmed in the relevant Instruments. The relevant ISIN, the Common Code, the Committee on the Uniform Security Identification Procedure ("**CUSIP**") number and (where applicable) the identification number for any other relevant clearing system for each series of Instruments will be specified in the applicable Pricing Supplement. If the Instruments are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

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(2) AUDITED SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

Independent Auditor's Report on the Supplementary Embedded Value Information[(1)] F-142

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(1) References to page numbers in the independent auditor's report on the audited consolidated financial statements and the independent auditor's report on the Supplementary Embedded Value Information refer to the original page numbers in the 2020 results announcement of the Issuer which may be found at http://www.aia.com, and cross-references to page numbers included in the independent auditor's reports are to such original page numbering. Neither the 2020 results announcement nor any other information on the issuer's website has been incorporated by reference into this Offering Circular.

羅兵咸永道

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

Opinion

What we have audited

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

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

Our opinion

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

Basis for Opinion

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

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

Independence

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

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Key Audit Matters

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

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

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

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

Key Audit Matters (continued)

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

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter

b) Amortisation of DAC

Refer to the following notes in the consolidated financial statements: Note 2.4.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements, Note 11 and Note 20.

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

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Other Information

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

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

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

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

Other Matter

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

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

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

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

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

羅兵咸永道

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
12 March 2021

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CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

Notes:

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Notes:

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

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

1. CORPORATE INFORMATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

(e) Voluntary change in accounting policy

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

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

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

2.2 Operating profit

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

Subsidiaries

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

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

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

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

Investment funds

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

Employee share-based trusts

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

Non-controlling interests

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Associates and joint ventures

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

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

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

The Company's investments

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

2.4 Insurance and investment contracts

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

Product classification

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

Note:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

2.4.1 Insurance contracts and investment contracts with DPF

Premiums

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

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

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

Unearned revenue liability

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

Deferred profit liability

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

Deferred acquisition costs

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Deferred acquisition costs (continued)

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

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

Deferred sales inducements

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

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

Unbundling

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

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

Bifurcation

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

Benefits and claims

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

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

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

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

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

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

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

Liability adequacy testing

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

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

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

Financial guarantees

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 Investment contracts

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

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

Investment contract fee revenue

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

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

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

Deferred origination costs

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

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

Investment contract liabilities

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 Investment contracts (continued)

Deferred fee income liability

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

2.4.3 Insurance and investment contracts

Reinsurance

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

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

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

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

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

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

Value of business acquired (VOBA)

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.3 Insurance and investment contracts (continued)

Shadow accounting

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

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

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

Other assessments and levies

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

2.5 Financial instruments

2.5.1 Classification of and designation of financial instruments

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Available for sale financial assets

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

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

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

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

Realised gains and losses on financial assets

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

Recognition of financial instruments

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

Derecognition and offset of financial assets

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

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

Loans and receivables

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Term deposits

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

Cash and cash equivalents

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

2.5.2 Fair values of non-derivative financial instruments

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

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

2.5.3 Impairment of financial assets

General

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

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

Available for sale financial instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.3 Impairment of financial assets (continued)

Loans and receivables

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

2.5.4 Derivative financial instruments

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

Derivative instruments for economic hedging

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

Cash flow hedge

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

Embedded derivatives

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.5 The Company's financial instruments

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.5 The Company's financial instruments (continued)

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

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

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

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

2.6 Segment reporting

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

2.7 Foreign currency translation

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

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

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

2.8 Property, plant and equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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

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

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

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

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

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

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

2.9 Investment property

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

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

2.10 Goodwill and other intangible assets

Goodwill

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Goodwill and other intangible assets (continued)

Other intangible assets

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

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

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

2.11 Impairment of non-financial assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Securities lending including repurchase agreements

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

Assets sold under repurchase agreements (repos)

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

Assets purchased under agreements to resell (reverse repos)

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

2.13 Collateral

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

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

2.14 Borrowings

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

2.15 Income taxes

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Income taxes (continued)

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

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

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

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

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

2.16 Revenue

Investment return

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

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the period end and the carrying value at the previous year end or purchase price if purchased during the period, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the period.

Other fee and commission income

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

Annual leave and long service leave

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Post-retirement benefit obligations

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

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

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

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

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

Share-based compensation and cash incentive plans

The Group launched a number of share-based compensation plans, under which the Group receives services from the employees, directors, officers and agents as consideration for the shares and/or share options of the Company. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme), the Employee Share Purchase Plan (ESPP) and the Agency Share Purchase Plan (ASPP).

The Group's share-based compensation plans are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

Share-based compensation and cash incentive plans (continued)

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

The Group estimates the fair value of share options using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the share option.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

2.18 Provisions and contingencies

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

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

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

2.19 Leases

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

Lease term

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

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

Subleases

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

2.20 Share capital

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

Share issue costs

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

Dividends

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

2.21 Presentation of the consolidated statement of financial position

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

2.22 Earnings per share

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Fiduciary activities

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

2.24 Consolidated statement of cash flows

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

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

2.25 Related party transactions

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1 Product classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract.

The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.4.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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

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

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Deferred acquisition and origination costs

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

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

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

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

3.4 Liability adequacy testing

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

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

3.5 Fair value measurement

3.5.1 Fair value of financial assets

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

The degree of judgement used in measuring the fair value of financial assets generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Fair value measurement (continued)

3.5.1 Fair value of financial assets (continued)

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

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

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

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

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

3.6 Impairment of goodwill and other intangible assets

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

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

4. EXCHANGE RATES

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

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

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

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

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

5. CHANGE IN GROUP COMPOSITION

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

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

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

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

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

Note:

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

6. PREMIUMS AND FEE INCOME

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

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

7. OPERATING PROFIT AFTER TAX

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

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

Notes:

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

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

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

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

8. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

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

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

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

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

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

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

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

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

9. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

9. SEGMENT INFORMATION (continued)

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

9. SEGMENT INFORMATION (continued)

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

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

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

Note:

(1) Include unit-linked contracts.

9. SEGMENT INFORMATION (continued)

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

9. SEGMENT INFORMATION (continued)

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

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

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

Note:

(1) Include unit-linked contracts.

10. REVENUE

Investment return

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

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

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

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

Other operating revenue

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

11. EXPENSES

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

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

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

Notes:

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

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

11. EXPENSES (continued)

Depreciation consists of:

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

Finance costs may be analysed as:

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

Employee benefit expenses consist of:

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

12. INCOME TAX

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

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

Corporate income tax

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

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

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

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

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

Withholding tax on dividends

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

12. INCOME TAX (continued)

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

Notes:

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

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

12. INCOME TAX (continued)

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

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

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

Notes:

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

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

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

12. INCOME TAX (continued)

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

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

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

13. EARNINGS PER SHARE

Basic

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

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

Diluted

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

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

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

Operating profit after tax per share

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

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

14. DIVIDENDS

Dividends to shareholders of the Company attributable to the year:

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

Note:

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

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

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

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

15. INTANGIBLE ASSETS

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

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

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

Impairment tests for goodwill

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

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

15. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

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

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

All associates and joint ventures are unlisted.

Aggregated financial information of associates and joint ventures

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

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

17. PROPERTY, PLANT AND EQUIPMENT

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

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

18. INVESTMENT PROPERTY

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

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

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

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

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

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

19. REINSURANCE ASSETS

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

Note:

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

20. DEFERRED ACQUISITION AND ORIGINATION COSTS

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

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

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

21. FINANCIAL INVESTMENTS

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

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

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

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

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

21. FINANCIAL INVESTMENTS (continued)

Debt securities

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

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

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

Debt securities by type comprise the following:

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

Notes:

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

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

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

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

Notes:

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

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

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

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

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

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

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

Notes:

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

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

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

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

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

Notes:

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

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

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

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

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

21. FINANCIAL INVESTMENTS (continued)

Equity securities

Equity securities by type comprise the following:

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

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

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

Debt and equity securities

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

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

21. FINANCIAL INVESTMENTS (continued)

Interests in structured entities

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

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

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

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

Notes:

(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.

(2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

The Group's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities.

In addition, the Group receives management fees and trustee fees in respect of providing trustee, management and administrative services to certain retirement scheme funds and investment funds. These funds are not held and the associated investment risks are not borne by the Group, the Group does not have exposure to loss in these funds.

21. FINANCIAL INVESTMENTS (continued)

Loans and deposits

US$m	As at 31 December 2020	As at 31 December 2019
Policy loans	**3,547**	3,246
Mortgage loans on residential real estate	**590**	606
Mortgage loans on commercial real estate	**49**	49
Other loans	**760**	776
Allowance for loan losses	**(14)**	(13)
Loans	**4,932**	4,664
Term deposits	**2,683**	3,696
Promissory notes[1]	**1,720**	1,726
Total	**9,335**	10,086

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

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US$2,057m (2019: US$1,951m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 31 December 2020, the carrying value of such receivables is US$271m (2019: US$265m).

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative exposure was as follows:

US$m	Notional amount	Fair value	
		Assets	Liabilities
31 December 2020			
Foreign exchange contracts			
Cross-currency swaps	**8,172**	**313**	**(158)**
Forwards	**2,694**	**121**	**(17)**
Foreign exchange futures	**100**	**–**	**–**
Total foreign exchange contracts	**10,966**	**434**	**(175)**
Interest rate contracts			
Interest rate swaps	**8,510**	**561**	**(308)**
Other			
Warrants and options	**1,342**	**51**	**(45)**
Forward contracts	**10,658**	**18**	**(469)**
Swaps	**1,267**	**5**	**(6)**
Netting	**(100)**	**–**	**–**
Total	**32,643**	**1,069**	**(1,003)**
31 December 2019			
Foreign exchange contracts			
Cross-currency swaps	8,338	396	(204)
Forwards	4,973	62	(24)
Foreign exchange futures	98	–	–
Currency options	3	–	–
Total foreign exchange contracts	13,412	458	(228)
Interest rate contracts			
Interest rate swaps	8,740	487	(161)
Other			
Warrants and options	147	3	–
Forward contracts	1,843	14	(17)
Swaps	1,333	9	(6)
Netting	(98)	–	–
Total	25,377	971	(412)

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

Of the total derivatives, US$25m (2019: US$12m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to provide an economic hedge to financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

Foreign exchange contracts

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices and the timing of payments.

Interest rate swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

Other derivatives

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Forward contracts are contractual obligations to buy or sell a financial instrument on a predetermined future date at a specified price. Swaps are OTC contractual agreements between the Group and a third party to exchange a series of cash flows based upon an index, rates or other variables applied to a notional amount.

Netting adjustment

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

Collateral under derivative transactions

At 31 December 2020, the Group had posted cash collateral of US$86m (2019: US$37m) and pledged debt securities with carrying value of US$696m (2019: US$266m) for liabilities and held cash collateral of US$500m (2019: US$581m), debt securities collateral with carrying value of US$17m (2019: US$7m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

23. FAIR VALUE MEASUREMENT

Fair value of financial instruments

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

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

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
31 December 2020						
Financial investments	21					
Loans and deposits		–	–	9,335	9,335	9,333
Debt securities		36,775	165,106	–	201,881	201,881
Equity securities		59,182	–	–	59,182	59,182
Derivative financial instruments	22	1,069	–	–	1,069	1,069
Reinsurance receivables	19	–	–	671	671	671
Other receivables	24	–	–	3,053	3,053	3,053
Accrued investment income	24	–	–	1,822	1,822	1,822
Cash and cash equivalents	26	–	–	5,619	5,619	5,619
Financial assets		**97,026**	**165,106**	**20,500**	**282,632**	**282,630**

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	28	12,026	543	12,569	12,569
Borrowings	30	–	8,559	8,559	9,555
Obligations under repurchase agreements	31	–	1,664	1,664	1,664
Derivative financial instruments	22	1,003	–	1,003	1,003
Other liabilities	34	1,025	6,772	7,797	7,797
Financial liabilities		**14,054**	**17,538**	**31,592**	**32,588**

23. FAIR VALUE MEASUREMENT (continued)

Fair value of financial instruments (continued)

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
31 December 2019						
Financial investments	21					
Loans and deposits		–	–	10,086	10,086	10,086
Debt securities		33,132	138,852	–	171,984	171,984
Equity securities		50,322	–	–	50,322	50,322
Derivative financial instruments	22	971	–	–	971	971
Reinsurance receivables	19	–	–	683	683	683
Other receivables	24	–	–	2,983	2,983	2,983
Accrued investment income	24	–	–	1,710	1,710	1,710
Cash and cash equivalents	26	–	–	3,941	3,941	3,941
Financial assets		84,425	138,852	19,403	242,680	242,680

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	28	11,391	515	11,906	11,906
Borrowings	30	–	5,757	5,757	6,169
Obligations under repurchase agreements	31	–	1,826	1,826	1,826
Derivative financial instruments	22	412	–	412	412
Other liabilities	34	1,116	8,301	9,417	9,417
Financial liabilities		12,919	16,399	29,318	29,730

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net positions of foreign currency derivative, is shown in note 38 for the Group's key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

23. FAIR VALUE MEASUREMENT (continued)

Fair value measurements on a recurring basis

The Group measures at fair value property held for own use, investment property, financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis.

The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fair value of properties is based on valuation by independent professional valuers.

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the year ended 31 December 2020.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments and properties.

Determination of fair value

Loans and receivables

For loans and advances that are repriced frequently and have not had any significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair values.

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers, private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor’s credit spreads, foreign exchange rates and credit default rates. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Derivative financial instruments

The Group values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

When the Group holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Group takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that require the exchange of collateral on the basis of each party's net credit risk exposure). The Group measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Property held for own use and investment property

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's properties at least on an annual basis. The valuation on an open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of certain other properties were derived using the Market Data Approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity. Certain other properties are valued using a combination of these two methods.

The properties held for own use and investment properties, in most cases, are valued on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. The current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the properties in use would be taken into account when they would maximise the fair value of the properties; the Group is occupying these properties for operational purposes.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

The carrying amount of amounts receivable from reinsurers is not considered materially different to their fair value.

Fair value of securities sold under repurchase agreements and the associated payables

The contract values of payables under repurchase agreements approximate their fair value as these obligations are short-term in nature.

Other assets

The carrying amount of other financial assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Investment contract liabilities

For investment contract liabilities, the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder, the fair value generally approximates to the fair value of the underlying assets.

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 27. These are not measured at fair value.

Borrowings

The fair values of borrowings with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities or prices obtained from brokers.

Other liabilities

The fair values of other unquoted financial liabilities are estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those without stated maturity, where the carrying value approximates to fair value.

Fair value hierarchy for fair value measurement on a recurring basis

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure their fair values as discussed below:

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities. The Group considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Group's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Group considers factors specific to the asset or liability.

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

A summary of assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2020				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	1,025	1,025
Investment property	–	–	4,639	4,639
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	47,594	8	47,602
Other policyholder and shareholder	69	116,178	1,257	117,504
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	14	27,426	930	28,370
Unit-linked and consolidated investment funds	14	6,386	3	6,403
Other policyholder and shareholder	1	1,697	304	2,002
Equity securities				
Participating funds and other participating business with distinct portfolios	20,272	877	2,743	23,892
Unit-linked and consolidated investment funds	27,640	285	307	28,232
Other policyholder and shareholder	5,481	1,077	500	7,058
Derivative financial instruments				
Foreign exchange contracts	–	434	–	434
Interest rate contracts	–	561	–	561
Other contracts	13	61	–	74
Total assets on a recurring fair value measurement basis	53,504	202,576	11,716	267,796
% of Total	*20.0*	*75.6*	*4.4*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	12,026	12,026
Derivative financial instruments				
Foreign exchange contracts	–	175	–	175
Interest rate contracts	–	308	–	308
Other contracts	12	508	–	520
Other liabilities	–	1,025	–	1,025
Total liabilities on a recurring fair value measurement basis	12	2,016	12,026	14,054
% of Total	*0.1*	*14.3*	*85.6*	*100.0*

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

US$m	Fair value hierarchy Level 1	Level 2	Level 3	Total
31 December 2019				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	1,019	1,019
Investment property	–	–	4,834	4,834
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	72	33,153	230	33,455
Other policyholder and shareholder	133	104,220	1,044	105,397
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	8	24,529	575	25,112
Unit-linked and consolidated investment funds	–	5,848	18	5,866
Other policyholder and shareholder	1	1,886	267	2,154
Equity securities				
Participating funds and other participating business with distinct portfolios	16,108	896	1,735	18,739
Unit-linked and consolidated investment funds	23,559	244	298	24,101
Other policyholder and shareholder	6,348	755	379	7,482
Derivative financial instruments				
Foreign exchange contracts	–	458	–	458
Interest rate contracts	–	487	–	487
Other contracts	14	12	–	26
Total assets on a recurring fair value measurement basis	46,243	172,488	10,399	229,130
% of Total	*20.2*	*75.3*	*4.5*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	11,391	11,391
Derivative financial instruments				
Foreign exchange contracts	–	228	–	228
Interest rate contracts	–	161	–	161
Other contracts	12	11	–	23
Other liabilities	–	1,116	–	1,116
Total liabilities on a recurring fair value measurement basis	12	1,516	11,391	12,919
% of Total	*0.1*	*11.7*	*88.2*	*100.0*

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 31 December 2020, the Group transferred US$127m (2019: US$379m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US$9m of assets (2019: US$36m) from Level 2 to Level 1 during the year ended 31 December 2020.

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

The tables below set out a summary of changes in the Group's Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended 31 December 2020 and 2019. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 31 December 2020 and 2019.

Level 3 assets and liabilities

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 January 2020	**1,019**	**4,834**	**2,134**	**2,412**	**–**	**(11,391)**
Net movement on investment contract liabilities	**–**	**–**	**–**	**–**	**–**	**(635)**
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	**(15)**	**(292)**	**(26)**	**75**	**–**	**–**
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	**3**	**69**	**99**	**80**	**–**	**–**
Purchases	**18**	**29**	**798**	**1,141**	**–**	**–**
Sales	**–**	**(1)**	**(313)**	**(258)**	**–**	**–**
Settlements	**–**	**–**	**(233)**	**–**	**–**	**–**
Transfer into Level 3	**–**	**–**	**43**	**100**	**–**	**–**
At 31 December 2020	**1,025**	**4,639**	**2,502**	**3,550**	**–**	**(12,026)**
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	**(15)**	**(292)**	**(26)**	**(5)**	**–**	**–**

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

Level 3 assets and liabilities (continued)

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 January 2019	982	4,794	1,850	1,333	–	(6,907)
Net movement on investment contract liabilities	–	–	–	–	–	(480)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(26)	103	(10)	(35)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	44	60	(6)	24	–	–
Acquisition of subsidiaries	–	–	247	448	–	(4,004)
Transfer from investment property	9	(9)	–	–	–	–
Purchases	10	9	559	706	–	–
Sales	–	(120)	(19)	(31)	–	–
Settlements	–	–	(487)	–	–	–
Transfer out of Level 3	–	(3)	–	(33)	–	–
At 31 December 2019	1,019	4,834	2,134	2,412	–	(11,391)
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	(26)	103	(3)	19	–	–

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 28.

Assets transferred out of Level 3 mainly relate to equity securities of which market-observable inputs became available during the year and were used in determining the fair value.

There are not any differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

23. FAIR VALUE MEASUREMENT (continued)

Significant unobservable inputs for level 3 fair value measurements

As at 31 December 2020 and 2019, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 31 December 2020 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	**997**	**Discounted cash flows**	**Risk adjusted discount rate**	**3.40% – 10.40%**

Description	Fair value at 31 December 2019 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	817	Discounted cash flows	Risk adjusted discount rate	3.69% – 14.14%

Fair value of the Group's properties are determined based on appropriate valuation techniques which may consider among others income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable.

Valuation processes

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses private pricing providers and, only in rare cases when third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment team analyses reported price exceptions and reviews price challenge responses from private pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Valuations Advisory Committee which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the debt securities and investment contracts. The unobservable inputs for determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

23. FAIR VALUE MEASUREMENT (continued)

Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2020 and 2019 is given below.

US$m	Fair value hierarchy Level 1	Level 2	Level 3	Total
31 December 2020				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	**2,153**	**2,700**	**4,480**	**9,333**
Reinsurance receivables	**–**	**671**	**–**	**671**
Other receivables	**27**	**2,975**	**51**	**3,053**
Accrued investment income	**37**	**1,785**	**–**	**1,822**
Cash and cash equivalents	**5,619**	**–**	**–**	**5,619**
Total assets for which the fair value is disclosed	**7,836**	**8,131**	**4,531**	**20,498**
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	**–**	**–**	**543**	**543**
Borrowings	**8,132**	**1,423**	**–**	**9,555**
Obligations under repurchase agreements	**–**	**1,664**	**–**	**1,664**
Other liabilities	**575**	**6,132**	**65**	**6,772**
Total liabilities for which the fair value is disclosed	**8,707**	**9,219**	**608**	**18,534**

US$m	Fair value hierarchy Level 1	Level 2	Level 3	Total
31 December 2019				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	2,959	2,769	4,358	10,086
Reinsurance receivables	–	683	–	683
Other receivables	55	2,855	73	2,983
Accrued investment income	36	1,674	–	1,710
Cash and cash equivalents	3,941	–	–	3,941
Total assets for which the fair value is disclosed	6,991	7,981	4,431	19,403
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	–	–	515	515
Borrowings	5,350	819	–	6,169
Obligations under repurchase agreements	–	1,826	–	1,826
Other liabilities	354	7,888	59	8,301
Total liabilities for which the fair value is disclosed	5,704	10,533	574	16,811

24. OTHER ASSETS

US$m	As at 31 December 2020	As at 31 December 2019
Accrued investment income	**1,822**	1,710
Pension scheme assets		
Defined benefit pension scheme surpluses	**46**	44
Insurance receivables due from insurance and investment contract holders	**1,983**	1,459
Others[(1)]	**1,982**	2,392
Total	**5,833**	5,605

Note:
(1) Represents, among others, prepayments and investment-related receivables.

All amounts other than certain prepayments are generally expected to be recovered within 12 months after the end of the reporting period.

25. IMPAIRMENT OF FINANCIAL ASSETS

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

Available for sale debt securities

During the year ended 31 December 2020, no impairment loss (2019: nil) was recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2020 was nil (2019: nil).

Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 21 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 31 December 2020 was US$15m (2019: US$14m). The Group has a portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short-term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within one year and cover is cancelled if consideration is not received.

26. CASH AND CASH EQUIVALENTS

US$m	As at 31 December 2020	As at 31 December 2019
Cash	**2,877**	3,158
Cash equivalents	**2,742**	783
Total[1]	**5,619**	3,941

Note:
(1) Of cash and cash equivalents, US$1,111m (2019: US$703m) are held to back unit-linked contracts and US$108m (2019: US$49m) are held by consolidated investment funds.

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

27. INSURANCE CONTRACT LIABILITIES

The movements of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) and ceded insurance contract liabilities (see note 19) are shown as follows:

US$m	Note	Gross	Reinsurance	Net
At 1 January 2019 – As previously reported		164,764	(2,323)	162,441
Effect of change in accounting policy	48	(1,381)	–	(1,381)
At 1 January 2019 – As adjusted		163,383	(2,323)	161,060
Valuation premiums and deposits		33,822	(1,804)	32,018
Liabilities released for policy termination or other policy benefits paid and related expenses		(22,063)	1,269	(20,794)
Fees from account balances		(2,401)	–	(2,401)
Accretion of interest		5,542	(20)	5,522
Change in net asset values attributable to policyholders		9,996	–	9,996
Acquisition of subsidiaries		2,807	(285)	2,522
Foreign exchange movements		2,207	13	2,220
Other movements		(1,112)	–	(1,112)
At 31 December 2019 – As adjusted		**192,181**	**(3,150)**	**189,031**
Valuation premiums and deposits		**35,438**	**(2,128)**	**33,310**
Liabilities released for policy termination or other policy benefits paid and related expenses		**(23,038)**	**1,720**	**(21,318)**
Fees from account balances		**(2,427)**	**–**	**(2,427)**
Accretion of interest		**6,056**	**(33)**	**6,023**
Change in net asset values attributable to policyholders		**11,491**	**–**	**11,491**
Foreign exchange movements		**3,657**	**(298)**	**3,359**
Other movements		**(287)**	**–**	**(287)**
At 31 December 2020		**223,071**	**(3,889)**	**219,182**

27. INSURANCE CONTRACT LIABILITIES (continued)

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

US$m	As at 31 December 2020	As at 31 December 2019 (As adjusted)
Deferred profit	**24,972**	20,500
Unearned revenue	**1,751**	2,091
Policyholders' share of participating surplus	**31,151**	21,870
Liabilities for future policyholder benefits	**165,197**	147,720
Total	**223,071**	192,181

27. INSURANCE CONTRACT LIABILITIES (continued)

Business description

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life	Participating funds and other participating business with distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends For other participating business with distinct portfolios, the allocation of benefit from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders • Morbidity	Hong Kong, Singapore, Mainland China, Malaysia
	Other participating business without distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders • Morbidity	Thailand, Other Markets
Traditional non-participating life		Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses	All(1)
Accident and health		These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses	All(1)
Unit-linked		Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	• Investment performance • Lapses • Expenses • Mortality	All(1)
Universal life		The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer	Benefits are based on the account balance and death benefit	• Investment performance • Crediting rates • Lapses • Expenses • Mortality	All(1)

Note:

(1) Other than the Group Corporate Centre segment.

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items to which profit for the year and shareholders' equity are sensitive are market, insurance and lapse risks which are shown in the table below. Indirect exposure indicates that there is a second order impact. For example, whilst the profit for the year attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of unit-linked contracts), there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risks is offset by a corresponding movement in insurance contract liabilities.

		Market and credit risks			
		Direct exposure			
Type of contract		Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life	Participating funds and other participating business with distinct portfolios	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality • Morbidity
	Other participating business without distinct portfolios	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality • Morbidity
Traditional non-participating life		• Guarantees • Asset-liability mismatch risk	• Investment performance • Asset-liability mismatch risk • Credit risk	• Not applicable	• Mortality • Persistency • Morbidity
Accident and health		• Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Not applicable	• Morbidity • Persistency
Pension		• Net neutral • Asset-liability mismatch risk	• Net neutral • Asset-liability mismatch risk	• Performance-related investment management fees	• Persistency
Unit-linked		• Net neutral	• Net neutral	• Performance-related investment management fees	• Persistency • Mortality
Universal life		• Guarantees • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Spread between earned rate and crediting rate to policyholders	• Mortality • Persistency • Withdrawals

The Group is also exposed to foreign exchange rate risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions (continued)

Valuation interest rates

As at 31 December 2020 and 2019, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by operating segment, year of issuance and products, within the first 20 years are as follows:

	As at 31 December 2020	As at 31 December 2019
Hong Kong	**3.00% – 7.50%**	3.50% – 7.50%
Thailand	**2.49% – 9.00%**	3.13% – 9.00%
Singapore	**2.00% – 7.00%**	2.00% – 7.00%
Malaysia	**3.00% – 5.43%**	3.70% – 5.43%
Mainland China	**2.75% – 7.00%**	2.75% – 7.00%
Australia	**0.01% – 7.11%**	0.51% – 7.11%
Indonesia	**3.02% – 8.61%**	3.02% – 8.61%
Philippines	**2.20% – 9.20%**	2.20% – 9.20%
South Korea	**2.05% – 6.50%**	2.17% – 6.50%
Sri Lanka	**8.87% – 10.29%**	8.61% – 10.96%
Taiwan (China)	**1.75% – 6.50%**	1.75% – 6.50%
Vietnam	**5.53% – 11.48%**	5.53% – 11.48%

28. INVESTMENT CONTRACT LIABILITIES

US$m	Year ended 31 December 2020	Year ended 31 December 2019
At beginning of financial year	**12,273**	7,885
Investment contract benefits	**1,305**	992
Fees charged	**(88)**	(93)
Acquisition of subsidiaries	**–**	4,004
Net withdrawals and other movements	**(1,046)**	(603)
Foreign exchange movements	**437**	88
At end of financial year[(1)]	**12,881**	12,273

Note:

(1) Of investment contract liabilities, US$312m (2019: US$367m) represents deferred fee income. Movement of deferred fee income of US$55m (2019: US$62m) represents revenue recognised as a result of performance obligations satisfied during the year.

29. EFFECT OF CHANGES IN ASSUMPTIONS AND ESTIMATES

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

US$m	As at 31 December 2020	As at 31 December 2019
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	**140**	127
0.5 pps decrease in investment return	**(162)**	(143)
10% increase in expenses	**(63)**	(50)
10% increase in mortality rates	**(92)**	(80)
10% increase in lapse/discontinuance rates	**(76)**	(66)

Future policy benefits for the Group's majority traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of these traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group's traditional life products, except for a limited number of cases where statutory requirements are adopted in the applicable jurisdiction.

For interest sensitive insurance contracts, such as universal life products and unit-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US$166m (2019: US$38m) decrease in profit.

30. BORROWINGS

US$m	As at 31 December 2020	As at 31 December 2019
Medium-term notes and securities		
Senior notes	**6,824**	5,757
Subordinated securities	**1,735**	–
Total	**8,559**	5,757

Interest expense on borrowings is shown in note 11. Further information relating to interest rates and the maturity profile of borrowings is presented in note 38.

The following table summarises the Company's outstanding medium-term notes and securities placed to the market at 31 December 2020:

Senior notes

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
13 March 2013[(1)]	US$500m	3.125%	10 years	13 March 2023
11 March 2014[(1)]	US$500m	4.875%	30 years	11 March 2044
11 March 2015[(1)]	US$750m	3.200%	10 years	11 March 2025
16 March 2016[(1)]	US$750m	4.500%	30 years	16 March 2046
23 May 2017[(2)]	US$500m	4.470%	30 years	23 May 2047
6 April 2018[(1)]	US$500m	3.900%	10 years	6 April 2028
12 April 2018	HK$3,900m	2.760%	3 years	12 April 2021
20 September 2018[(1)]	US$500m	3M LIBOR + 0.52%	3 years	20 September 2021
16 January 2019	HK$1,300m	2.950%	3.5 years	16 July 2022
16 January 2019	HK$1,100m	3.680%	12 years	16 January 2031
9 April 2019[(1)]	US$1,000m	3.600%	10 years	9 April 2029
7 April 2020[(1)]	US$1,000m	3.375%	10 years	7 April 2030
24 June 2020	A$90m	2.950%	10 years	24 June 2030

Subordinated securities

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
16 September 2020[(1)(3)]	US$1,750m	3.200%	20 years	16 September 2040

Notes:

(1) These medium-term notes and securities are listed on The Stock Exchange of Hong Kong Limited.

(2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

(3) These medium-term securities are subordinated instruments of the Company. The Company has the right to redeem these securities in the event of a tax event, regulatory event or a minimal outstanding amount, or to conduct a make-whole redemption, subject to the satisfaction of the applicable redemption conditions.

The net proceeds from issuance during the year ended 31 December 2020 are used for general corporate purposes.

The Group has access to an aggregate of US$2,290m unsecured committed credit facilities, which includes a US$100m revolving three-year credit facility expiring in 2023 and a US$2,190m five-year credit facility expiring in 2025, both subject to certain extension options. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 31 December 2020 and 2019.

31. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

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

US$m	**As at 31 December 2020**	As at 31 December 2019
Debt securities – AFS		
Repurchase agreements	**1,444**	1,947
Debt securities – FVTPL		
Repurchase agreements	**232**	41
Total	**1,676**	1,988

Collateral

At 31 December 2020, the Group had pledged debt securities of US$1m (2019: nil). No cash collateral (2019: US$1m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

At 31 December 2020, the obligations under repurchase agreements were US$1,664m (2019: US$1,826m).

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Offsetting, enforceable master netting agreements and similar agreements

The following table shows the assets that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year end:

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position: Financial instruments	Related amounts not set off in the consolidated statement of financial position: Cash collateral received	Net amount
31 December 2020						
Financial assets:						
Derivative assets	**1,069**	**–**	**1,069**	**(17)**	**(500)**	**552**
Reverse repurchase agreements	**271**	**–**	**271**	**(271)**	**–**	**–**
Total	**1,340**	**–**	**1,340**	**(288)**	**(500)**	**552**

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position: Financial instruments	Related amounts not set off in the consolidated statement of financial position: Cash collateral received	Net amount
31 December 2019						
Financial assets:						
Derivative assets	971	–	971	(7)	(581)	383
Reverse repurchase agreements	265	–	265	(265)	–	–
Total	1,236	–	1,236	(272)	(581)	383

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Offsetting, enforceable master netting agreements and similar agreements (continued)

The following table shows the liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year end:

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2020						
Financial liabilities:						
Derivative liabilities	**1,003**	**–**	**1,003**	**(696)**	**(86)**	**221**
Repurchase agreements	**1,664**	**–**	**1,664**	**(1,664)**	**–**	**–**
Total	**2,667**	**–**	**2,667**	**(2,360)**	**(86)**	**221**

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2019						
Financial liabilities:						
Derivative liabilities	412	–	412	(266)	(37)	109
Repurchase agreements	1,826	–	1,826	(1,826)	–	–
Total	2,238	–	2,238	(2,092)	(37)	109

The Group entered into enforceable master netting agreements for derivative transactions, as well as the repurchase agreements for debt instruments with various counterparties. Except for certain futures contracts executed through clearing house mechanism where the settlement arrangement satisfied the IFRS netting criteria, the transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the IFRS netting criteria. The provision in the master netting agreement and similar agreements enables a party to terminate transactions early and settle at a net amount if a default or termination event occurs.

33. PROVISIONS

US$m	Employee benefits	Other	Total
At 1 January 2019	130	38	168
Charged to the consolidated income statement	13	34	47
Charged to other comprehensive income	25	–	25
Acquisition of subsidiaries	–	15	15
Exchange differences	9	1	10
Released during the year	–	(6)	(6)
Utilised during the year	(7)	(33)	(40)
Other movements	6	–	6
At 31 December 2019	**176**	**49**	**225**
Charged to the consolidated income statement	**14**	**36**	**50**
Charged to other comprehensive income	**10**	**–**	**10**
Exchange differences	**–**	**2**	**2**
Released during the year	**–**	**(13)**	**(13)**
Utilised during the year	**(5)**	**(39)**	**(44)**
At 31 December 2020	**195**	**35**	**230**

Other provisions

Other provisions comprise provisions in respect of regulatory matters, litigation, reorganisation and restructuring. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate, the Group is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

34. OTHER LIABILITIES

US$m	**As at 31 December 2020**	As at 31 December 2019
Trade and other payables	**4,850**	6,262
Lease liabilities	**502**	556
Third-party interests in consolidated investment funds	**1,025**	1,116
Reinsurance-related payables	**1,420**	1,483
Total	**7,797**	9,417

Third-party interests in consolidated investment funds consist of third-party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period. The realisation of third-party interests in investment funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third-party investors.

Reinsurance-related payables of US$563m (2019: US$573m) are expected to be settled more than 12 months after the end of the reporting period.

35. SHARE CAPITAL AND RESERVES

Share capital

	As at 31 December 2020		As at 31 December 2019	
	Million shares	US$m	Million shares	US$m
Ordinary shares[(1)], issued and fully paid				
At beginning of the financial year	**12,089**	**14,129**	12,077	14,073
Shares issued under share option scheme and agency share purchase plan	**6**	**26**	12	56
At end of the financial year	**12,095**	**14,155**	12,089	14,129

Note:

(1) Ordinary shares have no nominal value.

The Company issued 4,876,916 shares under share option scheme (2019: 10,552,614 shares) and 1,185,442 shares under agency share purchase plan (2019: 1,260,386 shares) during the year ended 31 December 2020.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2020 with the exception of 1,552,886 shares (2019: 3,127,664 shares) of the Company purchased by and nil share (2019: 911,718 shares) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the year ended 31 December 2020, 12,667,066 shares (2019: 15,525,163 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 31 December 2020, 28,748,261 shares (2019: 39,862,439 shares) of the Company were held by the employee share-based trusts.

Reserves

Fair value reserve

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

Foreign currency translation reserve

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

Employee share-based trusts

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

Property revaluation reserve

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

Other reserves

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

36. NON-CONTROLLING INTERESTS

US$m	As at 31 December 2020	As at 31 December 2019
Equity shares in subsidiaries	**69**	69
Share of earnings	**369**	374
Share of other reserves	**30**	5
Total	**468**	448

37. GROUP CAPITAL STRUCTURE

Capital Management Approach

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely and satisfying regulatory capital requirements at all times.

The Group's capital management function oversees all capital-related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining AIA's capacity to pay dividends to shareholders.

Regulatory Solvency

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

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

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

	31 December 2020			31 December 2019		
US$m	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	**9,780**	**2,000**	**489%**	11,856	3,272	362%
AIA International	**9,382**	**3,122**	**301%**	9,280	2,443	380%

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

37. GROUP CAPITAL STRUCTURE (continued)

Group-wide Supervision Framework

In addition to the HKIO requirements for AIA Co. and AIA International, the HKIA has been developing a Group-wide Supervision (GWS) framework to align with international standards to supervise Hong Kong domiciled Internationally Active Insurance Groups (IAIGs). Legislation setting out the GWS framework was enacted on 17 July 2020. On 31 December 2020, the Government gazetted the commencement date of the legislation to be on 29 March 2021. In addition, the Insurance (Group Capital) Rules (Group Capital Rules) were tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. Under the Group Capital Rules, the GWS framework will be based on a "Summation Approach". The Group's available capital and minimum required capital will be calculated based on summing up of the available capital and required capital according to the regulatory requirements for each relevant regulated entity within the Group, also known as Group Local Capital Summation Method (LCSM).

Upon the effective date of the GWS framework, the Group will apply the LCSM to determine the group-level regulatory capital position and will disclose it in its financial statements for the six months ending 30 June 2021 and going forward. Following the new disclosure of the Group's regulatory capital position in the Group's consolidated financial statements, the solvency ratio disclosure for AIA Co. and AIA International will no longer be published in the Group's consolidated financial statements. AIA Co. and AIA International will continue to disclose their solvency ratios in their respective financial statements, and will submit annual filings to the HKIA of their solvency margin positions based on their annual audited financial statements.

Local Regulatory Solvency

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

Dividends, remittances and other payments from individual branches and subsidiaries

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends, remittances and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends, remittances and other payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group.

37. GROUP CAPITAL STRUCTURE (continued)

Capital and Regulatory Orders Specific to the Group

As of 31 December 2020, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

Hong Kong Insurance Authority

AIA Group Limited has given to the HKIA an undertaking that AIA Group Limited will:

(i) ensure that (a) each of AIA Co. and AIA International will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong ("minimum amount"); (b) it will not withdraw capital or transfer any funds or assets out of AIA Co. or AIA International that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; and (c) should the solvency ratio of either AIA Co. or AIA International fall below the respective minimum amounts, AIA Group Limited will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the HKIA;

(ii) notify the HKIA in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;

(iii) be subject to the supervision of the HKIA and AIA Group Limited will be required to continually comply with the HKIA's guidance on the "fit and proper" standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Group's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Group's corporate governance; the soundness of the Group's risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and

(iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidelines issued by the HKIA from time to time.

38. RISK MANAGEMENT

Risk management framework

AIA recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the Group. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

Insurance risk

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

Lapse

Lapse risk is the risk policies lapse, on average, earlier than assumed in the pricing or reserving assumptions.

Ensuring customers buy products that meet their needs is central to the Group's Operating Philosophy. Through effective implementation of the Business Quality Framework, comprehensive sales training programmes and active monitoring of sales activities and persistency, the Group seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers' needs.

Expense

Expense risk is the risk of greater than expected trends in, or sudden shocks to, the amount or timing of expenses incurred by the business.

Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Group's very substantial experience within the markets in which we operate.

Morbidity and Mortality

Morbidity and mortality risk is the risk that the incidence and/or amounts of medical/death claims are higher than the assumptions made in pricing and/or reserving.

The Group adheres to well-defined market-oriented underwriting and claims guidelines and practices that have been developed based on extensive historical experience and with the assistance of professional reinsurers.

The Group's actuarial teams conduct regular experience studies of all the insurance risk factors in its in-force book. These internal studies together with external data are used to identify emerging trends which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Group seeks to anticipate and respond promptly to potential adverse experience impacts on its products.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters.

38. RISK MANAGEMENT (continued)

Investment and financial risks

Credit risk

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

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

Interest rate risk

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

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

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2020				
Financial assets				
Loans and deposits	**1,020**	**7,421**	**894**	**9,335**
Other receivables	**69**	**1**	**2,636**	**2,706**
Debt securities	**10,735**	**191,146**	**–**	**201,881**
Equity securities	**–**	**–**	**59,182**	**59,182**
Reinsurance receivables	**–**	**–**	**671**	**671**
Accrued investment income	**–**	**–**	**1,822**	**1,822**
Cash and cash equivalents	**4,071**	**–**	**1,548**	**5,619**
Derivative financial instruments	**–**	**–**	**1,069**	**1,069**
Total financial assets	**15,895**	**198,568**	**67,822**	**282,285**
Financial liabilities				
Investment contract liabilities	**–**	**–**	**12,569**	**12,569**
Borrowings	**500**	**8,059**	**–**	**8,559**
Obligations under repurchase agreements	**1,664**	**–**	**–**	**1,664**
Other liabilities	**409**	**503**	**6,885**	**7,797**
Derivative financial instruments	**–**	**–**	**1,003**	**1,003**
Total financial liabilities	**2,573**	**8,562**	**20,457**	**31,592**

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Exposure to interest rate risk (continued)

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2019				
Financial assets				
Loans and deposits	1,042	8,238	806	10,086
Other receivables	2	1	2,677	2,680
Debt securities	8,229	163,755	–	171,984
Equity securities	–	–	50,322	50,322
Reinsurance receivables	–	–	683	683
Accrued investment income	–	–	1,710	1,710
Cash and cash equivalents	3,639	–	302	3,941
Derivative financial instruments	–	–	971	971
Total financial assets	12,912	171,994	57,471	242,377
Financial liabilities				
Investment contract liabilities	–	–	11,906	11,906
Borrowings	500	5,257	–	5,757
Obligations under repurchase agreements	1,826	–	–	1,826
Other liabilities	682	141	8,594	9,417
Derivative financial instruments	–	–	412	412
Total financial liabilities	3,008	5,398	20,912	29,318

Equity price risk

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

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

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 29. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholder participation ratios described in note 2.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

	31 December 2020			31 December 2019 – As adjusted		
US$m	**Impact on profit before tax**	**Impact on total equity (before the effects of taxation)**	**Impact on allocated equity (before the effects of taxation)**	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
Equity price risk						
10 per cent increase in equity prices	**1,091**	**1,091**	**1,091**	1,050	1,050	1,050
10 per cent decrease in equity prices	**(1,091)**	**(1,091)**	**(1,091)**	(1,050)	(1,050)	(1,050)
Interest rate risk						
+ 50 basis points shift in yield curves	**(550)**	**(8,403)**	**(550)**	(289)	(7,026)	(289)
– 50 basis points shift in yield curves	**584**	**9,356**	**584**	312	7,869	312

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

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

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

Foreign exchange rate net exposure

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

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2019 – As adjusted						
Equity analysed by original currency	29,978	3,483	6,703	(2,604)	2,312	4,612
Net positions of currency derivatives	(8,371)	592	3,349	3,274	(123)	(629)
Currency exposure	21,607	4,075	10,052	670	2,189	3,983
5% strengthening of original currency						
Impact on profit before tax	152	(2)	(17)	11	(8)	(25)
Impact on other comprehensive income	(180)	151	519	23	118	224
Impact on total equity	(28)	149	502	34	110	199
5% strengthening of the US dollar						
Impact on profit before tax	152	46	20	4	9	26
Impact on other comprehensive income	(180)	(195)	(522)	(38)	(119)	(225)
Impact on total equity	(28)	(149)	(502)	(34)	(110)	(199)

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk

The liquidity principle adopted by the Group Board is "*We will maintain sufficient liquidity to meet our expected financial commitments as they fall due*" and as such AIA has defined liquidity risk as the risk of failure to meet current and future financial commitments as they fall due. This incorporates the risks arising from the timing mismatch of cash inflows and outflows in day-to-day operations, including collateral requirements, as well as the market liquidity of assets required for policyholder liabilities.

AIA manages liquidity risk in accordance with the Group's liquidity framework. This framework contains the standards, procedures, and tools used by the Group to monitor and manage liquidity risk in base and stressed conditions across multiple time horizons from daily to twelve months. AIA further supports its liquidity by maintaining access to committed credit facilities, use of bond repurchase markets and debt markets via the Group's Global Medium-term Note and Securities Programme.

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity[(2)]
31 December 2020						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	**8,940**	**1,997**	**1,013**	**580**	**1,793**	**3,557**
Other receivables	**2,574**	**2,477**	**50**	**13**	**–**	**34**
Debt securities	**195,478**	**3,973**	**21,353**	**31,072**	**139,080**	**–**
Equity securities	**30,950**	**–**	**–**	**–**	**–**	**30,950**
Reinsurance receivables	**671**	**671**	**–**	**–**	**–**	**–**
Accrued investment income	**1,757**	**1,756**	**1**	**–**	**–**	**–**
Cash and cash equivalents	**4,400**	**4,400**	**–**	**–**	**–**	**–**
Derivative financial instruments	**1,016**	**189**	**189**	**249**	**389**	**–**
Subtotal	**245,786**	**15,463**	**22,606**	**31,914**	**141,262**	**34,541**
Financial assets (Unit-linked contracts and consolidated investment funds)	**36,499**	**–**	**–**	**–**	**–**	**36,499**[(3)]
Total	**282,285**	**15,463**	**22,606**	**31,914**	**141,262**	**71,040**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	**169,477**	**4,316**	**15,559**	**17,309**	**132,293**	**–**
Borrowings	**8,559**	**1,002**	**1,414**[(1)]	**2,548**	**3,595**	**–**
Obligations under repurchase agreements	**1,664**	**1,664**	**–**	**–**	**–**	**–**
Other liabilities excluding lease liabilities	**4,025**	**2,305**	**240**	**150**	**171**	**1,159**
Lease liabilities	**539**	**177**	**325**	**35**	**2**	**–**
Derivative financial instruments	**991**	**135**	**534**	**109**	**213**	**–**
Subtotal	**185,255**	**9,599**	**18,072**	**20,151**	**136,274**	**1,159**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	**35,125**	**–**	**–**	**–**	**–**	**35,125**
Total	**220,380**	**9,599**	**18,072**	**20,151**	**136,274**	**36,284**

Note:

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

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk (continued)

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity(2)
31 December 2019 – As adjusted						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	9,383	2,657	1,048	594	1,828	3,256
Other receivables	2,598	2,488	75	7	–	28
Debt securities	166,118	2,849	19,404	31,219	112,646	–
Equity securities	26,221	–	–	–	–	26,221
Reinsurance receivables	683	683	–	–	–	–
Accrued investment income	1,644	1,635	–	–	–	9
Cash and cash equivalents	3,189	3,189	–	–	–	–
Derivative financial instruments	937	167	189	196	385	–
Subtotal	210,773	13,668	20,716	32,016	114,859	29,514
Financial assets (Unit-linked contracts and consolidated investment funds)	31,604	–	–	–	–	31,604(3)
Total	242,377	13,668	20,716	32,016	114,859	61,118
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	144,801	3,297	12,025	13,676	115,803	–
Borrowings	5,757	–	1,665(4)	2,233	1,859	–
Obligations under repurchase agreements	1,826	1,826	–	–	–	–
Other liabilities excluding lease liabilities	7,716	5,868	234	162	229	1,223
Lease liabilities	605	178	368	55	4	–
Derivative financial instruments	397	40	165	79	113	–
Subtotal	161,102	11,209	14,457	16,205	118,008	1,223
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	31,098	–	–	–	–	31,098
Total	192,200	11,209	14,457	16,205	118,008	32,321

Notes:

(2) Financial assets with no fixed maturity are equities or receivables on demand which the Group has the choice to call. Similarly, financial liabilities with no fixed maturity are payable on demand as the counterparty has a choice of when the amount is paid.

(3) The total value of amounts within financial assets (Unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds). Included within financial assets (Unit-linked contracts and consolidated investment funds) are debt securities of US$433m (2019: US$668m) due in one year or less, US$2,622m (2019: US$2,392m) due after 1 year through 5 years, US$1,934m (2019: US$1,792m) due after 5 years through 10 years and US$1,414m (2019: US$1,014m) due after 10 years, in accordance with the contractual terms of the financial investments.

(4) Including US$665m which fall due after 2 years through 5 years.

39. EMPLOYEE BENEFITS

Defined benefit plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Indonesia, South Korea, the Philippines, Sri Lanka, Taiwan (China) and Vietnam. The latest independent actuarial valuation of the plans was at 31 December 2020 and was prepared by credentialed actuaries of Towers Watson Hong Kong Limited. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 39 per cent (2019: 40 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US$96m (2019: US$88m). The total expenses relating to these plans recognised in the consolidated income statement was US$14m (2019: US$13m).

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was US$93m (2019: US$90m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 22 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

40. SHARE-BASED COMPENSATION

Share-based compensation plans

During the year ended 31 December 2020, the Group made further grants of share options (SOs), restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (2010 SO Scheme) and the Restricted Share Unit Scheme (2010 RSU Scheme) and the Employee Share Purchase Plan (2011 ESPP). In addition, the Group made further grants of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

Due to the expiry of the 2010 SO Scheme in 2020, the Company has sought and obtained the approval from its shareholders at the annual general meeting of the Company held on 29 May 2020 (2020 AGM) for the termination of the 2010 SO Scheme and the adoption of a new share option scheme (2020 SO Scheme), each as of 29 May 2020. The 2020 SO Scheme is effective for a period of 10 years from the date of adoption. Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme, no further SOs can be granted thereunder. However, the 2010 SO Scheme shall remain in full force and effect for all SOs granted prior to its termination, and the exercise of such SOs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 SO Scheme and the Listing Rules.

In addition, the Company has adopted a new restricted share unit scheme (2020 RSU Scheme) and a new employee share purchase plan (2020 ESPP) on 1 August 2020, in place of the 2010 RSU Scheme and 2011 ESPP, which were terminated with effect from 31 July 2020 and 31 October 2020 respectively. Both the 2020 RSU Scheme and 2020 ESPP are also effective for a period of 10 years from the date of adoption. Following the termination of the 2010 RSU Scheme and the 2011 ESPP, no further RSUs or RSPUs can be granted thereunder. However, the 2010 RSU Scheme and the 2011 ESPP shall remain in full force and effect for all RSUs and RSPUs granted prior to their terminations, and the vesting of such RSUs and RSPUs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 RSU Scheme and 2011 ESPP respectively.

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

RSU Schemes

Under the 2010 and 2020 RSU Schemes, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. Restricted share unit (RSU) grants are vested either entirely after a specific period of time or in tranches over the vesting period during which, the eligible participants are required to remain in employment with the Group. For RSU grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting period. For most RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the granted RSUs are expected to be settled in equity. The total number of shares that can be granted under this scheme is 302,264,978 (2019: 301,100,000), representing 2.5 per cent of the number of shares in issue on the reference date, being the 2020 AGM date.

	Year ended 31 December 2020	Year ended 31 December 2019
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial year	**32,733,981**	37,801,324
Granted	**13,451,940**	10,672,622
Forfeited	**(2,836,395)**	(2,202,873)
Vested	**(11,562,459)**	(13,537,092)
Outstanding at end of financial year	**31,787,067**	32,733,981

SO Schemes

The objectives of the 2010 and 2020 SO Schemes are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which the eligible participants are required to remain in employment with the Group. For SO grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting periods. The granted SOs expire 10 years from the date of grant and each SO entitles the eligible participant to subscribe for one ordinary share. Subject to restrictions in the applicable laws, regulations and rules of the relevant jurisdictions, the granted SOs are expected to be settled in equity. The total number of shares under options that can be granted under this scheme is 302,264,978 (2019: 301,100,000), representing 2.5 per cent of the number of shares in issue on the date of adoption.

Information about SOs outstanding and SOs exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options	Weighted average exercise price (HK$)	Number of share options	Weighted average exercise price (HK$)
Share options				
Outstanding at beginning of financial year	**23,798,042**	**53.86**	30,403,944	46.22
Granted	**5,856,668**	**68.10**	4,412,153	76.42
Exercised	**(4,876,916)**	**40.01**	(10,552,614)	40.71
Forfeited or expired	**(1,073,985)**	**69.34**	(465,441)	66.45
Outstanding at end of financial year	**23,703,809**	**59.53**	23,798,042	53.86
Share options exercisable at end of financial year	**10,115,925**	**45.22**	9,119,636	37.93

At the respective dates on which the SOs were exercised, the weighted average share price of the Company was HK$80.73 for the year ended 31 December 2020 (2019: HK$78.65).

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

SO Schemes (continued)

The range of exercise prices for the SOs outstanding as of 31 December 2020 and 2019 is summarised in the table below.

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK\$26 – HK\$35	**1,542,961**	**1.30**	3,167,121	2.27
HK\$36 – HK\$45	**2,633,722**	**4.57**	4,436,084	5.42
HK\$46 – HK\$55	**5,108,806**	**5.60**	6,387,390	6.71
HK\$56 – HK\$65	**830,436**	**6.58**	1,336,469	7.72
HK\$66 – HK\$75	**9,759,038**	**8.42**	4,221,746	8.20
HK\$76 – HK\$85	**3,828,846**	**8.24**	4,249,232	9.24
Outstanding at end of financial year	**23,703,809**	**6.83**	23,798,042	6.65

ESPP

Under the 2011 and 2020 ESPPs, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will grant one matching restricted stock purchase unit (RSPU) to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the relevant vesting period, the eligible employees must hold the contribution shares purchased and remain employed by the Group in order to qualify to receive the matching shares upon the vesting of the matching RSPUs. The granted matching RSPUs are expected to be settled in equity. Under the 2010 ESPP, the level of qualified employee contribution was subject to a maximum amount equal to 8 per cent of the monthly base salary or HK\$9,750 (or local currency equivalent) per month, whichever is lower. Under the 2020 ESPP, the level of qualified employee contribution is subject to a maximum amount equal to 10 per cent of the monthly base salary or HK\$12,500 (or local currency equivalent) per month, whichever is lower. For the year ended 31 December 2020, eligible employees paid US\$32m (2019: US\$27m) to purchase 3,126,641 ordinary shares (2019: 2,640,834 ordinary shares) of the Company under the 2011 ESPP and 2020 ESPP.

ASPP

The structure of the ASPP generally follows that of the ESPP, the key difference being that the eligible agents are required to pay a subscription price of US\$1 to subscribe for each new share in the Company at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will grant one matching restricted stock subscription unit (RSSU) to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each RSSU entitles eligible agents to subscribe for one new share of the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased and maintain their agent contracts with the Group in order to qualify to receive the matching shares upon the vesting of the matching RSSUs. The granted matching RSSUs are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum amount of US\$15,000 per annum. For the year ended 31 December 2020, eligible agents paid US\$24m (2019: US\$25m) to purchase 2,411,360 ordinary shares (2019: 2,501,196 ordinary shares) of the Company.

40. SHARE-BASED COMPENSATION (continued)

Valuation methodology

The Group utilises a binomial lattice model to calculate the fair value of the SO grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, RSPU and RSSU grants, taking into account the terms and conditions upon which the grants were made. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange. The expected life of the SOs is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. An allowance for forfeiture prior to vesting is not included in the valuation of the grants.

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

	Year ended 31 December 2020			
	Share options	**Restricted share units**	**ESPP Restricted stock purchase units**	**ASPP Restricted stock subscription units**
Assumptions				
Risk-free interest rate	**0.85%**	**0.31% – 0.78%***	**0.09% – 1.68%**	**0.87%**
Volatility	**24%**	**24%**	**n/a**	**n/a**
Dividend yield	**1.60%**	**1.60%**	**1.60%**	**1.60%**
Exercise price (HK$)	**68.10**	**n/a**	**n/a**	**n/a**
Share option life (in years)	**10**	**n/a**	**n/a**	**n/a**
Expected life (in years)	**7.84**	**n/a**	**n/a**	**n/a**
Weighted average fair value per option/unit at measurement date (HK$)	**15.51**	**63.20**	**79.07**	**59.48**

	Year ended 31 December 2019			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.44% – 1.59%	1.36% – 1.67%*	1.44% – 1.76%	1.59%
Volatility	20%	20%	n/a	n/a
Dividend yield	1.50%	1.50% – 1.60%	1.50% – 1.60%	1.50%
Exercise price (HK$)	76.38 – 78.70	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.97	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK$)	15.55	67.32	75.36	65.08

* Applicable to RSU with market conditions.

The weighted average share price for SO valuation for grants made during the year ended 31 December 2020 is HK$68.10 (2019: HK$76.37). The total fair value of SO granted during the year ended 31 December 2020 is US$12m (2019: US$9m).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation grants made by the Group for the year ended 31 December 2020 is US$80m (2019: US$88m).

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directors' remuneration

The Executive Director receives compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long-term incentives represent the variable components in the Executive Director's compensation and are linked to the performance of the Group and the Executive Director. Details of share-based payment schemes are described in note 40.

US$	Director's fees	Salaries, allowances and benefits in kind(1)	Bonuses	Share-based payments(2)	Pension scheme contributions	Other benefits(3)	Other payments(4)	Total
Year ended 31 December 2020								
Executive Directors								
Mr. Ng Keng Hooi(5)	**–**	**688,987**	**2,839,400**	**7,631,345**	**40,933**	**112,203**	**–**	**11,312,868**
Mr. Lee Yuan Siong(6)	**–**	**1,428,337**	**3,960,000**	**1,493,396**	**56,271**	**–**	**10,892,303**	**17,830,307**
Total	**–**	**2,117,324**	**6,799,400**	**9,124,741**	**97,204**	**112,203**	**10,892,303**	**29,143,175**

US$	Director's fees	Salaries, allowances and benefits in kind(1)	Bonuses	Share-based payments(2)	Pension scheme contributions	Other benefits(3)	Other payments	Total
Year ended 31 December 2019								
Executive Director								
Mr. Ng Keng Hooi(5)	–	1,617,677	3,267,000	4,816,710	96,476	697,485	–	10,495,348
Total	–	1,617,677	3,267,000	4,816,710	96,476	697,485	–	10,495,348

Notes:

(1) Includes non-cash benefits for housing, medical and life insurance, club and professional membership, company car and perquisites.

(2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP based on the fair value at the respective grant dates.

(3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay. Other benefits for the year ended 31 December 2019 include a tax reimbursement to relief double taxation in Singapore and Hong Kong.

(4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.

(5) Mr. Ng Keng Hooi's remuneration includes compensation and benefits up to his retirement as Group Chief Executive and President and Director effective 31 May 2020, with the bonus for the year ended 31 December 2020 to be paid on full-year basis and subject to actual performance assessments.

(6) Mr. Lee Yuan Siong is currently the Group Chief Executive and President of the Company. He receives his remuneration exclusively for his role as Group Chief Executive and President of the Company and receives no separate fees for his role as a director of the Company or for acting as a director of any subsidiary of the Company.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

The remuneration of Independent Non-executive Directors of the Company at 31 December 2020 and 2019 are included in the tables below:

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Other payments	Total
Year ended 31 December 2020								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	**685,000**	**143,315**	**–**	**–**	**–**	**–**	**–**	**828,315**
Mr. Jack Chak-Kwong So	**268,000**	**–**	**–**	**–**	**–**	**–**	**–**	**268,000**
Mr. Chung-Kong Chow	**228,000**	**–**	**–**	**–**	**–**	**–**	**–**	**228,000**
Mr. John Barrie Harrison	**268,000**	**–**	**–**	**–**	**–**	**–**	**–**	**268,000**
Mr. George Yong-Boon Yeo	**253,000**	**–**	**–**	**–**	**–**	**–**	**–**	**253,000**
Mr. Mohamed Azman Yahya[3]	**87,295**	**–**	**–**	**–**	**–**	**–**	**–**	**87,295**
Professor Lawrence Juen-Yee Lau	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Ms. Swee-Lian Teo	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Dr. Narongchai Akrasanee[4]	**281,333**	**–**	**–**	**–**	**–**	**–**	**–**	**281,333**
Mr. Cesar Velasquez Purisima	**183,000**	**–**	**–**	**–**	**–**	**–**	**–**	**183,000**
Total	**2,679,628**	**143,315**	**–**	**–**	**–**	**–**	**–**	**2,822,943**

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Other payments	Total
Year ended 31 December 2019								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	627,500	149,080	–	–	–	–	–	776,580
Mr. Jack Chak-Kwong So	268,000	–	–	–	–	–	–	268,000
Mr. Chung-Kong Chow	228,000	–	–	–	–	–	–	228,000
Mr. John Barrie Harrison	268,000	–	–	–	–	–	–	268,000
Mr. George Yong-Boon Yeo	253,000	–	–	–	–	–	–	253,000
Mr. Mohamed Azman Yahya[3]	213,000	–	–	–	–	–	–	213,000
Professor Lawrence Juen-Yee Lau	213,000	–	–	–	–	–	–	213,000
Ms. Swee-Lian Teo	213,000	–	–	–	–	–	–	213,000
Dr. Narongchai Akrasanee[4]	273,000	–	–	–	–	–	–	273,000
Mr. Cesar Velasquez Purisima	183,000	–	–	–	–	–	–	183,000
Total	2,739,500	149,080	–	–	–	–	–	2,888,580

Notes:

(1) Save as disclosed below, all Directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.

(2) Includes non-cash benefits for housing, club and professional membership, medical insurance and company car.

(3) Mr. Mohamed Azman Yahya retired as an Independent Non-executive Director of the Company with effect from 30 May 2020.

(4) US$58,333 and US$50,000 which represented remuneration to Dr. Narongchai Akrasanee in respect of his services as Chairman of Advisory Board of AIA Thailand for the year ended 31 December 2020 and 2019 respectively are included in his fees stated above.

Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in each of the year ended 31 December 2020 and 2019 is presented in the table below.

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contributions	Other benefits[3]	Other payments[4]	Total
Year ended 31 December 2020	**–**	**5,367,242**	**9,502,800**	**15,162,153**	**303,157**	**112,203**	**10,892,303**	**41,339,858**
Year ended 31 December 2019	–	5,806,998	5,878,400	10,892,582	313,044	765,257	–	23,656,281

Notes:

(1) 2020 and 2019 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.

(2) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the five highest-paid individuals based on the fair value at the respective grant dates.

(3) Other benefits for the year ended 31 December 2020 include retirement bonus, long-service payment and annual leave pay. Other benefits for the year ended 31 December 2019 include relief of double taxation arrangement.

(4) This represents amortised expenses in relation to the awarded compensation for unvested long-term incentives and deferred payments that Mr. Lee Yuan Siong forfeited on leaving his prior employments.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Remuneration of five highest-paid individuals (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK$	Year ended 31 December 2020	Year ended 31 December 2019
23,500,001 to 24,000,000	–	1
25,000,001 to 25,500,000	–	1
26,500,001 to 27,000,000	–	1
27,500,001 to 28,000,000	–	1
28,500,001 to 29,000,000	1	–
30,500,001 to 31,000,000	1	–
35,000,001 to 35,500,000	1	–
82,000,001 to 82,500,000	–	1
87,500,001 to 88,000,000	1	–
138,000,001 to 138,500,000	1	–

Key management personnel remuneration

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

US$	Year ended 31 December 2020	Year ended 31 December 2019
Key management compensation and other expenses		
Salaries and other short-term employee benefits	**30,844,469**	23,633,256
Post-employment benefits	**1,118,468**	1,422,732
Share-based payments(1)	**28,808,491**	16,552,154
Termination benefits	**1,707,434**	618,081
Total	**62,478,862**	42,226,223

Note:

(1) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the key management personnel based on the fair value at the respective grant dates.

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

US$	Year ended 31 December 2020	Year ended 31 December 2019
Below 1,000,000	1	2
1,000,001 to 2,000,000	–	4
2,000,001 to 3,000,000	6	4
3,000,001 to 4,000,000	4	4
4,000,001 to 5,000,000	1	–
Over 10,000,000	2	1

42. RELATED PARTY TRANSACTIONS

Remuneration of Directors and key management personnel is disclosed in note 41.

43. COMMITMENTS AND CONTINGENCIES

Investment and capital commitments

US$m	As at 31 December 2020	As at 31 December 2019
Not later than one year	**2,504**	1,911
Later than one and not later than five years	**174**	8
Later than five years	**16**	–
Total	**2,694**	1,919

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

Contingencies

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies, claims and taxes. The Group believes that these matters are adequately provided for in these financial statements.

The Group operates in many jurisdictions across Asia and in certain of those jurisdictions, the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities, which can result in disputes arising. The Group has made provisions to cover the potential tax implications, based on management's judgement and best estimate in relation to the probability or likelihood of the potential outcomes, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US$479m at 31 December 2020 (2019: US$462m). The liabilities and related reinsurance assets, which totalled US$3m (2019: US$6m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

44. SUBSIDIARIES

The principal subsidiary companies which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 31 December 2020 Group's interest %	As at 31 December 2020 NCI's interest %	As at 31 December 2019 Group's interest %	As at 31 December 2019 NCI's interest %
AIA Company Limited[1]	Hong Kong	Insurance	2,596,049,861 ordinary shares of US$7,407,084,182 issued share capital	**100%**	**–**	100%	–
AIA International Limited	Bermuda	Insurance	3,000,000 ordinary shares of US$1.20 each	**100%**	**–**	100%	–
AIA Australia Limited	Australia	Insurance	2,025,462,500 ordinary shares of A$2,107,267,000 issued share capital	**100%**	**–**	100%	–
AIA Bhd.	Malaysia	Insurance	191,859,543 ordinary shares of RM810,000,000 issued share capital	**100%**	**–**	100%	–
AIA Singapore Private Limited	Singapore	Insurance	1,558,021,163 ordinary shares of S$1 each	**100%**	**–**	100%	–
PT. AIA Financial	Indonesia	Insurance	1,910,844,141 ordinary shares of Rp1,000 each	**100%**	**–**	100%	–
The Philippine American Life and General Insurance (PHILAM LIFE) Company	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	**100%**	**–**	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND3,224,420,000,000	**100%**	**–**	100%	–
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US$1 each	**90%**	**10%**	90%	10%
BPI-Philam Life Assurance (BPLAC) Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	**51%**	**49%**	51%	49%
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US$1 each	**100%**	**–**	100%	–
AIA Life Insurance Co. Ltd.	South Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	**100%**	**–**	100%	–
AIA New Zealand Limited	New Zealand	Insurance	246,543,729 ordinary shares of NZD856,310,811 issued share capital	**100%**	**–**	100%	–
The Colonial Mutual Life Assurance Society Limited[3]	Australia	Insurance	1,608,901,100 ordinary shares of A$897,901,100 issued share capital	**Note 3**	**Note 3**	Note 3	Note 3
AIA Life Insurance Company Limited	Mainland China	Insurance	Registered share capital of RMB3,777,399,440	**100%**	**–**	–	–

Notes:

(1) The Company's subsidiary.

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

(3) The Group has not legally acquired the voting equity of this entity but has entered into a contractual joint cooperation agreement under which it exercises control over it with the exception of a stake in BoCommLife Insurance Company Limited. No non-controlling interest is recorded in relation to this subsidiary during the year ended 31 December 2020 and 2019.

All subsidiaries are unlisted.

45. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2021, a Committee appointed by the Board of Directors proposed a final dividend of 100.30 Hong Kong cents per share (2019: final dividend of 93.30 Hong Kong cents per share).

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US$m	As at 31 December 2020	As at 31 December 2019
Assets		
Investment in subsidiaries	**17,341**	17,476
Financial investments:		
At fair value through other comprehensive income		
Debt securities[(2)]	**9,871**	7,374
At fair value through profit or loss		
Debt securities	**37**	12
Equity securities	**227**	87
	10,135	7,473
Loans to/amounts due from subsidiaries	**1,904**	1,918
Other assets	**78**	235
Promissory notes from subsidiaries[(3)]	**1,844**	997
Cash and cash equivalents	**409**	160
Total assets	**31,711**	28,259
Liabilities		
Borrowings	**9,152**	6,351
Derivative financial instruments	**12**	27
Other liabilities	**92**	238
Total liabilities	**9,256**	6,616
Equity		
Share capital	**14,155**	14,129
Employee share-based trusts	**(155)**	(220)
Other reserves	**259**	260
Retained earnings	**7,360**	7,079
Amounts reflected in other comprehensive income	**836**	395
Total equity	**22,455**	21,643
Total liabilities and equity	**31,711**	28,259

Notes:
(1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.
(2) Includes United States Treasury securities of US$3,372m as at 31 December 2020 (2019: US$2,561m).
(3) The promissory notes from subsidiaries are repayable on demand.

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

47. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2020	**14,129**	**(220)**	**260**	**7,079**	**395**	**21,643**
Net profit	**–**	**–**	**–**	**2,278**	**–**	**2,278**
Fair value gains on debt securities at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**549**	**549**
Fair value gains on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	**–**	**–**	**–**	**–**	**(108)**	**(108)**
Dividends	**–**	**–**	**–**	**(1,997)**	**–**	**(1,997)**
Shares issued under share option scheme and agency share purchase plan	**26**	**–**	**–**	**–**	**–**	**26**
Share-based compensation	**–**	**–**	**80**	**–**	**–**	**80**
Purchase of shares held by employee share-based trusts	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Transfer of vested shares from employee share-based trusts	**–**	**81**	**(81)**	**–**	**–**	**–**
Balance at 31 December 2020	**14,155**	**(155)**	**259**	**7,360**	**836**	**22,455**

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2019	14,073	(258)	231	6,488	(79)	20,455
Net profit	–	–	–	2,552	–	2,552
Fair value gains on debt securities at fair value through other comprehensive income	–	–	–	–	303	303
Fair value losses on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	–	–	–	–	171	171
Dividends	–	–	–	(1,961)	–	(1,961)
Shares issued under share option scheme and agency share purchase plan	56	–	–	–	–	56
Share-based compensation	–	–	88	–	–	88
Purchase of shares held by employee share-based trusts	–	(21)	–	–	–	(21)
Transfer of vested shares from employee share-based trusts	–	59	(59)	–	–	–
Balance at 31 December 2019	14,129	(220)	260	7,079	395	21,643

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES

For the year ended 31 December 2020, the Group has revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios. Other participating business with distinct portfolios refer to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. Prior to this change in accounting policy, the Group recognised and measured the insurance contract liabilities for this business based on the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. With effect from 1 January 2020, and applied retrospectively, the Group now recognises and measures the insurance contract liabilities for this business based on the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance contract liability is recorded for the proportion of the net assets of this other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation. This approach is consistent with the existing accounting for insurance contract liabilities arising from participating business. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time; the current policyholder participation ratio applied for recognition and measurement of the insurance contract liabilities for Hong Kong ranged from 70% to 90%.

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

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

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

(a) Consolidated Income Statement

US$m	Year ended 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	Year ended 31 December 2020 (As reported)
REVENUE			
Premiums and fee income	35,780	–	35,780
Premiums ceded to reinsurers	(2,452)	–	(2,452)
Net premiums and fee income	33,328	–	33,328
Investment return	16,707	–	16,707
Other operating revenue	324	–	324
Total revenue	50,359	–	50,359
EXPENSES			
Insurance and investment contract benefits	35,090	1,775	36,865
Insurance and investment contract benefits ceded	(2,126)	–	(2,126)
Net insurance and investment contract benefits	32,964	1,775	34,739
Commission and other acquisition expenses	4,402	–	4,402
Operating expenses	2,695	–	2,695
Finance costs	292	–	292
Other expenses	944	–	944
Total expenses	41,297	1,775	43,072
Profit/(losses) before share of losses from associates and joint ventures	9,062	(1,775)	7,287
Share of losses from associates and joint ventures	(17)	–	(17)
Profit/(losses) before tax	9,045	(1,775)	7,270
Income tax expense attributable to policyholders' returns	(171)	–	(171)
Profit/(losses) before tax attributable to shareholders' profits	8,874	(1,775)	7,099
Tax expense	(1,489)	(2)	(1,491)
Tax attributable to policyholders' returns	171	–	171
Tax expense attributable to shareholders' profits	(1,318)	(2)	(1,320)
Net profit/(losses)	7,556	(1,777)	5,779
Net profit/(losses) attributable to:			
Shareholders of AIA Group Limited	7,556	(1,777)	5,779
Non-controlling interests	–	–	–
EARNINGS PER SHARE (US$)			
Basic	0.63	(0.15)	0.48
Diluted	0.63	(0.15)	0.48

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(a) Consolidated Income Statement (continued)

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

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position

US$m	As at 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	As at 31 December 2020 (As reported)
ASSETS			
Intangible assets	2,634	–	2,634
Investments in associates and joint ventures	606	–	606
Property, plant and equipment	2,722	–	2,722
Investment property	4,639	–	4,639
Reinsurance assets	4,560	–	4,560
Deferred acquisition and origination costs	27,915	–	27,915
Financial investments:			
Loans and deposits	9,335	–	9,335
Available for sale			
Debt securities	165,106	–	165,106
At fair value through profit or loss			
Debt securities	36,775	–	36,775
Equity securities	59,182	–	59,182
Derivative financial instruments	1,069	–	1,069
	271,467	–	271,467
Deferred tax assets	23	–	23
Current tax recoverable	103	–	103
Other assets	5,833	–	5,833
Cash and cash equivalents	5,619	–	5,619
Total assets	326,121	–	326,121
LIABILITIES			
Insurance contract liabilities	215,454	7,617	223,071
Investment contract liabilities	12,881	–	12,881
Borrowings	8,559	–	8,559
Obligations under repurchase agreements	1,664	–	1,664
Derivative financial instruments	1,003	–	1,003
Provisions	230	–	230
Deferred tax liabilities	6,945	(43)	6,902
Current tax liabilities	346	–	346
Other liabilities	7,797	–	7,797
Total liabilities	254,879	7,574	262,453

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	As at 31 December 2020 (As reported)
EQUITY			
Share capital	14,155	–	14,155
Employee share-based trusts	(155)	–	(155)
Other reserves	(11,891)	–	(11,891)
Retained earnings	45,931	(1,227)	44,704
Fair value reserve	21,392	(6,222)	15,170
Foreign currency translation reserve	233	–	233
Property revaluation reserve	1,074	(47)	1,027
Others	35	(78)	(43)
Amounts reflected in other comprehensive income	22,734	(6,347)	16,387
Total equity attributable to:			
Shareholders of AIA Group Limited	70,774	(7,574)	63,200
Non-controlling interests	468	–	468
Total equity	71,242	(7,574)	63,668
Total liabilities and equity	326,121	–	326,121

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2019 (As adjusted)
ASSETS			
Intangible assets	2,520	–	2,520
Investments in associates and joint ventures	615	–	615
Property, plant and equipment	2,865	–	2,865
Investment property	4,834	–	4,834
Reinsurance assets	3,833	–	3,833
Deferred acquisition and origination costs	26,328	–	26,328
Financial investments:			
Loans and deposits	10,086	–	10,086
Available for sale			
Debt securities	138,852	–	138,852
At fair value through profit or loss			
Debt securities	33,132	–	33,132
Equity securities	50,322	–	50,322
Derivative financial instruments	971	–	971
	233,363	–	233,363
Deferred tax assets	23	–	23
Current tax recoverable	205	–	205
Other assets	5,605	–	5,605
Cash and cash equivalents	3,941	–	3,941
Total assets	284,132	–	284,132
LIABILITIES			
Insurance contract liabilities	189,597	2,584	192,181
Investment contract liabilities	12,273	–	12,273
Borrowings	5,757	–	5,757
Obligations under repurchase agreements	1,826	–	1,826
Derivative financial instruments	412	–	412
Provisions	225	–	225
Deferred tax liabilities	6,237	(23)	6,214
Current tax liabilities	432	–	432
Other liabilities	9,417	–	9,417
Total liabilities	226,176	2,561	228,737

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2019 (As adjusted)
EQUITY			
Share capital	14,129	–	14,129
Employee share-based trusts	(220)	–	(220)
Other reserves	(11,887)	–	(11,887)
Retained earnings	40,372	550	40,922
Fair value reserve	14,663	(2,994)	11,669
Foreign currency translation reserve	(698)	–	(698)
Property revaluation reserve	1,163	(90)	1,073
Others	(14)	(27)	(41)
Amounts reflected in other comprehensive income	15,114	(3,111)	12,003
Total equity attributable to:			
Shareholders of AIA Group Limited	57,508	(2,561)	54,947
Non-controlling interests	448	–	448
Total equity	57,956	(2,561)	55,395
Total liabilities and equity	284,132	–	284,132

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2018 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2018 (As adjusted)
ASSETS			
Intangible assets	1,970	–	1,970
Investments in associates and joint ventures	610	–	610
Property, plant and equipment	1,233	–	1,233
Investment property	4,794	–	4,794
Reinsurance assets	2,887	–	2,887
Deferred acquisition and origination costs	24,626	–	24,626
Financial investments:			
Loans and deposits	7,392	–	7,392
Available for sale			
Debt securities	112,485	–	112,485
At fair value through profit or loss			
Debt securities	27,736	–	27,736
Equity securities	38,099	–	38,099
Derivative financial instruments	430	–	430
	186,142	–	186,142
Deferred tax assets	26	–	26
Current tax recoverable	164	–	164
Other assets	4,903	–	4,903
Cash and cash equivalents	2,451	–	2,451
Total assets	229,806	–	229,806
LIABILITIES			
Insurance contract liabilities	164,764	(1,456)	163,308
Investment contract liabilities	7,885	–	7,885
Borrowings	4,954	–	4,954
Obligations under repurchase and securities lending agreements	1,683	–	1,683
Derivative financial instruments	243	–	243
Provisions	168	–	168
Deferred tax liabilities	4,187	6	4,193
Current tax liabilities	532	–	532
Other liabilities	5,984	–	5,984
Total liabilities	190,400	(1,450)	188,950

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2018 (As previously reported)	Retrospective adjustments for change in accounting policy	As at 31 December 2018 (As adjusted)
EQUITY			
Share capital	14,073	–	14,073
Employee share-based trusts	(258)	–	(258)
Other reserves	(11,910)	–	(11,910)
Retained earnings	35,661	1,219	36,880
Fair value reserve	2,211	247	2,458
Foreign currency translation reserve	(1,301)	–	(1,301)
Property revaluation reserve	538	(4)	534
Others	(8)	(12)	(20)
Amounts reflected in other comprehensive income	1,440	231	1,671
Total equity attributable to:			
Shareholders of AIA Group Limited	39,006	1,450	40,456
Non-controlling interests	400	–	400
Total equity	39,406	1,450	40,856
Total liabilities and equity	229,806	–	229,806

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

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

(c) Operating profit

US$m	Year ended 31 December 2020 (Before change in accounting policy)	Impact of change in accounting policy	Year ended 31 December 2020 (As reported)
Operating profit before tax	**6,830**	**116**	**6,946**
Tax on operating profit before tax	**(957)**	**(3)**	**(960)**
Operating profit after tax	**5,873**	**113**	**5,986**
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited	**5,829**	**113**	**5,942**
Non-controlling interests	**44**	**–**	**44**
Operating profit after tax per share (US cents)			
Basic	**48.33**	**0.94**	**49.27**
Diluted	**48.25**	**0.94**	**49.19**

US$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
Operating profit/(losses) before tax	6,816	(51)	6,765
Tax on operating profit/(losses) before tax	(1,030)	(1)	(1,031)
Operating profit/(losses) after tax	5,786	(52)	5,734
Operating profit/(losses) after tax attributable to:			
Shareholders of AIA Group Limited	5,741	(52)	5,689
Non-controlling interests	45	–	45
Operating profit/(losses) after tax per share (US cents)			
Basic	47.67	(0.43)	47.24
Diluted	47.56	(0.43)	47.13

48. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(c) Operating profit (continued)

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

US$m	Year ended 31 December 2019 (As previously reported)	Retrospective adjustments for change in accounting policy	Year ended 31 December 2019 (As adjusted)
Operating profit/(losses) after tax	5,786	(52)	5,734
Non-operating items, net of related changes in insurance and investment contract liabilities and taxes:			
Short-term fluctuations in investment return related to equities and real estate	937	(632)	305
Reclassification of revaluation gains for property held for own use	(170)	17	(153)
Corporate transaction related costs	(85)	–	(85)
Implementation costs for new accounting standards	(39)	–	(39)
Other non-operating investment return and other items	258	(2)	256
Subtotal[1]	901	(617)	284
Net profit/(losses)	6,687	(669)	6,018
Operating profit/(losses) after tax attributable to:			
Shareholders of AIA Group Limited	5,741	(52)	5,689
Non-controlling interests	45	–	45
Net profit/(losses) attributable to:			
Shareholders of AIA Group Limited	6,648	(669)	5,979
Non-controlling interests	39	–	39

Note:

(1) The adjusted amount is net of tax of nil (As previously reported: US$1m). The gross adjusted amount before tax is US$284m (As previously reported: US$900m).

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The Supplementary Embedded Value Information (the "EV Information") of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 192 to 217, which comprises:

- the consolidated EV results as at and for the year ended 31 December 2020;
- the sensitivity analysis as at and for the year then ended; and
- a summary of significant methodology and assumptions and other explanatory notes.

Our opinion

In our opinion, the EV Information of the Group as at and for the year ended 31 December 2020 is prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

Basis for Opinion

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

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

Independence

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

Emphasis of Matter – Basis of Preparation

We draw attention to Sections 4 and 5 of the EV Information, which describe the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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Other Matter

The Group has prepared a separate set of consolidated financial statements for the year ended 31 December 2020 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and International Financial Reporting Standards issued by the International Accounting Standards Board, on which we issued a separate auditor's report to the shareholders of the Company dated 12 March 2021.

Other Information

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

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

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

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

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Responsibilities of Directors and Those Charged with Governance for the EV Information

The Directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information and for such internal control as the Directors determine is necessary to enable the preparation of the EV Information that is free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the EV Information

Our objectives are to obtain reasonable assurance about whether the EV Information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this EV Information.

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

- Identify and assess the risks of material misstatement of the EV Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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Auditor's Responsibilities for the Audit of the EV Information (continued)

- Evaluate the appropriateness of the EV basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the EV Information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the EV Information of the entities or business activities within the Group to express an opinion on the EV Information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers

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Hong Kong

12 March 2021

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CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION

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

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

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

1. HIGHLIGHTS

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

The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company, after allowing for taxes. Prior to 2020, the Group reflected the impact of withholding tax under Group Corporate Centre. Starting from 2020, the segment information has been enhanced to present withholding tax under the appropriate operating segment. More details on the EV results, methodology and assumptions are covered in later sections of this report.

Unless otherwise stated, the growth rates provided in the commentaries are shown on a constant exchange rate (CER) basis.

Summary of Key Metrics[1] (US$ millions)

	As at 31 December 2020	As at 31 December 2019	Change CER	Change AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	**67,185**	63,905	3%	5%
Embedded value (EV)	**65,247**	61,985	3%	5%
Adjusted net worth (ANW)	**28,503**	28,241	(1)%	1%
Value of in-force business (VIF)	**36,744**	33,744	7%	9%
	Year ended 31 December 2020	**Year ended 31 December 2019**	**YoY CER**	**YoY AER**
Value of new business (VONB)	**2,765**	4,154	(33)%	(33)%
Annualised new premiums (ANP)	**5,219**	6,585	(20)%	(21)%
VONB margin	**52.6%**	62.9%	(10.4) pps	(10.3) pps
EV operating profit	**7,243**	8,685	(17)%	(17)%
Operating return on EV (Operating ROEV)	**11.7%**	15.9%	(4.1) pps	(4.2) pps
Underlying free surplus generation (UFSG)	**5,843**	5,501	7%	6%

Note:

(1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

The EV as at 31 December 2020 is presented consistently with the segment information in the IFRS consolidated financial statements.

Summary of EV by Business Unit (US$ millions)

	As at 31 December 2020				
Business Unit	ANW[2]	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	7,735	17,319	2,159	15,160	**22,895**
AIA Thailand	3,008	5,145	1,096	4,049	**7,057**
AIA Singapore	2,984	4,416	814	3,602	**6,586**
AIA Malaysia	1,293	2,084	233	1,851	**3,144**
AIA China	3,439	8,409	4	8,405	**11,844**
Other Markets	5,983	5,018	1,561	3,457	**9,440**
Group Corporate Centre	11,472	–	–	–	**11,472**
Subtotal	35,914	42,391	5,867	36,524	**72,438**
Adjustment to reflect consolidated reserving and capital requirements[3]	(7,064)	3,115	1,596	1,519	**(5,545)**
After-tax value of unallocated Group Office expenses	–	(1,138)	–	(1,138)	**(1,138)**
Total (before non-controlling interests)	28,850	44,368	7,463	36,905	**65,755**
Non-controlling interests	(347)	(173)	(12)	(161)	**(508)**
Total	**28,503**	**44,195**	**7,451**	**36,744**	**65,247**

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

Notes:

(1) In 2020, the Group enhanced the segment information to present withholding tax under the appropriate operating segment. The 2019 comparative information has been adjusted to conform to this presentation.

(2) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS consolidated financial statements.

(3) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

Derivation of the Consolidated ANW from IFRS Equity (US$ millions)

	As at 31 December 2020	As at 31 December 2019 (as adjusted)
IFRS equity attributable to shareholders of the Company	**63,200**	54,947
Elimination of IFRS deferred acquisition and origination costs assets	**(27,915)**	(26,328)
Difference between IFRS policy liabilities and local statutory policy liabilities	**(937)**	5,949
Difference between net IFRS policy liabilities and local statutory policy liabilities	**(28,852)**	(20,379)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	**(3)**	–
Elimination of intangible assets	**(2,634)**	(2,520)
Recognition of deferred tax impacts of the above adjustments	**3,735**	3,008
Recognition of non-controlling interests impacts of the above adjustments	**121**	90
ANW (Business Unit)	**35,567**	35,146
Adjustment to reflect consolidated reserving requirements, net of tax	**(7,064)**	(6,905)
ANW (Consolidated)	**28,503**	28,241

IFRS equity attributable to shareholders of the Company as at 31 December 2019 has been adjusted to reflect the change in accounting policy as per note 48 to the IFRS consolidated financial statements.

2.3 Breakdown of ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.6 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

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

	As at 31 December 2020		As at 31 December 2019	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	**24,093**	**13,473**	24,523	14,917
Required capital	**11,474**	**15,030**	10,623	13,324
ANW	**35,567**	**28,503**	35,146	28,241

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

2. EMBEDDED VALUE RESULTS (continued)

2.4 Earnings Profile

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

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

	As at 31 December 2020	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	**21,452**	**17,845**
6 – 10 years	**19,489**	**10,980**
11 – 15 years	**22,452**	**8,615**
16 – 20 years	**20,070**	**5,356**
21 years and thereafter	**143,817**	**8,978**
Total	**227,280**	**51,774**

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

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$51,774 million (2019: US$47,068 million) plus the free surplus of US$13,473 million (2019: US$14,917 million) shown in Section 2.3 of this report is equal to the EV of US$65,247 million (2019: US$61,985 million) shown in Section 2.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business

The VONB for the Group for the year ended 31 December 2020 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS consolidated financial statements. Section 4.1 of this report contains a list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 31 December 2020 was US$2,765 million, a decrease of US$1,389 million, or 33 per cent, from US$4,154 million for the year ended 31 December 2019.

Summary of VONB by Business Unit (US$ millions)

	Year ended 31 December 2020			Year ended 31 December 2019		
Business Unit	VONB before CoC	CoC	VONB after CoC	VONB before CoC	CoC	VONB after CoC
AIA Hong Kong	670	120	**550**	1,728	107	1,621
AIA Thailand	520	51	**469**	559	65	494
AIA Singapore	347	17	**330**	384	32	352
AIA Malaysia	239	17	**222**	276	18	258
AIA China	1,030	62	**968**	1,248	81	1,167
Other Markets	632	118	**514**	646	111	535
Total before unallocated Group Office expenses and non-controlling interests (Business Unit)	3,438	385	**3,053**	4,841	414	4,427
Adjustment to reflect consolidated reserving and capital requirements	(56)	47	**(103)**	(88)	(1)	(87)
Total before unallocated Group Office expenses and non-controlling interests (Consolidated)	3,382	432	**2,950**	4,753	413	4,340
After-tax value of unallocated Group Office expenses	(161)	–	**(161)**	(154)	–	(154)
Total before non-controlling interests (Consolidated)	3,221	432	**2,789**	4,599	413	4,186
Non-controlling interests	(25)	(1)	**(24)**	(32)	–	(32)
Total	**3,196**	**431**	**2,765**	4,567	413	4,154

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the year ended 31 December 2020.

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

The Group VONB margin for the year ended 31 December 2020 was 52.6 per cent compared with 62.9 per cent for the year ended 31 December 2019. The Group PVNBP margin for the year ended 31 December 2020 was 9 per cent compared with 11 per cent for the year ended 31 December 2019.

Breakdown of VONB, ANP, VONB Margin and PVNBP Margin[(1)] (US$ millions)

	VONB after CoC[(1)]	ANP[(1)]	VONB Margin[(1)]	PVNBP Margin[(1)]
Year				
Values for 2020				
Twelve months ended 31 December 2020	**2,765**	**5,219**	**52.6%**	**9%**
Values for 2019				
Twelve months ended 31 December 2019[(1)]	4,154	6,585	62.9%	11%
Quarter				
Values for 2020				
Three months ended 31 March 2020	**841**	**1,483**	**56.6%**	**10%**
Three months ended 30 June 2020	**569**	**1,096**	**51.4%**	**9%**
Three months ended 30 September 2020	**706**	**1,359**	**51.6%**	**9%**
Three months ended 31 December 2020	**649**	**1,281**	**50.2%**	**9%**
Values for 2019				
Three months ended 31 March 2019[(1)]	1,169	1,827	63.6%	11%
Three months ended 30 June 2019[(1)]	1,106	1,616	67.9%	11%
Three months ended 30 September 2019[(1)]	980	1,444	67.0%	12%
Three months ended 31 December 2019[(1)]	899	1,698	54.1%	9%

Note:

(1) The VONB, ANP, VONB margin and PVNBP margin for the three-month periods up to 30 September 2019 are presented without the Group's share of Tata AIA Life and before deducting the amount attributable to non-controlling interests. The VONB, ANP, VONB margin and PVNBP margin in the three months and the twelve months ended 31 December 2019 are presented including the Group's share of Tata AIA Life for 2019 full year and, where relevant, after deducting the amount attributable to non-controlling interests for 2019 full year.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the VONB (excluding pension business), ANP, and VONB margin by Business Unit.

Summary of VONB Excluding Pension, ANP and VONB Margin by Business Unit (US$ millions)

	Year ended 31 December 2020			Year ended 31 December 2019		
Business Unit	VONB Excluding Pension	ANP	VONB Margin	VONB Excluding Pension	ANP	VONB Margin
AIA Hong Kong	509	1,138	**44.7%**	1,583	2,393	66.1%
AIA Thailand	469	661	**71.0%**	494	729	67.7%
AIA Singapore	330	520	**63.4%**	352	538	65.5%
AIA Malaysia	221	369	**59.9%**	256	406	63.1%
AIA China	968	1,197	**80.9%**	1,167	1,248	93.5%
Other Markets	512	1,334	**38.4%**	533	1,271	41.9%
Total before unallocated Group Office expenses (Business Unit)	3,009	5,219	**57.7%**	4,385	6,585	66.6%
Adjustment to reflect consolidated reserving and capital requirements	(102)	–		(87)	–	
Total before unallocated Group Office expenses (Consolidated)	2,907	5,219	**55.7%**	4,298	6,585	65.3%
After-tax value of unallocated Group Office expenses	(161)	–		(154)	–	
Total	**2,746**	**5,219**	**52.6%**	4,144	6,585	62.9%

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of EV Movement (US$ millions)

	Year ended 31 December 2020			Year ended 31 December 2019			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
Opening EV	28,241	33,744	**61,985**	24,637	29,880	54,517	14%
Purchase price[2]	(18)	–	**(18)**	(1,454)	–	(1,454)	n/m[1]
Acquired EV[3]	–	–	**–**	790	417	1,207	n/m
Effect of acquisition	(18)	–	**(18)**	(664)	417	(247)	n/m
Value of new business	(726)	3,491	**2,765**	(702)	4,856	4,154	(33)%
Expected return on EV	5,591	(1,415)	**4,176**	5,072	(967)	4,105	2%
Operating experience variances	538	(5)	**533**	394	206	600	n/m
Operating assumption changes	(31)	47	**16**	(18)	52	34	n/m
Finance costs	(247)	–	**(247)**	(208)	–	(208)	19%
EV operating profit	5,125	2,118	**7,243**	4,538	4,147	8,685	(17)%
Investment return variances	(3,446)	1,578	**(1,868)**	(942)	1,459	517	n/m
Effect of changes in economic assumptions	35	(1,048)	**(1,013)**	65	(319)	(254)	n/m
Other non-operating variances	160	(490)	**(330)**	2,491	(2,569)	(78)	n/m
Total EV profit	1,874	2,158	**4,032**	6,152	2,718	8,870	n/m
Dividends	(1,997)	–	**(1,997)**	(1,961)	–	(1,961)	2%
Other capital movements	81	–	**81**	136	–	136	(40)%
Effect of changes in exchange rates	322	842	**1,164**	(59)	729	670	n/m
Closing EV	**28,503**	**36,744**	**65,247**	28,241	33,744	61,985	5%

Notes:

(1) Not meaningful (n/m).

(2) The purchase price in 2020 refers to the purchase price adjustments for the alternative arrangements with Commonwealth Bank of Australia (CBA) in relation to The Colonial Mutual Life Assurance Society Limited (CMLA) as per note 5 to the IFRS consolidated financial statements.

(3) The acquired EV for CMLA is calculated as at 1 November 2019 net of the related reinsurance agreement.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV grew to US$65,247 million at 31 December 2020, an increase of 3 per cent over the year from US$61,985 million at 31 December 2019.

EV operating profit was US$7,243 million (2019: US$8,685 million), reflecting VONB of US$2,765 million (2019: US$4,154 million), an expected return on EV of US$4,176 million (2019: US$4,105 million), operating experience variances and operating assumption changes which were again positive and amounted to US$549 million (2019: US$634 million), net of finance costs of US$247 million (2019: US$208 million).

The VONB for the year ended 31 December 2020 is calculated at the point of sale for business written during the year. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB up to 31 December 2020. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the year and that expected based on the operating assumptions.

The operating experience variances, net of tax, increased EV by US$533 million (2019: increased by US$600 million), driven by:

- Expense variances of US$6 million (2019: US$28 million), partially offset by development costs of US$5 million (2019: US$24 million);
- Mortality and morbidity claims variances of US$384 million (2019: US$212 million); and
- Persistency and other variances of US$148 million (2019: US$384 million) including persistency variances of US$(49) million (2019: US$77 million) and other variances arising from management actions of US$197 million (2019: US$307 million).

The effect of changes in operating assumptions during the year was an increase in EV of US$16 million (2019: increase in EV of US$34 million).

The EV profit of US$4,032 million (2019: US$8,870 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances, reflecting short-term fluctuations in investment returns, arise from the impact of differences between the actual investment returns in the year and the expected investment returns. This amounted to a decrease in EV of US$1,868 million (2019: an increase in EV of US$517 million) driven by the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns.

The effect of changes in economic assumptions was a decrease in EV of US$1,013 million (2019: a decrease in EV of US$254 million).

Other non-operating variances reduced EV by US$330 million (2019: reduced EV by US$78 million) which comprised negative impacts from the application of withholding tax and other impacts due to the subsidiarisation of AIA China as described in Section 4.1, provisions for uncertain tax positions as disclosed in note 12 to the IFRS consolidated financial statements, and other items including modelling-related enhancements and certain non-operating expenses. These were partially offset by positive impacts from the subsidiarisation of New Zealand, the implementation of Risk-Based Capital 2 in Singapore, and adjustments to capital requirements on consolidation.

The Group paid total shareholder dividends of US$1,997 million (2019: US$1,961 million). Other capital movements increased EV by US$81 million (2019: increased EV by US$136 million).

Foreign exchange movements increased EV by US$1,164 million (2019: increased EV by US$670 million).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

Operating ROEV (US$ millions)

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 11.7 per cent (2019: 15.9 per cent) for the year ended 31 December 2020.

	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
EV operating profit	**7,243**	8,685	(17)%	(17)%
Opening EV	**61,985**	54,517	12%	14%
Operating ROEV	**11.7%**	15.9%	(4.1) pps	(4.2) pps

2.7 EV Equity

The EV Equity grew to US$67,185 million at 31 December 2020, an increase of 3 per cent from US$63,905 million as at 31 December 2019.

Derivation of EV Equity from EV (US$ millions)

	As at 31 December 2020	As at 31 December 2019	Change CER	Change AER
EV	**65,247**	61,985	3%	5%
Goodwill and other intangible assets[1]	**1,938**	1,920	(3)%	1%
EV Equity	**67,185**	63,905	3%	5%

Note:

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

2. EMBEDDED VALUE RESULTS (continued)

2.8 Free Surplus Generation

Free Surplus Generation (US$ millions)

	Year ended 31 December 2020	Year ended 31 December 2019	YoY CER	YoY AER
Opening free surplus	**14,917**	14,751	1%	1%
Effect of acquisition[1]	**(18)**	(1,045)	n/m	n/m[2]
Underlying free surplus generation	**5,843**	5,501	7%	6%
Free surplus used to fund new business	**(1,428)**	(1,477)	(2)%	(3)%
Investment return variances and other items	**(3,505)**	(588)	n/m	n/m
Unallocated Group Office expenses	**(173)**	(192)	(10)%	(10)%
Dividends	**(1,997)**	(1,961)	2%	2%
Finance costs and other capital movements	**(166)**	(72)	n/m	n/m
Closing free surplus	**13,473**	14,917	(11)%	(10)%

Notes:

(1) The effect of acquisition in 2020 refers to the purchase price adjustments for the alternative arrangements with CBA in relation to CMLA as per note 5 to the IFRS consolidated financial statements.

(2) Not meaningful (n/m).

Free surplus decreased by US$1,444 million (2019: increased by US$166 million) to US$13,473 million (2019: US$14,917 million) as of 31 December 2020.

Underlying free surplus generation, as defined in Section 4.8, increased by 7 per cent, to US$5,843 million (2019: US$5,501 million). Investment in writing new business reduced free surplus by US$1,428 million (2019: US$1,477 million).

Investment return variances and other items amounted to US$(3,505) million (2019: US$(588) million), reflecting the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns and other items, including the free surplus impacts arising from other non-operating variances as described in Section 2.6.

Unallocated Group Office expenses amounted to US$173 million (2019: US$192 million) in 2020.

3. SENSITIVITY ANALYSIS

The EV as at 31 December 2020 and the VONB for the year ended 31 December 2020 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

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

The EV as at 31 December 2020 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 December 2020); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 December 2020).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 December 2020 and the values of debt instruments and derivatives held at 31 December 2020 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 31 December 2020 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 31 December 2020 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

3. SENSITIVITY ANALYSIS (continued)

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV (US$ millions)

	As at 31 December 2020		As at 31 December 2019	
Scenario	EV	Ratio	EV	Ratio
Central value	**65,247**		61,985	
Impact of:				
200 bps increase in risk discount rates	**(9,098)**	**(13.9)%**	(8,500)	(13.7)%
200 bps decrease in risk discount rates	**14,409**	**22.1%**	13,696	22.1%
10% increase in equity prices	**1,099**	**1.7%**	968	1.6%
10% decrease in equity prices	**(1,095)**	**(1.7)%**	(967)	(1.6)%
50 bps increase in interest rates	**652**	**1.0%**	719	1.2%
50 bps decrease in interest rates	**(1,294)**	**(2.0)%**	(797)	(1.3)%
5% appreciation in the presentation currency	**(1,906)**	**(2.9)%**	(1,837)	(3.0)%
5% depreciation in the presentation currency	**1,906**	**2.9%**	1,837	3.0%
10% increase in lapse/discontinuance rates	**(891)**	**(1.4)%**	(999)	(1.6)%
10% decrease in lapse/discontinuance rates	**1,049**	**1.6%**	1,087	1.8%
10% increase in mortality/morbidity rates	**(4,556)**	**(7.0)%**	(4,627)	(7.5)%
10% decrease in mortality/morbidity rates	**4,665**	**7.1%**	4,540	7.3%
10% decrease in maintenance expenses	**882**	**1.4%**	699	1.1%
Expense inflation set to 0%	**1,063**	**1.6%**	868	1.4%

Sensitivity of VONB (US$ millions)

	Year ended 31 December 2020		Year ended 31 December 2019	
Scenario	VONB	Ratio	VONB	Ratio
Central value	**2,765**		4,154	
Impact of:				
200 bps increase in risk discount rates	**(655)**	**(23.7)%**	(956)	(23.0)%
200 bps decrease in risk discount rates	**963**	**34.8%**	1,527	36.8%
50 bps increase in interest rates	**193**	**7.0%**	151	3.6%
50 bps decrease in interest rates	**(298)**	**(10.8)%**	(207)	(5.0)%
5% appreciation in the presentation currency	**(116)**	**(4.2)%**	(129)	(3.1)%
5% depreciation in the presentation currency	**116**	**4.2%**	129	3.1%
10% increase in lapse/discontinuance rates	**(176)**	**(6.4)%**	(209)	(5.0)%
10% decrease in lapse/discontinuance rates	**182**	**6.6%**	224	5.4%
10% increase in mortality/morbidity rates	**(357)**	**(12.9)%**	(362)	(8.7)%
10% decrease in mortality/morbidity rates	**337**	**12.2%**	348	8.4%
10% decrease in maintenance expenses	**89**	**3.2%**	97	2.3%
Expense inflation set to 0%	**54**	**2.0%**	61	1.5%

4. METHODOLOGY

4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Co., a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International, a company incorporated in Bermuda and an indirect subsidiary of the Company. Furthermore, AIA Co. has branches located in Thailand and AIA International has branches located in Hong Kong, Macau and Taiwan.

The following is a list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co., and the business acquired by the Group from CBA via a contractual joint cooperation agreement (CMLA), and AIA Sovereign Limited, a subsidiary of AIA International;
- AIA Cambodia refers to AIA (Cambodia) Life Insurance Plc., a subsidiary of AIA International;
- AIA China refers to AIA Life Insurance Company Limited, a subsidiary of AIA Co.[1];
- AIA Hong Kong refers to the total of the following three entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong and Macau business written by AIA Co.; and
  - AIA Pension and Trustee Co. Ltd., a subsidiary of AIA Co.;
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to AIA Life Insurance Co. Ltd., a subsidiary of AIA International;
- AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co. and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Bhd., and AIA General Bhd.;
- AIA Myanmar refers to AIA Myanmar Life Insurance Co. Ltd., a subsidiary of AIA Co.;
- AIA Philippines refers to The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance (BPLAC) Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and its Brunei branch;
- AIA Sri Lanka refers to AIA Insurance Lanka Limited, a subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.;
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International; and
- Tata AIA Life refers to Tata AIA Life Insurance Company Limited, an associate 49 per cent owned by AIA International.

Note:

(1) On 9 July 2020, AIA Life Insurance Company Limited was incorporated in Shanghai, following the approval from the China Banking and Insurance Regulatory Commission (CBIRC) to convert the existing Shanghai branch of AIA Co. to a wholly-owned subsidiary. Subsequently, the conversion process was completed on 1 October 2020. After the conversion, any future remittances from this new subsidiary to the Group are subject to withholding tax at the applicable rate in Mainland China (currently set at 5%). In addition, the new subsidiary is no longer subject to the Hong Kong statutory minimum solvency margin requirement. The impact of withholding tax on future remittances has been reflected in the EV and VONB since the date of incorporation, while the impact due to the change in capital requirement has been reflected in the EV and VONB since the completion of the conversion.

Results are presented consistently with the segment information in the IFRS consolidated financial statements. The summary of the EV of the Group by Business Unit in this report also includes the ANW for the "Group Corporate Centre" segment, which is derived from the IFRS equity for this segment plus mark-to-market adjustments less the value of intangible assets. In the presentation of EV and VONB, the present value of withholding tax payable on future remittances from local business units is presented under the appropriate operating segment.

4. METHODOLOGY (continued)

4.2 Embedded Value and Value of New Business

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB for all entities other than Tata AIA Life. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the Group is calculated based on assumptions applicable at the point of sale, after allowing for any acquisition expense overruns in excess of the relevant expense assumptions.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed as per note 23 to the Group's IFRS consolidated financial statements as at the valuation date.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company.

A deduction has been made from the EV and VONB for the present value of future after-tax unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated to the Business Units. These unallocated Group Office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India. The EV and VONB reported for Tata AIA Life are reported on a one-quarter-lag basis.

4. METHODOLOGY (continued)

4.3 Definition of New Business

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group renewable business including group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds the prior year's premiums. For individually significant group cases, the VONB is calculated over each premium rate guarantee period entered upon contract inception or renewal.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For pension business, sales of new contracts during the period and any new contributions, including assets transferred in, are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using annualised new premiums (ANP), which is an internal measure of new business sales.

4.4 Consolidation of Branches and Subsidiaries of AIA Co. and AIA International

The Group's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities and subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the BMA reserving and capital requirements. AIA operates in a number of territories as branches and subsidiaries of these entities. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

The EV and VONB results for the Group shown in Section 2 of this report have been adjusted to reflect the consolidated reserving and capital requirements. This approach was taken to reflect the distribution of profits from AIA Co. and AIA International after allowing for the Hong Kong, BMA, and local regulatory requirements, and other reserving and capital requirements as determined by the Group. The EV and VONB for each Business Unit reflect the local reserving and capital requirements, as discussed in Section 4.6 of this report, before a Group-level adjustment to reflect the consolidated reserving and capital requirements.

4.5 Valuation of Future Statutory Losses

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. There are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the consolidated reserving and capital requirements have the effect of reducing the level of any future projected statutory losses. Based on the assumptions described in Section 5 of this report, and allowing for the consolidated statutory reserving and capital requirements, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4. METHODOLOGY (continued)

4.6 Capital Requirements

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

Business Unit	Capital requirements
AIA Australia	
• Australia	100% of regulatory capital adequacy requirement
• New Zealand	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	Higher of 135% of capital adequacy requirement and 80% of Tier 1 capital requirement under the regulatory Risk-Based Capital framework
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement(1)
AIA Vietnam	100% of required minimum solvency margin
Tata AIA Life	175% of required minimum solvency margin

Note:

(1) The Capital Requirement ratio assumed in the EV calculation is 120% up to year-end of 2021, and 140% thereafter, in line with the regulatory requirement under Thailand RBC 2.

Capital Requirements on Consolidation

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

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

As described in Section 4.1, the existing Shanghai branch of AIA Co. was converted to a wholly-owned subsidiary on 1 October 2020. After the conversion, AIA China is no longer subject to the Hong Kong statutory minimum solvency margin requirement.

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

4. METHODOLOGY (continued)

4.7 Foreign Exchange

The EV as at 31 December 2020 and 31 December 2019 have been translated into US dollars using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US dollars using the corresponding average exchange rates for each quarter. The other components of the EV profit shown in the analysis of EV movement have been translated using average exchange rates for the period.

Change on actual exchange rates (AER) is calculated based on the translated figures as described above. Change on constant exchange rates (CER) is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for EV as at the end of the current year and as at the end of the prior year, which are translated using the CER.

4.8 Underlying Free Surplus Generation

The free surplus is defined as the ANW in excess of the required capital after reflecting consolidated reserving and capital requirements. The underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items, and before free surplus used to fund new business, unallocated Group Office expenses, finance costs, investment return variances and other non-operating items. The underlying free surplus generation is also calculated after reflecting consolidated reserving and capital requirements.

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 31 December 2020 and the VONB for the year ended 31 December 2020 and highlights certain differences in assumptions between the EV as at 31 December 2019 and the EV as at 31 December 2020.

5.2 Economic Assumptions

Investment Returns

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

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

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

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve. Therefore, the risk discount rate and long-term investment returns are not provided for Tata AIA Life.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk. For 2020 and prior, the risk margins assumed in the VONB calculations are equal to those assumed in the EV calculations as at the beginning of the reporting period. Starting from 2021, the risk margins assumed in the VONB calculations will be determined at a product level to better reflect the risk associated with the mix of products sold during the reporting period. If product level risk margins were applied in 2020, the impact on the 2020 reported VONB for the Group overall would be immaterial.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

	Current market 10-year government bond yields referenced in EV calculations (%)	
Business Unit	**As at 31 December 2020**	As at 31 December 2019
AIA Australia		
• Australia	**0.97**	1.37
• New Zealand	**0.99**	1.65
AIA China	**3.15**	3.14
AIA Hong Kong(1)	**0.91**	1.92
AIA Indonesia	**5.89**	7.06
AIA Korea	**1.72**	1.67
AIA Malaysia	**2.65**	3.31
AIA Philippines	**3.00**	4.46
AIA Singapore	**0.84**	1.74
AIA Sri Lanka	**7.55**	10.07
AIA Taiwan	**0.32**	0.67
AIA Thailand	**1.28**	1.49
AIA Vietnam	**2.60**	3.56

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that the VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

	Risk discount rates assumed in EV calculations (%)			Long-term investment returns assumed in EV calculations (%)					
				10-year government bonds			Local equities		
Business Unit	**As at 31 Dec 2020**	**As at 30 Jun 2020 (Unaudited)**	As at 31 Dec 2019	**As at 31 Dec 2020**	**As at 30 Jun 2020 (Unaudited)**	As at 31 Dec 2019	**As at 31 Dec 2020**	**As at 30 Jun 2020 (Unaudited)**	As at 31 Dec 2019
AIA Australia									
• Australia	**6.45**	6.45	6.45	**2.30**	2.30	2.30	**6.60**	6.60	6.60
• New Zealand	**6.55**	6.85	6.85	**2.30**	2.60	2.60	**6.80**	7.10	7.10
AIA China	**9.75**	9.75	9.75	**3.70**	3.70	3.70	**9.30**	9.30	9.30
AIA Hong Kong(1)	**7.00**	7.00	7.20	**2.20**	2.20	2.70	**7.00**	7.00	7.50
AIA Indonesia	**13.00**	13.00	13.00	**7.50**	7.50	7.50	**12.00**	12.00	12.00
AIA Korea	**8.10**	8.10	8.10	**2.20**	2.20	2.20	**6.50**	6.50	6.50
AIA Malaysia	**8.55**	8.55	8.55	**4.00**	4.00	4.00	**8.60**	8.60	8.60
AIA Philippines	**11.80**	11.80	11.80	**5.30**	5.30	5.30	**10.50**	10.50	10.50
AIA Singapore	**6.60**	6.60	6.90	**2.20**	2.20	2.50	**6.70**	6.70	7.00
AIA Sri Lanka	**15.70**	15.70	15.70	**10.00**	10.00	10.00	**12.00**	12.00	12.00
AIA Taiwan	**7.25**	7.55	7.55	**1.00**	1.30	1.30	**5.60**	5.90	5.90
AIA Thailand	**7.80**	7.90	7.90	**2.70**	2.70	2.70	**7.70**	7.70	7.70
AIA Vietnam	**9.80**	9.80	10.80	**4.00**	4.00	5.00	**9.30**	9.30	10.30

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.3 Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and retirement rates for pension products.

Assumptions have been developed by each of the Business Units based on their recent historical experience and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

5.4 Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

Group Office Expenses

Group Office expense assumptions have been set, after excluding non-operating expenses, based on actual acquisition and maintenance expenses in the year ended 31 December 2020. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

5. ASSUMPTIONS (continued)

5.5 Expense Inflation

The expected long-term expense inflation rates used by Business Units are set out below:

Expense Inflation Assumptions by Business Unit (%)

Business Unit	As at 31 December 2020	As at 31 December 2019
AIA Australia		
• Australia	**2.05**	2.05
• New Zealand	**2.00**	2.00
AIA China	**2.00**	2.00
AIA Hong Kong	**2.00**	2.00
AIA Indonesia	**3.50**	3.50
AIA Korea	**3.50**	3.50
AIA Malaysia	**3.00**	3.00
AIA Philippines	**3.50**	3.50
AIA Singapore	**2.00**	2.00
AIA Sri Lanka	**6.50**	6.50
AIA Taiwan	**1.20**	1.20
AIA Thailand	**2.00**	2.00
AIA Vietnam	**4.00**	4.00
Tata AIA Life(1)	**5.60**	7.25

Note:

(1) For Tata AIA Life, in accordance with the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, the inflation assumption is derived by applying a spread to the reference interest rate.

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5. ASSUMPTIONS (continued)

5.6 Mortality

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Group.

For annuity products that are exposed to longevity risk, an allowance has been made for expected future improvements in mortality; otherwise no allowance has been made for mortality improvements.

5.7 Morbidity

Assumptions have been developed by each Business Unit based on their recent historical experience and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

5.8 Reinsurance

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in-force as at the valuation date and the recent historical and expected future experience.

5.9 Policyholder Dividends, Profit Sharing and Interest Crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's expectation of future policies, strategies and operations consistent with the investment return assumptions used in the EV results.

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

5. ASSUMPTIONS (continued)

5.10 Taxation

The EV and VONB presented in this report are net of tax based on current taxation legislation. The projected corporate income tax payable in any year allows for the benefits arising from any tax loss carried forward where relevant. Where applicable, tax payable on investment income has been reflected in the projected investment returns. Any withholding tax payable on future remittances from local business units are also reflected under the appropriate operating segment.

The local corporate income tax rates used by each Business Unit are set out below:

Local Corporate Income Tax Rates by Business Unit (%)

Business Unit	As at 31 December 2020	As at 31 December 2019
AIA Australia		
• Australia	**30.0**	30.0
• New Zealand	**28.0**	28.0
AIA China	**25.0**	25.0
AIA Hong Kong	**16.5**	16.5
AIA Indonesia(1)	**22.0**	25.0
AIA Korea(2)	**27.5**	27.5
AIA Malaysia	**24.0**	24.0
AIA Philippines	**30.0**	30.0
AIA Singapore	**17.0**	17.0
AIA Sri Lanka	**28.0**	28.0
AIA Taiwan	**20.0**	20.0
AIA Thailand	**20.0**	20.0
AIA Vietnam	**20.0**	20.0
Tata AIA Life	**14.6**	14.6

Notes:

(1) During the reporting period, a change in corporate income tax rate has been enacted in Indonesia from 25% to 22% for fiscal years 2020 and 2021 and to 20% from fiscal year 2022 onwards.

(2) From fiscal years 2019 to 2022 (extended from 2020 according to the latest tax regulation), AIA Korea is subject to an assumed corporate income tax of 27.5%, which includes an Accumulated Earnings Tax. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2023.

5. ASSUMPTIONS (continued)

5.11 Statutory Valuation Bases

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

5.12 Product Charges

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

6. EVENTS AFTER THE REPORTING PERIOD

On 12 March 2021, a Committee appointed by the Board of Directors proposed a final dividend of 100.30 Hong Kong cents per share (2019: final dividend of 93.30 Hong Kong cents per share).

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(1) AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER FOR THE YEAR ENDED 31 DECEMBER 2019

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(2) AUDITED SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

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(1) References to page numbers in the independent auditor's report on the audited consolidated financial statements and the independent auditor's report on the Supplementary Embedded Value Information refer to the original page numbers in the 2019 results announcement of the Issuer which may be found at http://www.aia.com, and cross-references to page numbers included in the independent auditor's reports are to such original page numbering. Neither the 2019 results announcement nor any other information on the issuer's website has been incorporated by reference into this Offering Circular.

羅兵咸永道

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

Opinion

What we have audited
The consolidated financial statements of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 49 to 185, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

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

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羅兵咸永道

Key Audit Matters

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

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

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

As at 31 December 2019 the Group has insurance contract liabilities of US$189,597 million.
 	
The Director's valuation of these insurance contract liabilities involves significant judgement about uncertain future outcomes, including mortality, morbidity, persistency, expense, investment return, valuation interest rates and provision for adverse deviation, as well as complex valuation methodologies.
 	
The liabilities for traditional participating life assurance policies with discretionary participation features and non-participating life assurance policies, annuities and policies related to other protection products are substantially determined by a net level premium valuation method using best estimate assumptions at policy inception adjusted for adverse deviation. These assumptions remain locked in thereafter, subject to meeting a liability adequacy test which compares the liabilities with a valuation on current best estimate assumptions.
	We performed the following audit procedures to address this matter:
	
	• We understood the valuation methodologies used, identified changes in methodologies from previous valuation and assessed the reasonableness and impact for material changes identified, by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectation derived from market experience.
	
	• We assessed the reasonableness of the key assumptions including those for mortality, morbidity, persistency, expense, investment return and valuation interest rates as well as provision for adverse deviation. Our assessment of the assumptions included:
	
	  • Obtaining an understanding of, and testing, the controls in place to determine the assumptions;
	
	  • Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience;

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter

a) Valuation of insurance contract liabilities (continued)

Insurance contract liabilities for universal life and unit-linked policies are substantially based on the value of the account balance together with liabilities for unearned revenue and additional insurance benefits which are dependent upon operating assumptions and future investment return assumptions that are reassessed at each reporting period.

As part of our consideration of assumptions, we have focused on those insurance contracts where the assumptions are reassessed at each reporting date as well as how assumptions are set at policy inception dates.

We have, in relation to valuation methodologies used, focused on changes in methodologies from the previous valuation as well as methodologies applied to material new product types (as applicable).

- Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.

- We checked the calculation of the liability adequacy test and assessed the related results in order to ascertain whether the insurance contract liabilities used for the inforce business are adequate in the context of a valuation on current best estimate assumptions.

Based upon the work performed, we found the methodologies and assumptions used by management to be appropriate, including those used in the liability adequacy test.

b) Amortisation of DAC

Refer to the following notes in the consolidated financial statements: Note 2.4.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements, Note 11 and Note 20.

As at 31 December 2019, the Group has reported DAC of US$25,915 million.

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

We performed the following audit procedures to address this matter:

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

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
b) Amortisation of DAC (continued)	
The amortisation of DAC for universal life and unit-linked policies involves greater judgement by the Directors. For these contracts, DAC is amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits are revised regularly and significant judgement is exercised in making appropriate estimates of gross profits. As part of our audit we have focused on DAC related to universal life and unit-linked policies where the assumptions are reassessed at each reporting date.	Based upon the work performed, we found the assumptions used in relation to the amortisation of DAC for universal life and unit-linked policies to be appropriate.

Other Information

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

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

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

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

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羅兵咸永道

Other Matter

The Group has prepared Supplementary Embedded Value Information as at and for the year ended 31 December 2019 in accordance with the embedded value basis of preparation set out in Sections 4 and 5 of the Supplementary Embedded Value Information, on which we issued a separate auditor's report to the Board of Directors of the Company dated 12 March 2020.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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羅兵咸永道

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lars Christian Jordy Nielsen.

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Certified Public Accountants

Hong Kong

12 March 2020

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CONSOLIDATED INCOME STATEMENT

US$m	Notes	Year ended 31 December 2019	Thirteen months ended 31 December 2018
REVENUE			
Premiums and fee income	6	**34,777**	33,881
Premiums ceded to reinsurers		**(2,166)**	(1,968)
Net premiums and fee income		**32,611**	31,913
Investment return	10	**14,350**	4,077
Other operating revenue	10	**281**	307
Total revenue		**47,242**	36,297
EXPENSES			
Insurance and investment contract benefits		**33,400**	26,383
Insurance and investment contract benefits ceded		**(1,940)**	(1,787)
Net insurance and investment contract benefits		**31,460**	24,596
Commission and other acquisition expenses		**4,283**	4,136
Operating expenses		**2,468**	2,366
Finance costs		**283**	228
Other expenses		**845**	801
Total expenses	11	**39,339**	32,127
Profit before share of losses from associates and joint ventures		**7,903**	4,170
Share of losses from associates and joint ventures		**(8)**	–
Profit before tax		**7,895**	4,170
Income tax (expense)/credit attributable to policyholders' returns		**(179)**	51
Profit before tax attributable to shareholders' profits		**7,716**	4,221
Tax expense	12	**(1,208)**	(944)
Tax attributable to policyholders' returns		**179**	(51)
Tax expense attributable to shareholders' profits		**(1,029)**	(995)
Net profit		**6,687**	3,226
Net profit attributable to:			
Shareholders of AIA Group Limited		**6,648**	3,163
Non-controlling interests		**39**	63
EARNINGS PER SHARE (US$)			
Basic	13	**0.55**	0.26
Diluted	13	**0.55**	0.26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Net profit	**6,687**	3,226
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains/(losses) on available for sale financial assets (net of tax of: year ended 31 December 2019: US$(1,307)m; thirteen months ended 31 December 2018: US$(177)m)	**13,014**	(4,174)
Fair value (gains)/losses on available for sale financial assets transferred to income on disposal and impairment (net of tax of: year ended 31 December 2019: US$66m; thirteen months ended 31 December 2018: US$18m)	**(545)**	26
Foreign currency translation adjustments	**619**	(510)
Cash flow hedges	**18**	16
Share of other comprehensive expense from associates and joint ventures	**(1)**	(45)
Subtotal	**13,105**	(4,687)
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains on property held for own use (net of tax of: year ended 31 December 2019: US$(11)m; thirteen months ended 31 December 2018: US$(10)m)	**167**	11
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: year ended 31 December 2019: US$3m; thirteen months ended 31 December 2018: US$(7)m)	**(24)**	1
Subtotal	**143**	12
Total other comprehensive income/(expense)	**13,248**	(4,675)
Total comprehensive income/(expense)	**19,935**	(1,449)
Total comprehensive income/(expense) attributable to:		
Shareholders of AIA Group Limited	**19,864**	(1,484)
Non-controlling interests	**71**	35

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	As at 31 December 2019	As at 31 December 2018
ASSETS			
Intangible assets	15	**2,520**	1,970
Investments in associates and joint ventures	16	**615**	610
Property, plant and equipment	17	**2,865**	1,233
Investment property	18	**4,834**	4,794
Reinsurance assets	19	**3,833**	2,887
Deferred acquisition and origination costs	20	**26,328**	24,626
Financial investments:	21, 23		
Loans and deposits		**10,086**	7,392
Available for sale			
Debt securities		**138,852**	112,485
At fair value through profit or loss			
Debt securities		**33,132**	27,736
Equity securities		**50,322**	38,099
Derivative financial instruments	22	**971**	430
		233,363	186,142
Deferred tax assets	12	**23**	26
Current tax recoverable		**205**	164
Other assets	24	**5,605**	4,903
Cash and cash equivalents	26	**3,941**	2,451
Total assets		**284,132**	229,806
LIABILITIES			
Insurance contract liabilities	27	**189,597**	164,764
Investment contract liabilities	28	**12,273**	7,885
Borrowings	30	**5,757**	4,954
Obligations under repurchase and securities lending agreements	31	**1,826**	1,683
Derivative financial instruments	22	**412**	243
Provisions	33	**225**	168
Deferred tax liabilities	12	**6,237**	4,187
Current tax liabilities		**432**	532
Other liabilities	34	**9,417**	5,984
Total liabilities		**226,176**	190,400

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	As at 31 December 2019	As at 31 December 2018
EQUITY			
Share capital	35	**14,129**	14,073
Employee share-based trusts	35	**(220)**	(258)
Other reserves	35	**(11,887)**	(11,910)
Retained earnings		**40,372**	35,661
Fair value reserve	35	**14,663**	2,211
Foreign currency translation reserve	35	**(698)**	(1,301)
Property revaluation reserve	35	**1,163**	538
Others		**(14)**	(8)
Amounts reflected in other comprehensive income		**15,114**	1,440
Total equity attributable to:			
Shareholders of AIA Group Limited		**57,508**	39,006
Non-controlling interests	36	**448**	400
Total equity		**57,956**	39,406
Total liabilities and equity		**284,132**	229,806

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$m	Notes	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income: Fair value reserve	Other comprehensive income: Foreign currency translation reserve	Other comprehensive income: Property revaluation reserve	Others	Non-controlling interests	Total equity
Balance at 1 January 2019, as previously reported		**14,073**	**(258)**	**(11,910)**	**35,661**	**2,211**	**(1,301)**	**538**	**(8)**	**400**	**39,406**
Opening adjustment on adoption of IFRS 16	2	**–**	**–**	**–**	**–**	**–**	**–**	**482**	**–**	**–**	**482**
Balance at 1 January 2019, as adjusted		**14,073**	**(258)**	**(11,910)**	**35,661**	**2,211**	**(1,301)**	**1,020**	**(8)**	**400**	**39,888**
Net profit		**–**	**–**	**–**	**6,648**	**–**	**–**	**–**	**–**	**39**	**6,687**
Fair value gains on available for sale financial assets		**–**	**–**	**–**	**–**	**12,988**	**–**	**–**	**–**	**26**	**13,014**
Fair value gains on available for sale financial assets transferred to income on disposal		**–**	**–**	**–**	**–**	**(545)**	**–**	**–**	**–**	**–**	**(545)**
Foreign currency translation adjustments		**–**	**–**	**–**	**–**	**–**	**613**	**–**	**–**	**6**	**619**
Cash flow hedges		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18**	**–**	**18**
Share of other comprehensive income/(expense) from associates and joint ventures		**–**	**–**	**–**	**–**	**9**	**(10)**	**–**	**–**	**–**	**(1)**
Revaluation gains on property held for own use		**–**	**–**	**–**	**–**	**–**	**–**	**167**	**–**	**–**	**167**
Effect of remeasurement of net liability of defined benefit schemes		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24)**	**–**	**(24)**
Total comprehensive income/(expense) for the year		**–**	**–**	**–**	**6,648**	**12,452**	**603**	**167**	**(6)**	**71**	**19,935**
Dividends	14	**–**	**–**	**–**	**(1,961)**	**–**	**–**	**–**	**–**	**(21)**	**(1,982)**
Shares issued under share option scheme and agency share purchase plan		**56**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**56**
Acquisition of non-controlling interests		**–**	**–**	**(6)**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(8)**
Share-based compensation		**–**	**–**	**88**	**–**	**–**	**–**	**–**	**–**	**–**	**88**
Purchase of shares held by employee share-based trusts		**–**	**(21)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21)**
Transfer of vested shares from employee share-based trusts		**–**	**59**	**(59)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Revaluation reserve transferred to retained earnings on disposal		**–**	**–**	**–**	**24**	**–**	**–**	**(24)**	**–**	**–**	**–**
Balance at 31 December 2019		**14,129**	**(220)**	**(11,887)**	**40,372**	**14,663**	**(698)**	**1,163**	**(14)**	**448**	**57,956**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income: Fair value reserve	Other comprehensive income: Foreign currency translation reserve	Other comprehensive income: Property revaluation reserve	Other comprehensive income: Others	Non-controlling interests	Total equity
Balance at 1 December 2017		14,065	(297)	(11,948)	34,087	6,336	(751)	527	(25)	378	42,372
Net profit		–	–	–	3,163	–	–	–	–	63	3,226
Fair value losses on available for sale financial assets		–	–	–	–	(4,151)	–	–	–	(23)	(4,174)
Fair value losses on available for sale financial assets transferred to income on disposal and impairment		–	–	–	–	26	–	–	–	–	26
Foreign currency translation adjustments		–	–	–	–	–	(505)	–	–	(5)	(510)
Cash flow hedges		–	–	–	–	–	–	–	16	–	16
Share of other comprehensive expense from associates and joint ventures		–	–	–	–	–	(45)	–	–	–	(45)
Revaluation gains on property held for own use		–	–	–	–	–	–	11	–	–	11
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	1	–	1
Total comprehensive income/(expense) for the period		–	–	–	3,163	(4,125)	(550)	11	17	35	(1,449)
Dividends	14	–	–	–	(1,589)	–	–	–	–	(20)	(1,609)
Shares issued under share option scheme and agency share purchase plan		8	–	–	–	–	–	–	–	–	8
Capital contributions from non-controlling interests		–	–	–	–	–	–	–	–	7	7
Share-based compensation		–	–	82	–	–	–	–	–	–	82
Purchase of shares held by employee share-based trusts		–	(12)	–	–	–	–	–	–	–	(12)
Transfer of vested shares from employee share-based trusts		–	51	(51)	–	–	–	–	–	–	–
Others		–	–	7	–	–	–	–	–	–	7
Balance at 31 December 2018		14,073	(258)	(11,910)	35,661	2,211	(1,301)	538	(8)	400	39,406

CONSOLIDATED STATEMENT OF CASH FLOWS

US$m	Notes	Year ended 31 December 2019	Thirteen months ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,895**	4,170
Adjustments for:			
Financial investments		**(22,693)**	(14,998)
Insurance and investment contract liabilities, and deferred acquisition and origination costs		**18,813**	14,037
Obligations under repurchase and securities lending agreements	31	**152**	(177)
Receipt of upfront reinsurance commission related to acquisition of subsidiaries	5	**632**	482
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items[1]		**(8,217)**	(8,095)
Operating cash items:			
Interest received		**6,668**	6,718
Dividends received		**884**	782
Interest paid		**(60)**	(44)
Tax paid		**(737)**	(855)
Net cash provided by operating activities		**3,337**	2,020
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangible assets	15	**(169)**	(92)
Contribution to a joint venture	16	**–**	(3)
Distribution or dividend from associates and joint ventures	16	**3**	–
Payments for increase in interest of an associate	16	**(8)**	–
Proceeds from sales of investment property and property, plant and equipment[2]	17, 18	**190**	22
Payments for investment property and property, plant and equipment[2]	17, 18	**(106)**	(149)
Acquisition of subsidiaries, net of cash acquired	5	**(155)**	(606)
Net cash used in investing activities		**(245)**	(828)

CONSOLIDATED STATEMENT OF CASH FLOWS

US$m	Notes	Year ended 31 December 2019	Thirteen months ended 31 December 2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of medium-term notes	30	**1,301**	1,490
Redemption of medium-term notes	30	**(500)**	(500)
Proceeds from other borrowings	30	**1,559**	2,603
Repayment of other borrowings	30	**(1,561)**	(2,603)
Acquisition of non-controlling interests		**(8)**	–
Payments for lease liabilities(1)		**(157)**	–
Interest paid on medium-term notes		**(207)**	(168)
Capital contributions from non-controlling interests		**–**	7
Dividends paid during the year/period		**(1,982)**	(1,609)
Purchase of shares held by employee share-based trusts		**(21)**	(12)
Shares issued under share option scheme and agency share purchase plan		**56**	8
Net cash used in financing activities		**(1,520)**	(784)
Net increase in cash and cash equivalents		**1,572**	408
Cash and cash equivalents at beginning of the financial year/period		**2,146**	1,787
Effect of exchange rate changes on cash and cash equivalents		**35**	(49)
Cash and cash equivalents at end of the financial year/period		**3,753**	2,146

Notes:

(1) The total cash outflow for leases for the year ended 31 December 2019 was US$191m. On adoption of IFRS 16, the Group recognised lease liabilities of US$498m on 1 January 2019 with subsequent non-cash movement of US$215m for the year ended 31 December 2019.

(2) The comparative information has been adjusted to conform to the current year presentation.

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

US$m	Note	As at 31 December 2019	As at 31 December 2018
Cash and cash equivalents in the consolidated statement of financial position	26	**3,941**	2,451
Bank overdrafts		**(188)**	(305)
CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS		**3,753**	2,146

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. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

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

The consolidated financial statements have been approved for issue by the Board of Directors on 12 March 2020.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(a) The following relevant new standards have been adopted for the first time for the financial year ended 31 December 2019:

- IFRS 15, Revenue from Contracts with Customers, establishes revenue recognition principles for contracts with customers and enhances disclosure requirements. Under IFRS 15, revenue is recognised when the Group satisfies a performance obligation by transferring a service to a customer. In addition, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. It also provides guidance related to the costs to obtain and to fulfil a contract. This standard replaces IAS 18, Revenue, and several related interpretations and provides a new five-step model to recognise revenue for contracts with customers other than insurance contracts, financial instruments and lease contracts. Given insurance contracts are scoped out of IFRS 15, the main impact of the new standard to the Group is on the revenue recognition of asset management contracts and service components of investment contracts without DPF. Adoption of the standard has no financial impact to the Group's consolidated financial statements but requires additional disclosures.

- IFRS 16, Leases, replaces the existing standard IAS 17, Leases, and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Group has elected to apply IFRS 16 to its leases retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. Furthermore, as permitted by the standard the Group has elected to initially measure the right-of-use asset in relation to each lease at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. This approach results in no adjustment to the opening balance of retained earnings on 1 January 2019. However, due to the initial application of the revaluation model in measuring the right-of-use assets relating to the Group's interest in leasehold land and land use rights associated with property held for own use, the opening balance of property revaluation reserve has been adjusted by US$482m on 1 January 2019.

(b) The following relevant new interpretations and amendments to standards have been adopted for the first time for the financial year ended 31 December 2019 and have no material impact to the Group:

- IFRIC 22, Foreign Currency Transactions and Advance Consideration;
- IFRIC 23, Uncertainty Over Income Tax Treatments;
- Amendments to IAS 12, Income Tax Consequences of Payments on Instruments Classified as Equity;
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 23, Borrowing Costs Eligible for Capitalisation;
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value;
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures;
- Amendments to IAS 40, Transfers of Investment Property;
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions; and
- Amendments to IFRS 3, Business Combinations and IFRS 11, Joint Arrangements – Remeasurement of Previously Held Interests.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(c) The following standard and amendments are effective for the financial year ended 31 December 2019, 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 which will become 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 (please note below that the IASB Board proposed to defer the effective date of IFRS 17 to 1 January 2022 in Exposure Draft amendments to IFRS 17 published in June 2019), 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.

- The Group has elected to apply the deferral approach since it has not previously applied any versions of IFRS 9 and the Group's activities are predominantly connected with insurance at its annual reporting date that immediately precedes 1 April 2016, based on the eligibility assessment the total carrying amount of liabilities connected with insurance of US$126,750m as at 30 November 2015 is greater than 90% of the total carrying amount of all its liabilities. Liabilities connected with insurance included liabilities within the scope of IFRS 4, investment contract liabilities measured at fair value through profit or loss of US$5,937m and various other liabilities of US$4,433m mainly including certain deferred tax liabilities and financial liabilities related to derivatives and repurchase agreements associated with those contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(c) The following standard and amendments are effective for the financial year ended 31 December 2019, but the Group has elected to apply the temporary exemption described further below: (continued)

- In the Company's statement of financial position, IFRS 9 has been adopted for the first time for the financial year ended 31 December 2019. The Company is not eligible for the deferral approach in its separate financial statements since the Company did not meet the eligibility criteria for the temporary exemption.

  IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVTPL. These supersede IAS 39's categories of held to maturity investments, loans and receivables, available for sale financial assets and financial assets measured at FVTPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The classification and measurement categories for financial liabilities have remained the same. The carrying amounts for financial liabilities at 1 January 2019 have not been impacted by the initial application of IFRS 9.

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

  Accordingly, the Company's financial assets classified in the IAS 39 category "available-for-sale" as at 31 December 2018 have been reclassified to the IFRS 9 category "FVOCI" and other financial assets classified in the IAS 39 category "loans and receivables" as at 31 December 2018 have been reclassified to the IFRS 9 category "amortised cost" at the date of initial adoption on 1 January 2019.

  The initial adoption of IFRS 9 did not result in a material impact to the carrying amounts for financial assets and there has been no material adjustment to the opening balance of retained earnings or total equity on 1 January 2019. The statement of financial position and statement of changes in equity of the Company are disclosed in notes 46 and 47 of the Group's consolidated financial statements, respectively.

- After the date of eligibility assessment, there has been no change in the Group's activities that requires a reassessment of the eligibility assessment. Additional information on financial assets in relation to the election of the temporary option is illustrated per below:

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(c) The following standard and amendments are effective for the financial year ended 31 December 2019, but the Group has elected to apply the temporary exemption described further below: (continued)

The following table shows the fair value and change in fair value of these two groups of financial assets:

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

Notes:

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

(2) Balance represents equity securities and derivative financial instruments.

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

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

(d) The following relevant new amendments to standards have been issued but are not effective for the financial year ended 31 December 2019 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 standards 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 (2022);
- Amendments to IAS 1 and IAS 8, Definition of Material (2020);
- Amendments to IFRS 3, Definition of a Business (2020); and
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform (2020).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(e) The following relevant new standard has been issued but is not effective for the financial year ended 31 December 2019 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. The standards are currently mandatorily effective for financial periods beginning on or after 1 January 2021. However, IASB proposed in June 2019 to defer IFRS 17 and extend the temporary IFRS 9 exemption available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral was published in the Exposure Draft amendments to IFRS 17 for public consultation ended on 25 September 2019. HKICPA has not yet made any announcements related to IASB proposed deferral for IFRS 17. The Group is in the midst of conducting a detailed assessment of the new standard.

The significant accounting policies adopted in the preparation of the Group's consolidated financial statements are set out below. These policies have been applied consistently in all periods presented. The Company's statement of financial position and the statement of changes in equity, as set out in notes 46 and 47 respectively, have been prepared in accordance with the Group's accounting policies, except for the accounting policies in respect of the Company's investment as set out in note 2.3 and financial instruments as set out in note 2.5.5 given that the Company has adopted IFRS 9 with effect from 1 January 2019.

2.2 Operating profit

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

Subsidiaries

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

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

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

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

Investment funds

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

Employee share-based trusts

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

Non-controlling interests

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Associates and joint ventures

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

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

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

The Company's investments

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

2.4 Insurance and investment contracts

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

Product classification

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts. The Group refers to such contracts as participating business. In some jurisdictions participating business is written in a participating fund which is distinct from the other assets of the Company or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by regulation. The extent of such policyholder participation may change over time. The current policyholder participation in declared dividends for locations with participating funds is set out below:

Country	Current policyholder participation
Singapore	90%
Malaysia	90%
Mainland China	70%
Australia	80%
Brunei	80%

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

Policy type		Description of benefits payable	Basis of accounting for: Insurance contract liabilities[1]	Basis of accounting for: Investment contract liabilities
Traditional participating life assurance with DPF	Participating funds	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities The timing of dividend and bonus declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds that would be allocated to policyholders, assuming all performance would be declared as a dividend based upon local regulations	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
	Other participating business	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Insurance contract liabilities make provision for the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
Non-participating life assurance, annuities and other protection products		Benefits payable are not at the discretion of the insurer	Insurance contract liabilities reflect the present value of future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised	Investment contract liabilities are measured at amortised cost
Universal life		Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Not applicable as such contracts generally contain significant insurance risk
Unit-linked		These may be primarily savings products or may combine savings with an element of protection	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value)

Note:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

2.4.1 Insurance contracts and investment contracts with DPF

Premiums

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

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

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

Unearned revenue liability

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

Deferred profit liability

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

Deferred acquisition costs

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Deferred acquisition costs (continued)

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

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

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

Deferred sales inducements

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

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

Unbundling

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

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

Bifurcation

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Benefits and claims

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

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

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

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

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

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

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

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

The Group accounts for insurance contract liabilities for participating business written in participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds 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 applicable regulations. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

Liability adequacy testing

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

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

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

Financial guarantees

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.2 Investment contracts

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

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

Investment contract fee revenue

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

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

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

Deferred origination costs

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

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

Investment contract liabilities

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.2 Investment contracts (continued)

Investment contract liabilities (continued)

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

Deferred fee income liability

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

2.4.3 Insurance and investment contracts

Reinsurance

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

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

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

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

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

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

Value of business acquired (VOBA)

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

Shadow accounting

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.3 Insurance and investment contracts (continued)

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

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

Other assessments and levies

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

2.5 Financial instruments

2.5.1 Classification of and designation of financial instruments

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Available for sale financial assets

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

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

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

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

Realised gains and losses on financial assets

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

Recognition of financial instruments

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

Derecognition and offset of financial assets

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

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

Loans and receivables

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Term deposits

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

Cash and cash equivalents

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

2.5.2 Fair values of non-derivative financial instruments

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

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

2.5.3 Impairment of financial assets

General

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.3 Impairment of financial assets (continued)

Available for sale financial instruments

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

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

Loans and receivables

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

2.5.4 Derivative financial instruments

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

Derivative instruments for economic hedging

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

Cash flow hedge

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.4 Derivative financial instruments (continued)

Embedded derivatives

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

2.5.5 The Company's financial instruments

As discussed in note 2.1(c) to the consolidated financial statements, the Company has adopted IFRS 9 for financial periods beginning on or after 1 January 2019.

Upon the adoption of IFRS 9, financial assets are classified as measured at amortised cost, FVOCI or FVTPL. The classification of financial assets is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.5 The Company's financial instruments (continued)

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

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

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

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

2.6 Segment reporting

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

2.7 Foreign currency translation

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

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

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

2.8 Property, plant and equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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

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

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

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

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits will flow to the Group. Repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Residual values and useful lives are reviewed and adjusted, if applicable, at each reporting date. An asset is written down to its recoverable amount if the carrying value is greater than the estimated recoverable amount.

Any gain and loss arising on disposal of property, plant and equipment is measured as the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

2.9 Investment property

Property held for long-term rental or capital appreciation, or both that is not occupied by the Group is classified as investment property. Investment property, including land and buildings, is initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement.

If an investment property becomes held for own use, it is reclassified as property, plant and equipment. Where a property is partly used as an investment property and partly for the use by the Group, these elements are recorded separately within investment property and property, plant and equipment respectively, where the component used as investment property would be capable of separate sale or lease.

2.10 Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 December 2006 (the date of transition to IFRS) is carried at book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising on the Group's investment in subsidiaries since that date is shown as a separate asset and is carried at cost less any accumulated impairment losses, whilst that on associates and joint ventures is included within the carrying value of those investments. All acquisition-related costs are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Goodwill and other intangible assets (continued)

Other intangible assets

Other intangible assets consist primarily of acquired computer software and contractual relationships, such as access to distribution networks, and are amortised over their estimated useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs directly associated with the internal production of identifiable and unique software by the Group that will generate economic benefits exceeding those costs over a period greater than a year, are recognised as intangible assets. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs of acquiring computer software licences and incurred in the internal production of computer software are amortised using the straight-line method over the estimated useful life of the software, which does not generally exceed a period of 3 to 15 years. The amortisation charge for the period is included in the consolidated income statement under “Operating expenses”.

Costs associated with acquiring rights to access distribution networks are amortised on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the intangible asset. The amortisation charge for rights to access distribution networks is included in the consolidated income statement under “Commission and other acquisition expenses”.

2.11 Impairment of non-financial assets

Property, plant and equipment, goodwill and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount, which is the higher of the fair value of the asset less cost to sell and value in use. For the purposes of assessing impairment, assets are allocated to each of the Group’s cash-generating units, or group of cash-generating units, the lowest level for which there are separately identifiable cash flows. The carrying values of goodwill and intangible assets with indefinite useful lives are reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value.

The Group assesses at the end of each reporting period whether there is any objective evidence that its investments in associates and joint ventures are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the associates and joint ventures operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associate or a joint venture is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment’s fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

In the statement of financial position of the Company, impairment testing of the investments in subsidiaries, associates and joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associates or joint ventures in the period the dividend is declared or if the carrying amount of the relevant investment in the Company’s statement of financial position exceeds its carrying amount in the consolidated financial statements of the investees’ net assets including goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Securities lending including repurchase agreements

The Group has been a party to various securities lending agreements under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised and so they continue to be recognised within the appropriate investment classification.

Assets sold under repurchase agreements (repos)

Assets sold under repurchase agreements continue to be recognised and a liability is established for the consideration received. The Group may be required to provide additional collateral based on the fair value of the underlying assets, and such collateral assets remain on the consolidated statement of financial position.

Assets purchased under agreements to resell (reverse repos)

The Group enters into purchases of assets under agreements to resell (reverse repos). Reverse repos are initially recorded at the cost of the loan or collateral advanced within the caption “Loans and deposits” in the consolidated statement of financial position. In the event of failure by the counterparty to repay the loan, the Group has the right to the underlying assets.

2.13 Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of derivative transactions, securities lending transactions, and repo and reverse repo transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the consolidated statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the consolidated statement of financial position unless the Group sells these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

Collateral pledged in the form of cash which is legally segregated from the Group is derecognised from the consolidated statement of financial position and a corresponding receivable established for its return. Non-cash collateral pledged is not derecognised (except in the event of default) and therefore continues to be recognised in the consolidated statement of financial position within the appropriate financial instrument classification.

2.14 Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method. All borrowing costs are expensed as they are incurred, except for borrowing costs directly attributable to the development of investment properties and other qualifying assets, which are capitalised as part of the cost of the asset.

2.15 Income taxes

The current tax expense is based on the taxable profits for the period, including any adjustments in respect of prior years. Tax is allocated to profit or loss before taxation and amounts charged or credited to equity as appropriate.

Deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except as described below.

The principal temporary differences arise from the basis of recognition of insurance and investment contract liabilities, revaluation of certain financial assets and liabilities including derivative contracts, deferred acquisition costs and the future taxes arising on the surplus in life funds where the relevant local tax regime is distributions-based. The rates enacted or substantively enacted at the date of the consolidated statement of financial position are used to determine deferred tax.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Income taxes (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is evidence that future profits will be available.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and which affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred tax related to fair value remeasurement of available for sale investments and other amounts taken directly to equity, is recognised initially within the applicable component of equity. It is subsequently recognised in the consolidated income statement, together with the gain or loss arising on the underlying item.

In addition to paying tax on shareholders' profits, certain of the Group's life insurance businesses pay tax on policyholders' investment returns (policyholder tax) at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense and disclosed separately.

2.16 Revenue

Investment return

Investment income consists of dividends, interest and rents receivable for the reporting period. Investment experience comprises realised gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Rental income on investment property is recognised on an accrual basis. Investment return consists of investment income and investment experience.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the period end and the carrying value at the previous year end or purchase price if purchased during the period, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the period.

Other fee and commission income

Other fee and commission income consists primarily of fund management fees, income from any incidental non-insurance activities, distribution fees from mutual funds, commissions on reinsurance ceded and commission revenue from the sale of mutual fund shares. Reinsurance commissions receivable are deferred in the same way as acquisition costs. Apart from certain additional administrative requests from customers such as fund switching, investment redemptions or subscription of which the related fees are recognised as revenue at the point in time when the related services take place, the Group's performance obligations under service contracts are generally satisfied over time as the customer simultaneously receives and consumes the benefits of the services rendered.

Income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. In case of variable consideration contracts, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is subsequently resolved.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits

Annual leave and long service leave

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Post-retirement benefit obligations

The Group operates a number of funded and unfunded post-retirement employee benefit schemes, whose members receive benefits on either a defined benefit basis (generally related to salary and length of service) or a defined contribution basis (generally related to the amount invested, investment return and annuity rates), the assets of which are generally held in separate trustee-administered funds. The defined benefit plans provide life and medical benefits for employees after retirement and a lump sum benefit on cessation of employment, and the defined contribution plans provide post-retirement pension benefits.

For defined benefit plans, the costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to the consolidated income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The resulting scheme surplus or deficit appears as an asset or liability in the consolidated statement of financial position.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in staff costs in the consolidated income statement.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in consolidated income statement when the plan amendment or curtailment occurs.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, does not have any further payment obligations. The Group's contributions are charged to the consolidated income statement in the reporting period to which they relate and are included in staff costs.

Share-based compensation and cash incentive plans

The Group launched a number of share-based compensation plans, under which the Group receives services from the employees, directors, officers and agents as consideration for the shares and/or share options of the Company. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme), the Employee Share Purchase Plan (ESPP) and the Agency Share Purchase Plan (ASPP).

The Group's share-based compensation plans are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the award of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

Share-based compensation and cash incentive plans *(continued)*

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or share options awarded. Non-market vesting conditions are included in assumptions about the number of shares and/or share options that are expected to be vested. At each period end, the Group revises its estimates of the number of shares and/or share options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

The Group estimates the fair value of share options using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the share option.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

2.18 Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

2.19 Leases

The Group has elected to apply IFRS 16 to its leases retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Therefore, the comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable from 1 January 2019

Leases, where a significant portion of the risks and rewards of ownership is retained by the Group as a lessor, are classified as operating leases. Assets subject to such leases are included in property, plant and equipment or investment property, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the consolidated income statement as a component of investment return on a straight-line basis over the period of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

Policy applicable from 1 January 2019 (continued)

The Group leases various properties, computer hardware, fixtures, fittings and other small items as a lessee. These leases, except for short-term leases and leases of low-value assets, are recognised as right-of-use assets and lease liabilities at the date at which the leased assets are available for use by the Group. Right-of-use assets are presented as a component of property, plant and equipment or investment property while lease liabilities are presented as a component of other liabilities (see notes 17, 18 and 34). Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, except for leasehold land and prepayments for land use rights that are either held for the Group's own occupancy or used as investment property to which a different measurement model is applied. The depreciation charge for right-of-use assets, by class of underlying asset, and finance cost on lease liabilities are disclosed in note 11.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate of the respective business unit (as the lessee) within the Group. Furthermore, a maturity analysis of the Group's lease liabilities is disclosed in note 38.

Right-of-use assets are measured at cost comprising the following:

- the amount of initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Leasehold land and prepayments for land use rights are reported as right-of-use assets within property, plant, and equipment or as a component of investment property depending on whether the property interest is used as investment property. Leases held for long-term rental or capital appreciation or both that are not occupied by the Group are classified as investment property. They are initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. Leasehold land and prepayments for land use rights that are held for the Group's own occupancy are recognised at cost and measured subsequently using the revaluation model in IAS 16 Property, plant and equipment, where changes in fair values in subsequent periods are generally recognised in other comprehensive income. There are not any freehold land interests in Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

Policy applicable from 1 January 2019 (continued)

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computer hardware and small items of furniture and fixtures that are individually, when new, below US$5,000. Expenses relating to short-term leases are disclosed in note 11.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive for the lessee to exercise an extension option, or not exercise a termination option. Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) by the lessee. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Subleases

The Group subleases some of its leased property, such as office buildings, to third parties. The Group accounts for its interest in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease. Sublease income is presented as rental income which is a component of investment return.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases (continued)

Policy applicable before 1 January 2019

Leases, where a significant portion of the risks and rewards of ownership is retained by the Group as a lessor, are classified as operating leases. Assets subject to such leases are included in property, plant and equipment or investment property, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the consolidated income statement on a straight-line basis over the period of the relevant lease.

Payments made by the Group as lessee under operating leases are classified either as an operating lease prepayment or as a component of investment property depending on whether the property interest is used as investment property. Operating leases held for long-term rental or capital appreciation or both that are not occupied by the Group are classified as investment property. They are initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. The Group classifies amounts paid to acquire leasehold land which are held for the Group's own occupancy as an operating lease prepayment or as a component of property, plant and equipment depending on whether substantially all the risks and rewards incidental to the ownership of the land are transferred to the Group. Prepayments for land use rights under operating leases that are held for the Group's own occupancy (net of any incentives received from the lessor) are included within "Other assets" and charged to the consolidated income statement on a straight-line basis over the period of the relevant lease. There are not any freehold land interests in Hong Kong.

2.20 Share capital

Ordinary shares are classified in equity when there is not any obligation to transfer cash or other assets to the holders.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue.

Dividends

Interim dividends on ordinary shares are recognised when they have been paid. Final dividends on ordinary shares are recognised when they have been approved by shareholders.

2.21 Presentation of the consolidated statement of financial position

The Group's insurance and investment contract liabilities and related assets are realised and settled over periods of several years, reflecting the long-term nature of the Group's products. Accordingly, the Group presents the assets and liabilities in its consolidated statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Group regards its intangible assets, investments in associates and joint ventures, property, plant and equipment, investment property and deferred acquisition and origination costs as non-current assets as these are held for the longer-term use of the Group.

2.22 Earnings per share

Basic earnings per share is calculated by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Earnings per share has also been calculated on the operating profit before adjusting items, attributable to ordinary shareholders, as the Directors believe this figure provides a better indication of operating performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these consolidated financial statements where the Group does not have contractual rights to the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

2.24 Consolidated statement of cash flow

The consolidated statement of cash flow presents movements in cash and cash equivalents and bank overdrafts as shown in the consolidated statement of financial position.

Purchases and sales of financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims. Purchases and sales of investment property are included within cash flows from investing activities.

2.25 Related party transactions

Transactions with related parties are recorded at amounts mutually agreed and transacted between the parties to the arrangement.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, and revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

Items that are considered particularly sensitive to changes in estimates and assumptions, and the relevant accounting policies are those which relate to product classification, insurance contract liabilities (including liabilities in respect of investment contracts with DPF), deferred acquisition and origination costs, liability adequacy testing, fair value measurement and impairment of goodwill and other intangible assets.

3.1 Product classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract.

The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.4.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.2 Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

The Group calculates the insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, policyholder dividends (for other participating business), surrenders and expenses set at the policy inception date. These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by geographical market, year of issuance and product. Mortality, surrender and expense assumptions are based on actual experience by each geographical market, modified to allow for variations in policy form. The Group exercises significant judgement in making appropriate assumptions.

For contracts with an explicit account balance, such as universal life and unit-linked contracts, insurance contract liabilities represent the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges. Significant judgement is exercised in making appropriate estimates of gross profits which are based on historical and anticipated future experiences, these estimates are regularly reviewed by the Group.

The Group accounts for insurance contract liabilities for participating business written in participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds 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 applicable regulations. Establishing these liabilities requires the exercise of significant judgement. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction. The insurance contract liabilities of those countries are predominately measured at the net present value of future receipts from and payments to policyholders. The discount rate applied reflects the current market rate. Significant judgment is exercised in making appropriate assumptions of the cash flows.

The judgements exercised in the valuation of insurance contract liabilities (including investment contracts with DPF) affect the amounts recognised in the consolidated financial statements as insurance contract benefits and insurance contract liabilities.

Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.4, 27 and 29.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Deferred acquisition and origination costs

The judgements exercised in the deferral and amortisation of acquisition and origination costs affect amounts recognised in the consolidated financial statements as deferred acquisition and origination costs and insurance and investment contract benefits.

As noted in note 2.4.1, deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As noted in note 2.4.1, deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. As noted in note 3.2, significant judgement is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

Additional details of deferred acquisition and origination costs are provided in notes 2.4 and 20.

3.4 Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF at least annually. Significant judgement is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed by portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. The Group performs liability adequacy testing separately for each reportable segment.

The judgements exercised in liability adequacy testing affect amounts recognised in the consolidated financial statements as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and insurance and investment contract liabilities.

3.5 Fair value measurement

3.5.1 Fair value of financial assets

The Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgement is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

The degree of judgement used in measuring the fair value of financial assets generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Changes in the fair value of financial assets held by the Group's participating funds affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the proportion of the net assets of the participating funds that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based on current local regulations. Both of the foregoing changes are reflected in the consolidated income statement.

Changes in the fair value of financial assets held to back the Group's unit-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in the consolidated income statement.

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 23 and 38.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Fair value measurement (continued)

3.5.2 Fair value of property held for own use and investment property

The Group uses independent professional valuers to determine the fair value of properties on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. In most cases, current use of the properties is considered to be the highest and best use for determining the fair value. Different valuation techniques may be adopted to reach the fair value of the properties. Under the Market Data Approach, records of recent sales and offerings of similar property are analysed and comparisons are made for factors such as size, location, quality and prospective use. For investment properties, the discounted cash flow approach may be used by reference to net rental income allowing for reversionary income potential to estimate the fair value of the properties. On some occasions, the cost approach is used as well to calculate the fair value which reflects the cost that would be required to replace the service capacity of the property.

Further details of the fair value of property held for own use and investment property are provided in note 23.

3.6 Impairment of goodwill and other intangible assets

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units or groups of cash generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). The determination of the recoverable amount requires significant judgement regarding the selection of appropriate valuation techniques and assumptions.

Further details of the impairment of goodwill during the period are provided in note 15.

4. EXCHANGE RATES

The Group's principal overseas operations during the reporting period were located within 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	
	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Hong Kong	**7.84**	7.84
Thailand	**31.03**	32.35
Singapore	**1.36**	1.35
Malaysia	**4.14**	4.04
Mainland China	**6.91**	6.61

Assets and liabilities have been translated at the following year/period-end rates:

	US dollar exchange rates	
	As at 31 December 2019	As at 31 December 2018
Hong Kong	**7.79**	7.83
Thailand	**29.84**	32.47
Singapore	**1.35**	1.36
Malaysia	**4.09**	4.14
Mainland China	**6.97**	6.88

Exchange rates are expressed in units of local currency per US$1.

5. CHANGE IN GROUP COMPOSITION

This note provides details of the acquisition of subsidiaries that the Group has made during the year ended 31 December 2019.

Acquisition

In September 2017, the Group entered into an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia, including a 20-year strategic bancassurance partnership with CBA in Australia, pending the completion of all necessary regulatory and governmental approvals. On 1 November 2019, the Group, CBA and The Colonial Mutual Life Assurance Society Limited (CMLA) entered into a contractual joint cooperation agreement (the Agreement), which provided an alternative completion structure for the original planned acquisition. Upon the execution of the Agreement, the Group exercised control over CMLA and other affiliated companies, other than CMLA's stake in BoCommLife Insurance Company Limited (BoCommLife) under this alternative completion structure. While CBA retains legal ownership of 100% of the voting equity, the Agreement gives the Group rights to direct the relevant activities of the acquired entities, as well as rights to their variable returns, with the exception of activities and returns related to BoCommLife. The Group currently has not legally acquired any of the voting equity of the acquired entities.

This acquisition presents the Group with an extensive customer reach and distribution capabilities in Australia, including a separate 25-year strategic bancassurance partnership with CBA. 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. The deferred cash consideration and contingent consideration will be settled in cash and are included in other liabilities. The actual payment with respect to this contingent amount could range between nil and AUD100m. Substantially all of the deferred cash consideration is due to be settled within 12 months.

There is a related reinsurance agreement, resulting in CMLA receiving a net upfront reinsurance commission of approximately US$480m.

The Group incurred US$15m of acquisition-related costs which were recognised as "other expenses" in the Group's consolidated income statement.

Consideration is subject to purchase price adjustments that are not yet finalised. The values of consideration and goodwill are therefore provisional as of 31 December 2019. The finalisation of the values of consideration and goodwill could be completed within 12 months of the acquisition date.

5. CHANGE IN GROUP COMPOSITION (continued)

Acquisition (continued)

Details of the fair value of the assets and liabilities acquired and the provisional goodwill arising from the acquisition of CMLA are set out as follows:

US$m	Fair values as at the date of acquisition
Investment securities	7,116
Reinsurance assets	329
Other assets[(1)]	441
Cash and cash equivalents	356
Insurance and investment contract liabilities	(6,811)
Deferred tax liabilities	(118)
Other liabilities	(417)
Net assets acquired	896
Provisional goodwill arising on acquisition	558
Provisional fair value of consideration	1,454
Less:	
Cash and cash equivalents held in acquired subsidiaries	(356)
Deferred cash consideration and contingent consideration as at 31 December 2019	(943)
Net change in cash and cash equivalents	155

Note:

(1) Other assets include acquired receivables, including insurance and other receivables, for which the fair value approximated the gross contractual amount at the acquisition date. As of the acquisition date there are no amounts of contractual cash flows from acquired receivables that are not expected to be collected.

Goodwill

The provisional goodwill recognised is mainly attributable to the distribution strengths and synergies and other benefits from combining CMLA and the Group's operations in Australia (including New Zealand). The provisional goodwill is not expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

The acquired CMLA and other affiliated companies contributed revenue of US$76m and loss before tax of US$2m to the Group's consolidated income statement for the year ended 31 December 2019. Had CMLA and other affiliated companies been consolidated from 1 January 2019, the Group's consolidated income statement would have reported revenue of US$1,562m and profit before tax of US$53m for the year ended 31 December 2019.

6. PREMIUMS AND FEE INCOME

Included in premium and fee income of US$142m (thirteen months ended 31 December 2018: US$147m) is fee income for investment contracts without DPF that refers to fee charged for the provision of investment management services for investment contracts without DPF, which usually varies with the amounts being managed, and the release of deferred fee income. For the investment management service fee charged, revenue is recognised as services are provided and the fees are deducted from the customers' account balances.

Generally, a customer can cancel an investment contract without DPF at any time after contract inception, subject to a surrender charge which is not a significant component of revenue.

7. OPERATING PROFIT AFTER TAX

Operating profit after tax may be reconciled to net profit as follows:

US$m	Note	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Operating profit after tax	9	**5,786**	5,731
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Short-term fluctuations in investment return related to equities and real estate (net of tax of: year ended 31 December 2019: US$(43)m; thirteen months ended 31 December 2018: US$164m)[1]		**937**	(1,881)
Reclassification of revaluation gain for property held for own use (net of tax of: year ended 31 December 2019: US$10m; thirteen months ended 31 December 2018: US$11m)[1]		**(170)**	(212)
Corporate transaction related costs (net of tax of: year ended 31 December 2019: US$33m; thirteen months ended 31 December 2018: US$(35)m)		**(85)**	(148)
Implementation costs for new accounting standards (net of tax of: year ended 31 December 2019: US$13m; thirteen months ended 31 December 2018: US$5m)		**(39)**	(43)
Other non-operating investment return and other items (net of tax of: year ended 31 December 2019: US$(12)m; thirteen months ended 31 December 2018: US$22m)		**258**	(221)
Net profit		**6,687**	3,226
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited		**5,741**	5,684
Non-controlling interests		**45**	47
Net profit attributable to:			
Shareholders of AIA Group Limited		**6,648**	3,163
Non-controlling interests		**39**	63

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.

Note:

(1) 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.

8. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

For management decision-making and internal performance management purposes, the Group measures business volumes during the year/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 9.

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premiums and fee income recorded in the consolidated income statement.

ANP is a key internal measure of new business activities, which consists of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. ANP excludes new business of pension business, personal lines and motor insurance.

TWPI US$m	**Year ended 31 December 2019**	Thirteen months ended 31 December 2018
TWPI by geography		
Hong Kong	**13,107**	12,501
Thailand	**4,352**	4,232
Singapore	**2,916**	2,906
Malaysia	**2,142**	2,245
Mainland China	**4,804**	4,366
Other Markets	**6,681**	6,859
Total	**34,002**	33,109
First year premiums by geography		
Hong Kong	**2,134**	2,458
Thailand	**694**	589
Singapore	**367**	349
Malaysia	**325**	328
Mainland China	**1,204**	1,082
Other Markets	**935**	1,127
Total	**5,659**	5,933
Single premiums by geography		
Hong Kong	**2,089**	2,767
Thailand	**222**	284
Singapore	**1,258**	1,800
Malaysia	**234**	202
Mainland China	**326**	151
Other Markets	**722**	737
Total	**4,851**	5,941

8. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS (continued)

TWPI (continued) US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Renewal premiums by geography		
Hong Kong	**10,764**	9,766
Thailand	**3,636**	3,614
Singapore	**2,423**	2,377
Malaysia	**1,794**	1,897
Mainland China	**3,567**	3,269
Other Markets	**5,674**	5,658
Total	**27,858**	26,581

ANP US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
ANP by geography		
Hong Kong	**2,393**	2,793
Thailand	**729**	648
Singapore	**538**	562
Malaysia	**406**	396
Mainland China	**1,248**	1,098
Other Markets[1]	**1,271**	1,273
Total	**6,585**	6,770

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 year ended 31 December 2019 (thirteen months ended 31 December 2018: exclude any contribution from Tata AIA Life).

9. SEGMENT INFORMATION

The Group's operating segments, based on the reports received by the ExCo, are each of the geographical markets in which the Group operates. Each of the reportable segments, other than the "Group Corporate Centre" segment, writes life insurance business, providing life insurance, accident and health insurance and savings plans to customers in its local market, and distributes related investment and other financial services products. The reportable segments are Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, Mainland China, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia (including New Zealand), Cambodia, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

The acquired subsidiaries and respective operations mentioned in note 5 are included under the operations in Australia (including New Zealand).

As each reportable segment other than the Group Corporate Centre segment focuses on serving the life insurance needs of its local market, there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- ANP;
- TWPI;
- investment return;
- operating expenses;
- operating profit after tax attributable to shareholders of AIA Group Limited;
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit after tax expressed as a percentage of TWPI; and
- operating return on shareholders' allocated equity measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing shareholders' allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests and fair value reserve).

In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

Business volumes in respect of the Group's five largest customers are less than 30 per cent of premiums and fee income.

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
Year ended 31 December 2019								
ANP	**2,393**	**729**	**538**	**406**	**1,248**	**1,271**	**–**	**6,585**
TWPI	**13,107**	**4,352**	**2,916**	**2,142**	**4,804**	**6,681**	**–**	**34,002**
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	14,191	4,222	3,372	1,826	4,814	4,413	58	32,896
Investment return	3,119	1,394	1,225	582	971	1,157	451	8,899
Total revenue	**17,310**	**5,616**	**4,597**	**2,408**	**5,785**	**5,570**	**509**	**41,795**
Net insurance and investment contract benefits	12,970	3,190	3,348	1,585	3,783	2,705	43	27,624
Commission and other acquisition expenses	1,602	814	390	216	315	951	9	4,297
Operating expenses	454	236	222	183	376	759	238	2,468
Finance costs and other expenses	164	55	30	16	64	59	194	582
Total expenses	**15,190**	**4,295**	**3,990**	**2,000**	**4,538**	**4,474**	**484**	**34,971**
Share of losses from associates and joint ventures	–	–	–	–	–	(8)	–	(8)
Operating profit before tax	**2,120**	**1,321**	**607**	**408**	**1,247**	**1,088**	**25**	**6,816**
Tax on operating profit before tax	(174)	(257)	(24)	(68)	(186)	(242)	(79)	(1,030)
Operating profit/(losses) after tax	**1,946**	**1,064**	**583**	**340**	**1,061**	**846**	**(54)**	**5,786**
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,931	1,064	583	333	1,061	823	(54)	5,741
Non-controlling interests	15	–	–	7	–	23	–	45
Key operating ratios:								
Expense ratio	3.5%	5.4%	7.6%	8.5%	7.8%	11.4%	–	7.3%
Operating margin	14.8%	24.4%	20.0%	15.9%	22.1%	12.7%	–	17.0%
Operating return on shareholders' allocated equity	22.8%	16.5%	17.6%	19.7%	28.8%	10.6%	–	14.4%
Operating profit before tax includes:								
Finance costs	31	2	–	2	47	8	181	271
Depreciation and amortisation	79	22	28	22	75	83	31	340

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
31 December 2019								
Total assets	**92,233**	**38,842**	**40,397**	**15,896**	**29,084**	**51,901**	**15,779**	**284,132**
Total liabilities	**75,901**	**28,333**	**36,034**	**13,958**	**24,690**	**40,925**	**6,335**	**226,176**
Total equity	**16,332**	**10,509**	**4,363**	**1,938**	**4,394**	**10,976**	**9,444**	**57,956**
Shareholders' allocated equity	**9,420**	**6,697**	**3,515**	**1,782**	**3,805**	**8,634**	**8,992**	**42,845**
Net capital (out)/in flows	**(986)**	**(1,037)**	**(295)**	**(176)**	**(1,022)**	**(214)**	**1,910**	**(1,820)**
Total assets include:								
Investments in associates and joint ventures	**3**	**–**	**–**	**4**	**–**	**608**	**–**	**615**

Segment information may be reconciled to the consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[1]	Consolidated income statement	
Year ended 31 December 2019					
Net premiums, fee income and other operating revenue	**32,896**	**–**	**(4)**	**32,892**	Net premiums, fee income and other operating revenue
Investment return	**8,899**	**1,474**	**3,977**	**14,350**	Investment return
Total revenue	**41,795**	**1,474**	**3,973**	**47,242**	**Total revenue**
Net insurance and investment contract benefits	**27,624**	**494**	**3,342**	**31,460**	Net insurance and investment contract benefits
Other expenses	**7,347**	**–**	**532**	**7,879**	Other expenses
Total expenses	**34,971**	**494**	**3,874**	**39,339**	**Total expenses**
Share of losses from associates and joint ventures	**(8)**	**–**	**–**	**(8)**	Share of losses from associates and joint ventures
Operating profit before tax	**6,816**	**980**	**99**	**7,895**	**Profit before tax**

Note:
(1) Include unit-linked contracts.

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
Thirteen months ended 31 December 2018								
ANP	2,793	648	562	396	1,098	1,273	–	6,770
TWPI	12,501	4,232	2,906	2,245	4,366	6,859	–	33,109
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	14,046	4,156	3,295	1,970	4,222	4,505	28	32,222
Investment return	2,849	1,433	1,271	644	934	1,200	397	8,728
Total revenue	16,895	5,589	4,566	2,614	5,156	5,705	425	40,950
Net insurance and investment contract benefits	12,600	3,156	3,290	1,701	3,246	3,030	26	27,049
Commission and other acquisition expenses	1,568	828	380	273	294	775	13	4,131
Operating expenses	438	235	226	196	348	701	222	2,366
Finance costs and other expenses	149	55	32	13	38	55	169	511
Total expenses	14,755	4,274	3,928	2,183	3,926	4,561	430	34,057
Share of losses from associates and joint ventures	–	–	–	–	–	–	–	–
Operating profit/(losses) before tax	2,140	1,315	638	431	1,230	1,144	(5)	6,893
Tax on operating profit/(losses) before tax	(165)	(254)	(39)	(81)	(291)	(248)	(84)	(1,162)
Operating profit/(losses) after tax	1,975	1,061	599	350	939	896	(89)	5,731
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,958	1,061	599	345	939	871	(89)	5,684
Non-controlling interests	17	–	–	5	–	25	–	47
Key operating ratios:								
Expense ratio	3.5%	5.6%	7.8%	8.7%	8.0%	10.2%	–	7.1%
Operating margin	15.8%	25.1%	20.6%	15.6%	21.5%	13.1%	–	17.3%
Operating return on shareholders' allocated equity	25.4%	18.2%	19.7%	22.1%	27.0%	13.1%	–	15.7%
Operating profit/(losses) before tax includes:								
Finance costs	33	1	–	–	23	4	149	210
Depreciation and amortisation	34	11	21	19	26	54	12	177

9. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
31 December 2018								
Total assets	71,898	31,632	36,064	14,526	24,228	39,095	12,363	229,806
Total liabilities	64,299	24,627	32,865	12,885	20,068	30,889	4,767	190,400
Total equity	7,599	7,005	3,199	1,641	4,160	8,206	7,596	39,406
Shareholders' allocated equity	7,508	6,181	3,116	1,600	3,565	6,901	7,924	36,795
Net capital (out)/in flows	(1,054)	(149)	(267)	(185)	(542)	(479)	1,172	(1,504)
Total assets include:								
Investments in associates and joint ventures	–	–	–	6	–	604	–	610

Segment information may be reconciled to the consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[1]	Consolidated income statement	
Thirteen months ended 31 December 2018					
Net premiums, fee income and other operating revenue	32,222	–	(2)	32,220	Net premiums, fee income and other operating revenue
Investment return	8,728	(2,928)	(1,723)	4,077	Investment return
Total revenue	40,950	(2,928)	(1,725)	36,297	**Total revenue**
Net insurance and investment contract benefits	27,049	(883)	(1,570)	24,596	Net insurance and investment contract benefits
Other expenses	7,008	–	523	7,531	Other expenses
Total expenses	34,057	(883)	(1,047)	32,127	**Total expenses**
Share of losses from associates and joint ventures	–	–	–	–	Share of losses from associates and joint ventures
Operating profit before tax	6,893	(2,045)	(678)	4,170	**Profit before tax**

Note:
(1) Include unit-linked contracts.

10. REVENUE

Investment return

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Interest income	**6,714**	6,743
Dividend income	**914**	849
Rental income[1]	**180**	184
Investment income	**7,808**	7,776
Available for sale		
Net realised gains from debt securities	**610**	10
Impairment of debt securities	**–**	(81)
Net gains/(losses) of available for sale financial assets reflected in the consolidated income statement	**610**	(71)
At fair value through profit or loss		
Net gains/(losses) of financial assets designated at fair value through profit or loss		
Net gains of debt securities	**1,256**	63
Net gains/(losses) of equity securities	**4,897**	(4,028)
Net fair value movement on derivatives	**93**	(120)
Net gains/(losses) in respect of financial instruments at fair value through profit or loss	**6,246**	(4,085)
Net fair value movement of investment property and property held for own use	**103**	469
Net foreign exchange losses	**(461)**	(2)
Other net realised gains/(losses)	**44**	(10)
Investment experience	**6,542**	(3,699)
Investment return	**14,350**	4,077

Note:

(1) Represents rental income from operating leases contracts in which the Group acts as a lessor.

Foreign currency movements resulted in the following (losses)/gains recognised in the consolidated income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Foreign exchange (losses)/gains	**(345)**	53

Other operating revenue

The balance of other operating revenue largely consists of asset management fees, administrative fees and membership fees.

11. EXPENSES

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Insurance contract benefits	**14,011**	13,573
Change in insurance contract liabilities	**18,397**	13,272
Investment contract benefits	**992**	(462)
Insurance and investment contract benefits	**33,400**	26,383
Insurance and investment contract benefits ceded	**(1,940)**	(1,787)
Insurance and investment contract benefits, net of reinsurance ceded	**31,460**	24,596
Commission and other acquisition expenses incurred	**6,499**	6,664
Deferral and amortisation of acquisition costs	**(2,216)**	(2,528)
Commission and other acquisition expenses	**4,283**	4,136
Employee benefit expenses	**1,569**	1,486
Depreciation	**228**	80
Amortisation	**69**	57
Operating lease rentals	**–**	187
Other operating expenses[1]	**602**	556
Operating expenses	**2,468**	2,366
Investment management expenses and others	**530**	517
Depreciation on property held for own use	**42**	37
Restructuring and other non-operating costs[2]	**246**	223
Change in third-party interests in consolidated investment funds	**27**	24
Other expenses	**845**	801
Finance costs	**283**	228
Total	**39,339**	32,127

Other operating expenses include auditors' remuneration of US$26m (thirteen months ended 31 December 2018: US$23m), an analysis of which is set out below:

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Audit services	**19**	17
Non-audit services, including:		
Audit-related services	**5**	2
Tax services	**1**	2
Other services	**1**	2
Total	**26**	23

Notes:

(1) Includes payments for short-term leases of US$34m for the year ended 31 December 2019.

(2) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of corporate transaction related costs and implementation costs for new accounting standards.

11. EXPENSES (continued)

Depreciation consists of:

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Computer hardware, fixtures and fittings and others	**85**	80
Right-of-use assets		
Property held for own use	**142**	–
Fixtures and fittings and others	**1**	–
Total	**228**	80

Finance costs may be analysed as:

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Repurchase agreements	**54**	43
Medium-term notes	**208**	176
Other loans	**5**	9
Lease liabilities	**16**	–
Total	**283**	228

Employee benefit expenses consist of:

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Wages and salaries	**1,278**	1,217
Share-based compensation	**79**	74
Pension costs – defined contribution plans	**90**	89
Pension costs – defined benefit plans	**13**	10
Other employee benefit expenses	**109**	96
Total	**1,569**	1,486

12. INCOME TAX

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Tax charged in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	**157**	148
Current income tax – overseas	**453**	796
Deferred income tax on temporary differences	**598**	–
Total	**1,208**	944

The tax benefit or expense attributable to life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, New Zealand, the Philippines and Sri Lanka is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax expenses attributable to policyholders' returns included above is US$179m (thirteen months ended 31 December 2018: tax credit of US$51m).

The provision for Hong Kong Profits Tax is calculated at 16.5 per cent. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below.

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Hong Kong	**16.5%**	16.5%
Thailand	**20%**	20%
Singapore	**17%**	17%
Malaysia	**24%**	24%
Mainland China	**25%**	25%
Others	**12%-30%**	12%-30%

The table above reflects the principal rate of corporate income tax as at the end of each year/period. The rates reflect enacted or substantively enacted corporate tax rates throughout the year/period in each jurisdiction.

From fiscal years 2018 to 2020, AIA Korea is subject to an effective corporate income tax of 27.5%, which includes an Accumulated Earnings Tax. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2021.

12. INCOME TAX (continued)

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Income tax reconciliation		
Profit before income tax	**7,895**	4,170
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**1,426**	874
Reduction in tax payable from:		
Life insurance tax[1]	**(26)**	–
Exempt investment income	**(305)**	(312)
Amount over-provided in prior years	**(15)**	(2)
Provisions for uncertain tax positions	**–**	(28)
Change in tax rate and law	**(74)**	–
	(420)	(342)
Increase in tax payable from:		
Life insurance tax[1]	**–**	185
Withholding taxes	**47**	43
Disallowed expenses	**101**	164
Unrecognised deferred tax assets	**11**	6
Provisions for uncertain tax positions	**7**	–
Change in tax rate and law	**–**	2
Others	**36**	12
	202	412
Total income tax expense	**1,208**	944

Note:

(1) Life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.

12. INCOME TAX (continued)

The movement in net deferred tax liabilities in the year/period may be analysed as set out below:

US$m	Net deferred tax asset/ (liability) at 1 January 2019	Acquisition of subsidiaries(3)	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income			Net deferred tax asset/ (liability) at year end
				Fair value reserve(2)	Foreign exchange	Others	
31 December 2019							
Revaluation of financial instruments	**(890)**	**(154)**	**(157)**	**(1,245)**	**(22)**	**–**	**(2,468)**
Deferred acquisition costs	**(3,062)**	**–**	**(205)**	**–**	**(72)**	**–**	**(3,339)**
Insurance and investment contract liabilities	**726**	**26**	**(151)**	**–**	**38**	**–**	**639**
Withholding taxes	**(181)**	**–**	**(17)**	**–**	**(5)**	**–**	**(203)**
Provision for expenses	**137**	**15**	**53**	**–**	**7**	**3**	**215**
Losses available for offset against future taxable income	**55**	**–**	**114**	**–**	**1**	**–**	**170**
Life surplus (1)	**(617)**	**–**	**(135)**	**–**	**(8)**	**–**	**(760)**
Others	**(329)**	**(5)**	**(100)**	**–**	**(7)**	**(27)**	**(468)**
Total	**(4,161)**	**(118)**	**(598)**	**(1,245)**	**(68)**	**(24)**	**(6,214)**

	Net deferred tax asset/ (liability) at 1 December 2017	Acquisition of subsidiaries(3)	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income			Net deferred tax asset/ (liability) at period end
				Fair value reserve(2)	Foreign exchange	Others	
31 December 2018							
Revaluation of financial instruments	(1,156)	1	424	(159)	–	–	(890)
Deferred acquisition costs	(2,546)	(98)	(474)	–	56	–	(3,062)
Insurance and investment contract liabilities	1,086	(360)	12	–	(12)	–	726
Withholding taxes	(147)	–	(41)	–	7	–	(181)
Provision for expenses	146	2	(1)	–	(3)	(7)	137
Losses available for offset against future taxable income	31	–	25	–	(1)	–	55
Life surplus (1)	(674)	–	48	–	9	–	(617)
Others	(326)	–	7	–	–	(10)	(329)
Total	(3,586)	(455)	–	(159)	56	(17)	(4,161)

Notes:

(1) Life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long-term fund. This primarily relates to Singapore and Malaysia.

(2) Of the fair value reserve deferred tax charge/(credit) of US$1,245m for 2019 (thirteen months ended 31 December 2018: US$159m), US$1,311m (thirteen months ended 31 December 2018: US$177m) relates to fair value gains and losses on available for sale financial assets and US$(66)m (thirteen months ended 31 December 2018: US$(18)m relates to fair value gains and losses on available for sale financial assets transferred to income on disposal and impairment) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal.

(3) The amount of US$118m represents a one-time adjustment in respect of the acquisition of CMLA. The amount of US$455m for the thirteen months ended 31 December 2018 represents a one-time adjustment in respect of the acquisition of Sovereign.

12. INCOME TAX (continued)

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The Group has not recognised deferred tax assets of US$71m (31 December 2018: US$60m) on tax losses and the temporary difference on insurance and investment contract liabilities arising from different accounting and statutory/tax reserving methodology for certain branches and subsidiaries on the basis that they have histories of tax losses and there is insufficient evidence that future profits will be available.

The Group has not provided deferred tax liabilities of US$176m (31 December 2018: US$59m) in respect of unremitted earnings of operations in three jurisdictions from which a withholding tax charge would be incurred upon distribution as the Group does not consider it probable that this portion of accumulated earnings will be remitted in the foreseeable future.

The Group has unused income tax losses carried forward in Hong Kong, Macau, Thailand, Singapore, Malaysia, Mainland China, Australia, Cambodia, New Zealand, the Philippines, South Korea, Sri Lanka and Taiwan (China). The tax losses of Hong Kong, Singapore, Australia and New Zealand can be carried forward indefinitely. The tax losses of remaining branches and subsidiaries are due to expire within the periods ending 2021 (Macau), 2022 (the Philippines), 2023 (Mainland China), 2024 (Cambodia, Sri Lanka and Thailand), 2026 (Malaysia) and 2029 (South Korea and Taiwan (China)).

13. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year/period. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for purposes of computing basic and diluted earnings per share.

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Net profit attributable to shareholders of AIA Group Limited (US$m)	**6,648**	3,163
Weighted average number of ordinary shares in issue (million)	**12,042**	12,020
Basic earnings per share (US cents per share)	**55.21**	26.31

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 December 2019 and 31 December 2018, 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 40.

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Net profit attributable to shareholders of AIA Group Limited (US$m)	**6,648**	3,163
Weighted average number of ordinary shares in issue (million)	**12,042**	12,020
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	**29**	35
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,071**	12,055
Diluted earnings per share (US cents per share)	**55.07**	26.24

At 31 December 2019, 4,249,232 share options (31 December 2018: 5,752,143) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

Operating profit after tax per share

Operating profit after tax (see note 7) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year/period. As of 31 December 2019 and 31 December 2018, 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 40.

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Basic (US cents per share)	**47.67**	47.29
Diluted (US cents per share)	**47.56**	47.15

14. DIVIDENDS

Dividends to shareholders of the Company attributable to the year/period:

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Interim dividend declared and paid of 33.30 Hong Kong cents per share (thirteen months ended 31 December 2018: 29.20 Hong Kong cents per share)	**513**	449
Final dividend proposed after the reporting date of 93.30 Hong Kong cents per share (thirteen months ended 31 December 2018: 84.80 Hong Kong cents per share) [1]	**1,444**	1,302
Total dividend excluding special dividend	**1,957**	1,751
Special dividend proposed after the reporting date of nil per share (thirteen months ended 31 December 2018: 9.50 Hong Kong cents per share) [1]	**–**	146
Total	**1,957**	1,897

Note:

(1) Based upon shares outstanding at 31 December 2019 and 31 December 2018 that are entitled to a dividend, other than those held by employee share-based trusts.

The above final dividend was proposed by the Board on 12 March 2020 subject to shareholders' approval at the AGM to be held on 29 May 2020. The proposed final dividend has not been recognised as a liability at the reporting date.

Dividends to shareholders of the Company attributable to the previous financial period, approved and paid during the year/period:

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Final dividend in respect of the previous financial period/year, approved and paid during the year/period of 84.80 Hong Kong cents per share (thirteen months ended 31 December 2018: 74.38 Hong Kong cents per share)	**1,302**	1,140
Special dividend in respect of the previous financial period, approved and paid during the year of 9.50 Hong Kong cents per share (thirteen months ended 31 December 2018: nil per share)	**146**	–

15. INTANGIBLE ASSETS

US$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 December 2017	835	526	907	2,268
Additions	–	86	1	87
Acquisition of subsidiaries	167	–	–	167
Disposals	–	(4)	(1)	(5)
Foreign exchange movements	(26)	(10)	(19)	(55)
At 31 December 2018	**976**	**598**	**888**	**2,462**
Additions	**–**	**79**	**2**	**81**
Acquisition of subsidiaries	**558**	**4**	**–**	**562**
Disposals	**–**	**(2)**	**–**	**(2)**
Foreign exchange movements	**21**	**8**	**5**	**34**
At 31 December 2019	**1,555**	**687**	**895**	**3,137**
Accumulated amortisation				
At 1 December 2017	(4)	(297)	(103)	(404)
Amortisation charge for the period	–	(57)	(40)	(97)
Disposals	–	2	1	3
Foreign exchange movements	–	3	3	6
At 31 December 2018	**(4)**	**(349)**	**(139)**	**(492)**
Amortisation charge for the year	**–**	**(69)**	**(52)**	**(121)**
Disposals	**–**	**1**	**–**	**1**
Foreign exchange movements	**–**	**(5)**	**–**	**(5)**
At 31 December 2019	**(4)**	**(422)**	**(191)**	**(617)**
Net book value				
At 31 December 2018	972	249	749	1,970
At 31 December 2019	**1,551**	**265**	**704**	**2,520**

The Group holds intangible assets for its long-term use and the annual amortisation charge of US$121m (31 December 2018: US$90m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period.

Intangible assets in this note exclude deferred acquisition and origination costs, which are separately disclosed with further details provided in note 20.

Impairment tests for goodwill

Goodwill arises primarily in respect of the Group's insurance businesses in Malaysia of US$718m (31 December 2018: US$710m) and Australia (including New Zealand) of US$728m (31 December 2018: US$160m). Goodwill is tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). If the recoverable amount of the unit (group of units) exceeds the carrying amount of the unit (group of units), the goodwill allocated to that unit (group of units) shall be regarded as not impaired. The recoverable amount is the value in use of the cash-generating unit (group of units) unless otherwise stated.

The value in use is determined by calculating as an actuarially determined appraisal value, based on embedded value of the business and the present value of expected future new business of the cash-generating unit (group of units). The present value of expected future new business is based on financial budgets approved by management, typically covering a three year period unless otherwise stated. These financial budgets reflect management's best estimate of future profit based on historical experience and best estimate operating assumptions such as premium and expenses. Further, the present value of expected future new business beyond this initial three year period are extrapolated using a perpetual growth rate, which typically does not exceed the long-term expected Gross Domestic Product (GDP) growth of the geographical area in which the cash flows supporting the goodwill are generated.

15. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

The key assumptions used in the embedded value calculations include risk discount rate, investment returns, mortality, morbidity, persistency, expenses and inflation. In the majority of instances these assumptions are aligned to those assumptions detailed in Section 5 of Supplementary Embedded Value Information. The present value of expected future new business is calculated based on a combination of indicators which include, among others, taking into account recent production mix, business strategy, market trends and risk associated with the future new business projections. The risk discount rates that are used in the value in use of in-force business and present value of expected future new business ranges from 8% to 16% (31 December 2018: 7% to 16%) and the perpetual growth rates for future new business cash flows of 3% was used, where applicable, to extrapolate the present value of expected future new business beyond the initial three year period; the rate was determined by reference to the long-term expected GDP growth of the geographical area in which the cash flows supporting the goodwill are generated. The Group may apply alternative method to estimate the value of future new business if the described method is not appropriate under the circumstances.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

US$m	As at 31 December 2019	As at 31 December 2018
Group		
Investments in associates	**603**	602
Investments in joint ventures	**12**	8
Total	**615**	610

Investments in associates and joint ventures are held for their long-term contribution to the Group's performance and so all amounts are expected to be realised more than 12 months after the end of the reporting period.

The Group's interests in its principal associates and joint ventures are as follows:

				Group's interest %	
	Place of incorporation	Principal activity	Type of shares held	As at 31 December 2019	As at 31 December 2018
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	**49%**	49%

All associates and joint ventures are unlisted.

Aggregated financial information of associates and joint ventures

The investments in the associates and joint ventures are measured using the equity method. The following table analyses, in aggregate, the carrying amount and share of losses and other comprehensive expense of these associates and joint ventures.

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Carrying amount in the statement of financial position	**615**	610
Losses from continuing operations	**(8)**	–
Other comprehensive expense	**(1)**	(45)
Total comprehensive expense	**(9)**	(45)

17. PROPERTY, PLANT AND EQUIPMENT

US$m	Note	Property held for own use	Computer hardware	Fixtures and fittings and others	Total
Cost or revaluation					
At 1 December 2017		979	201	490	1,670
Additions		1	23	75	99
Acquisition of subsidiaries		–	–	10	10
Disposals		(10)	(26)	(40)	(76)
Net transfers from investment property		12	–	–	12
Increase from valuation		5	–	–	5
Foreign exchange movements		(5)	(3)	(9)	(17)
At 31 December 2018		**982**	**195**	**526**	**1,703**
At 1 January 2019, as previously reported		**982**	**195**	**526**	**1,703**
Opening adjustment on adoption of IFRS 16	2	**1,402**	**–**	**3**	**1,405**
Balance at 1 January 2019, as adjusted		**2,384**	**195**	**529**	**3,108**
Additions		**202**	**30**	**69**	**301**
Disposals		**(20)**	**(9)**	**(24)**	**(53)**
Net transfers from investment property		**12**	**–**	**–**	**12**
Increase from valuation		**141**	**–**	**–**	**141**
Foreign exchange movements		**22**	**5**	**11**	**38**
At 31 December 2019		**2,741**	**221**	**585**	**3,547**
Accumulated depreciation					
At 1 December 2017		–	(168)	(289)	(457)
Depreciation charge for the period		(30)	(20)	(60)	(110)
Disposals		–	23	35	58
Net transfers from investment property		(4)	–	–	(4)
Revaluation adjustment		33	–	–	33
Foreign exchange movements		1	3	6	10
At 31 December 2018		**–**	**(162)**	**(308)**	**(470)**
Depreciation charge for the year		**(184)**	**(21)**	**(65)**	**(270)**
Disposals		**12**	**8**	**18**	**38**
Revaluation adjustment		**29**	**–**	**–**	**29**
Foreign exchange movements		**–**	**(4)**	**(5)**	**(9)**
At 31 December 2019		**(143)**	**(179)**	**(360)**	**(682)**
Net book value					
At 31 December 2018		982	33	218	1,233
At 31 December 2019		**2,598**	**42**	**225**	**2,865**

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Right-of-use assets in relation to leases are reported within property, plant and equipment. The carrying amount of right-of-use assets, by class of underlying asset, is set out below:

US$m	As at 31 December 2019
Property held for own use	**1,579**
Fixtures and fittings and others	**3**
Total	**1,582**

Additions to right-of-use assets for the year ended 31 December 2019 were US$193m.

Properties held for own use (excluding right-of-use assets) are carried at fair value at the reporting date less accumulated depreciation. Right-of-use assets with respect to the Group's interest in leasehold land and land use rights associated with property held for own use are also carried at the same basis. The fair value at the reporting date is determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 23. Right-of-use assets in relation to other leased property, plant and equipment are carried at cost less accumulated depreciation.

During the year, US$6m expenditure (31 December 2018: nil) recognised in the carrying amount of property held for own use was in the course of its construction. Increases from revaluation on property held for own use of US$170m (thirteen months ended 31 December 2018: US$38m) were taken to other comprehensive income, of which US$146m was related to right-of-use assets (thirteen months ended 31 December 2018: nil).

If property held for own use (excluding right-of-use assets) were stated on a historical cost basis, the carrying value would be US$335m (31 December 2018: US$377m). Similarly, stated on a historical basis the carrying value of the right-of-use assets related to the Group's interest in leasehold land and land use rights associated with property held for own use would be US$894m (31 December 2018: nil). The Group holds property, plant and equipment for its long-term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

18. INVESTMENT PROPERTY

US$m	
Fair value	
At 1 December 2017	4,365
Additions and capitalised subsequent expenditures	38
Disposals	(7)
Net transfers to property, plant and equipment	(8)
Net transfers to other assets	(34)
Fair value gain	477
Foreign exchange movements	(37)
At 31 December 2018	**4,794**
Additions and capitalised subsequent expenditures	**9**
Disposals	**(120)**
Net transfers to property, plant and equipment	**(12)**
Fair value gain	**103**
Foreign exchange movements	**60**
At 31 December 2019	**4,834**

Investment properties are carried at fair value at the reporting date as determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 23.

The Group leases out its investment property under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every one to four years to reflect market rentals. There were not any material contingent rentals earned as income for the period. Rental income generated from investment property amounted to US$180m (thirteen months ended 31 December 2018: US$184m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US$34m (thirteen months ended 31 December 2018: US$38m).

The Group owns investment property in the form of freehold land outside Hong Kong and leasehold land. Leasehold land which is held for long-term rental or capital appreciation or both that is not occupied by the Group is classified as investment property. They are leased out under operating leases and are initially recognised as right-of-use assets at cost, with changes in fair values in subsequent periods recognised in the consolidated income statement. The Group does not hold freehold land in Hong Kong.

The future undiscounted lease payments under operating leases that the Group expects to receive in future periods may be analysed as follows:

US$m	**As at 31 December 2019**	As at 31 December 2018
Leases of investment property classified as operating leases		
Expiring no later than one year	**132**	148
Expiring later than one year and no later than two years	**80**	150
Expiring later than two years and no later than three years	**57**	63
Expiring later than three years and no later than four years	**22**	28
Expiring later than four years and no later than five years	**21**	11
Expiring after five years or more	**43**	24
Total undiscounted lease receipts	**355**	424

19. REINSURANCE ASSETS

US$m	Note	As at 31 December 2019	As at 31 December 2018
Amounts recoverable from reinsurers		**683**	539
Ceded insurance and investment contract liabilities	27	**3,150**	2,348
Total[(1)]		**3,833**	2,887

Note:
(1) Including US$972m (31 December 2018: US$782m) which is expected to be recovered within 12 months after the end of the reporting period.

20. DEFERRED ACQUISITION AND ORIGINATION COSTS

US$m	As at 31 December 2019	As at 31 December 2018
Carrying amount		
Deferred acquisition costs on insurance contracts	**25,915**	24,162
Deferred origination costs on investment contracts	**302**	347
Value of business acquired	**432**	454
Less: Upfront reinsurance premium rebate	**(321)**	(337)
Total	**26,328**	24,626

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Movements in the year/period		
At beginning of financial year/period	**24,626**	21,847
Deferral and amortisation of acquisition and origination costs	**2,242**	2,507
Foreign exchange movements	**403**	(301)
Impact of assumption changes	**(26)**	21
Other movements	**(917)**	552
At end of financial year/period	**26,328**	24,626

Deferred acquisition and origination costs are expected to be recoverable over the mean term of the Group's insurance and investment contracts, and liability adequacy testing is performed at least annually to confirm their recoverability. Accordingly, the annual amortisation charge, which varies with investment performance for certain universal life and unit-linked products, approximates to the amount which is expected to be realised within 12 months of the end of the reporting period.

During the thirteen months ended 31 December 2018, there was an addition to value of business of US$348m attributable to the acquisition of Sovereign, which has been applied in part against the reinsurance liability arising from the upfront reinsurance commission also attributable to the acquisition of Sovereign.

21. FINANCIAL INVESTMENTS

The following tables analyse the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Unit-linked Investments and Policyholder and Shareholder Investments. The investment risk in respect of Unit-linked Investments is generally wholly borne by our customers, and does not directly affect the profit for the year/period before tax. Furthermore, unit-linked contract holders are responsible for allocation of their policy values amongst investment options offered by the Group. Although profit for the year/period before tax is not affected by Unit-linked Investments, the investment return from such financial investments is included in the Group's profit for the year/period before tax, as the Group has elected the fair value option for all Unit-linked Investments with corresponding changes in insurance and investment contract liabilities for unit-linked contracts. Policyholder and Shareholder Investments include all financial investments other than Unit-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

Policyholder and Shareholder Investments are further categorised as Participating Funds and other participating business with discretionary expected sharing with policyholders and underlying distinct investment Portfolios ("Other Participating Business with distinct Portfolios") and Other Policyholder and Shareholder. Other Participating Business with distinct Portfolios refers to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.

The reason for separately analysing financial investments held by Participating Funds and Other Participating Business with distinct Portfolios is that Participating Funds are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends and for Other Participating Business with distinct Portfolios it is, as explained above, expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected the fair value option for debt and equity securities of Participating Funds. The Group's accounting policy is to record an insurance liability for the proportion of net assets of the Participating Funds that would be allocated to policyholders assuming all performance would be declared as a dividend based upon local regulations as at the date of the statement of financial position. As a result, the Group's net profit before tax for the year/period is impacted by the proportion of investment return that would be allocated to shareholders as described above. For Other Participating Business with distinct Portfolios, the Group either have discretion as to the timing or amount of additional benefits to the policyholders. The Group has elected the fair value option for equity securities and the available for sale classification of the majority of debt securities. The investment risk from Other Participating Business with distinct Portfolios directly impacts the Group's financial statements, but it is expected that a proportion of investment return may be allocated to policyholders through policyholder dividends.

Other Policyholder and Shareholder Investments are distinct from Unit-linked Investments, Participating Funds and Other Participating Business with distinct Portfolios as there is not any direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders or it is not expected that the policyholder will receive at the discretion of the insurer additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Group's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Group's accounting policy for insurance and certain investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments either is not allocated to participating contracts or varies from the best estimates, it will impact the Group's profit before tax.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available for sale.

21. FINANCIAL INVESTMENTS (continued)

Debt securities

In compiling the tables, external ratings have been used in accordance with the Group's credit risk assessment framework. Where external ratings are not readily available an internal rating methodology has been adopted, if applicable.

In 2019, the Group has enhanced the disclosure of its debt security ratings to improve consistency with the Group's credit risk management practices. As a result of the enhancement, the presentation of government bonds has been refined to reflect those that are issued in local or foreign currencies by the government of the country where the respective business unit operates, to which credit risk limits do not apply. Credit risk limits are set according to the Group's credit risk assessment framework, which define the relative risk level of a debt security.

External ratings		Internal ratings	Reported as
Standard and Poor's and Fitch	Moody's		
AAA	Aaa	1	AAA
AA+ to AA-	Aa1 to Aa3	2+ to 2-	AA
A+ to A-	A1 to A3	3+ to 3-	A
BBB+ to BBB-	Baa1 to Baa3	4+ to 4-	BBB
BB+ and below	Ba1 and below	5+ and below	Below investment grade

Debt securities by type comprise the following:

	Policyholder and shareholder							
	Participating funds and Other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds[(1)]	
US$m	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2019								
Government bonds[(2)]								
Thailand	**–**	**–**	**–**	**16,454**	**16,454**	**–**	**–**	**16,454**
Mainland China	**2,987**	**–**	**–**	**12,006**	**14,993**	**74**	**–**	**15,067**
South Korea	**–**	**–**	**–**	**7,607**	**7,607**	**280**	**–**	**7,887**
Singapore	**3,099**	**–**	**–**	**1,276**	**4,375**	**578**	**–**	**4,953**
Philippines	**–**	**–**	**–**	**2,558**	**2,558**	**145**	**–**	**2,703**
Malaysia	**1,334**	**–**	**–**	**564**	**1,898**	**69**	**–**	**1,967**
Indonesia	**–**	**–**	**190**	**583**	**773**	**102**	**–**	**875**
Other	**331**	**–**	**1,207**	**900**	**2,438**	**352**	**–**	**2,790**
Subtotal	**7,751**	**–**	**1,397**	**41,948**	**51,096**	**1,600**	**–**	**52,696**

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. Of the total balance as at 31 December 2019, 99 per cent are rated as investment grades.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

US$m	Policyholder and shareholder: Participating funds and Other participating business with distinct portfolios FVTPL	AFS	Other policyholder and shareholder FVTPL	AFS	Subtotal	Unit-linked FVTPL	Consolidated investment funds[1] FVTPL	Total
31 December 2019								
Other government and government agency bonds[3]								
AAA	2,195	1,511	7	4,250	7,963	82	–	8,045
AA	265	733	4	4,128	5,130	53	291	5,474
A	2,950	890	4	4,007	7,851	80	56	7,987
BBB	518	864	54	4,082	5,518	31	–	5,549
Below investment grade	46	2	7	184	239	20	–	259
Not rated	–	–	–	–	–	4	–	4
Subtotal	5,974	4,000	76	16,651	26,701	270	347	27,318
Corporate bonds								
AAA	41	211	–	424	676	24	1	701
AA	381	1,399	22	2,512	4,314	28	379	4,721
A	5,146	13,389	64	20,086	38,685	402	1,281	40,368
BBB	5,006	14,036	186	21,200	40,428	908	283	41,619
Below investment grade	516	178	26	1,893	2,613	103	–	2,716
Not rated	6	–	5	–	11	150	2	163
Subtotal	11,096	29,213	303	46,115	86,727	1,615	1,946	90,288
Structured securities[4]								
AAA	51	–	122	12	185	60	–	245
AA	30	19	–	144	193	–	–	193
A	70	99	–	338	507	25	–	532
BBB	120	124	–	185	429	–	–	429
Below investment grade	–	–	–	3	3	–	–	3
Not rated	20	–	256	1	277	3	–	280
Subtotal	291	242	378	683	1,594	88	–	1,682
Total[5][6]	25,112	33,455	2,154	105,397	166,118	3,573	2,293	171,984

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

(4) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(5) Debt securities of US$8,150m are restricted due to local regulatory requirements.

(6) AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9 amounted to US$138,307m with 98 per cent are rated as investment grades.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

US$m	Policyholder and shareholder – Participating funds and Other participating business with distinct portfolios – FVTPL	AFS	Policyholder and shareholder – Other policyholder and shareholder – FVTPL	AFS	Subtotal	Unit-linked FVTPL	Consolidated investment funds[1] FVTPL	Total
31 December 2018								
Government bonds[2][6]								
Thailand	–	–	–	13,108	13,108	–	–	13,108
Mainland China	1,952	–	–	10,244	12,196	42	–	12,238
South Korea	–	–	–	6,686	6,686	283	–	6,969
Singapore	2,705	–	–	1,207	3,912	602	–	4,514
Philippines	–	–	–	2,152	2,152	140	–	2,292
Malaysia	1,575	–	–	629	2,204	74	–	2,278
Indonesia	81	–	34	614	729	84	–	813
Other	332	–	351	796	1,479	24	–	1,503
Subtotal	6,645	–	385	35,436	42,466	1,249	–	43,715
Other government and government agency bonds[3][6]								
AAA	1,954	656	–	3,608	6,218	65	–	6,283
AA	282	487	9	3,910	4,688	59	303	5,050
A	2,625	543	3	3,092	6,263	94	35	6,392
BBB	436	437	32	2,670	3,575	27	–	3,602
Below investment grade	54	2	7	159	222	10	–	232
Not rated	–	–	–	6	6	–	–	6
Subtotal	5,351	2,125	51	13,445	20,972	255	338	21,565

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(2) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates.

(3) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

(6) The comparative information has been adjusted to conform to the current year presentation.

21. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following: (continued)

	Policyholder and shareholder							
	Participating funds and Other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds[1]	
US$m	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2018								
Corporate bonds[6]								
AAA	43	178	–	368	589	5	–	594
AA	434	976	17	2,498	3,925	17	365	4,307
A	5,068	8,422	38	17,901	31,429	320	1,173	32,922
BBB	4,064	9,702	122	18,737	32,625	622	160	33,407
Below investment grade	501	258	15	1,681	2,455	151	–	2,606
Not rated	–	–	2	1	3	110	–	113
Subtotal	10,110	19,536	194	41,186	71,026	1,225	1,698	73,949
Structured securities[4][6]								
AAA	–	–	–	10	10	–	–	10
AA	30	10	–	100	140	–	–	140
A	27	132	–	191	350	–	–	350
BBB	143	178	–	131	452	–	–	452
Below investment grade	–	–	–	4	4	–	–	4
Not rated	17	–	18	1	36	–	–	36
Subtotal	217	320	18	437	992	–	–	992
Total[5]	22,323	21,981	648	90,504	135,456	2,729	2,036	140,221

Notes:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

(4) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(5) Debt securities of US$5,282m are restricted due to local regulatory requirements.

(6) The comparative information has been adjusted to conform to the current year presentation.

The Group's debt securities classified at fair value through profit or loss are all designated at fair value through profit or loss.

21. FINANCIAL INVESTMENTS (continued)

Equity securities

Equity securities by type comprise the following:

US$m	Policyholder and shareholder: Participating funds and Other participating business with distinct portfolios FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds(1) FVTPL	Total
31 December 2019						
Equity shares	**12,114**	**6,613**	**18,727**	**6,302**	**331**	**25,360**
Interests in investment funds	**6,625**	**869**	**7,494**	**17,468**	**–**	**24,962**
Total	**18,739**	**7,482**	**26,221**	**23,770**	**331**	**50,322**

US$m	Policyholder and shareholder: Participating funds and Other participating business with distinct portfolios FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds(1) FVTPL	Total
31 December 2018						
Equity shares	9,225	5,042	14,267	4,516	–	18,783
Interests in investment funds	4,667	747	5,414	13,902	–	19,316
Total	13,892	5,789	19,681	18,418	–	38,099

Note:
(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

Debt and equity securities

US$m	As at 31 December 2019	As at 31 December 2018
Debt securities		
Listed	**137,014**	111,008
Unlisted	**34,970**	29,213
Total	**171,984**	140,221
Equity securities		
Listed	**26,743**	20,060
Unlisted(1)	**23,579**	18,039
Total	**50,322**	38,099

Note:
(1) Including US$21,333m (31 December 2018: US$16,495m) of investment funds which can be redeemed daily.

21. FINANCIAL INVESTMENTS (continued)

Interests in structured entities

The Group has determined that the investment funds and structured securities, such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities that the Group has interest are structured entities.

The Group has consolidated certain investment funds for which the Group provides guarantee on capital or rate of return to the investors and deemed to have control based on an analysis of the guidance in IFRS 10. For these investment funds, the Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators. The Group has an obligation to absorb losses in the event that the returns of the funds are insufficient to cover the capital or rate of return guarantee provided to the investors.

The following table summarises the Group's interest in unconsolidated structured entities:

	As at 31 December 2019		As at 31 December 2018	
US$m	Investment funds	Structured securities[1]	Investment funds	Structured securities[1]
Available for sale debt securities	**2,158[2]**	**925**	1,506[2]	757
Debt securities at fair value through profit or loss	**721[2]**	**757**	638[2]	235
Equity securities at fair value through profit or loss	**24,962**	**–**	19,316	–
Total	**27,841**	**1,682**	21,460	992

Notes:
(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.
(2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

The Group's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities.

In addition, the Group receives management fees and trustee fees in respect of providing trustee, management and administrative services to certain retirement scheme funds and investment funds. These funds are not held and the associated investment risks are not borne by the Group, the Group does not have exposure to loss in these funds.

21. FINANCIAL INVESTMENTS (continued)

Loans and deposits

US$m	As at 31 December 2019	As at 31 December 2018
Policy loans	**3,246**	2,896
Mortgage loans on residential real estate	**606**	613
Mortgage loans on commercial real estate	**49**	46
Other loans	**776**	742
Allowance for loan losses	**(13)**	(12)
Loans	**4,664**	4,285
Term deposits	**3,696**	1,521
Promissory notes(1)	**1,726**	1,586
Total	**10,086**	7,392

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. The restricted balance held within term deposits and promissory notes is US$1,951m (31 December 2018: US$1,782m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 31 December 2019, the carrying value of such receivables is US$265m (31 December 2018: US$149m).

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative exposure was as follows:

US$m	Notional amount	Fair value	
		Assets	Liabilities
31 December 2019			
Foreign exchange contracts			
Cross-currency swaps	**8,338**	**396**	**(204)**
Forwards	**4,973**	**62**	**(24)**
Foreign exchange futures	**98**	**–**	**–**
Currency options	**3**	**–**	**–**
Total foreign exchange contracts	**13,412**	**458**	**(228)**
Interest rate contracts			
Interest rate swaps	**8,740**	**487**	**(161)**
Other			
Warrants and options	**147**	**3**	**–**
Forward contracts	**1,843**	**14**	**(17)**
Swaps	**1,333**	**9**	**(6)**
Netting	**(98)**	**–**	**–**
Total	**25,377**	**971**	**(412)**
31 December 2018			
Foreign exchange contracts			
Cross-currency swaps	7,825	224	(159)
Forwards	4,456	11	(42)
Foreign exchange futures	105	–	–
Currency options	6	–	–
Total foreign exchange contracts	12,392	235	(201)
Interest rate contracts			
Interest rate swaps	4,730	122	(42)
Other			
Warrants and options	4,211	57	–
Forward contracts	275	16	–
Netting	(105)	–	–
Total	21,503	430	(243)

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 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$12m (31 December 2018: US$6m) 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 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 economic hedge financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

22. 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 index, rates or other variables applied to a notional amount.

Netting adjustment

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

Collateral under derivative transactions

At 31 December 2019, the Group had posted cash collateral of US$37m (31 December 2018: US$20m) and pledged debt securities with carrying value of US$266m (31 December 2018: US$141m) for liabilities and held cash collateral of US$581m (31 December 2018: US$251m), debt securities collateral with carrying value of US$7m (31 December 2018: US$41m) 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 securities lending and repurchase agreements.

23. FAIR VALUE MEASUREMENT

Fair value of financial instruments

The Group classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost, except for investment contracts with DPF which are accounted for under IFRS 4.

The following tables present the fair values of the Group's financial assets and financial liabilities:

		Fair value				
US$m	Notes	Fair value through profit or loss	Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
31 December 2019						
Financial investments	21					
Loans and deposits		–	–	10,086	10,086	10,086
Debt securities		33,132	138,852	–	171,984	171,984
Equity securities		50,322	–	–	50,322	50,322
Derivative financial instruments	22	971	–	–	971	971
Reinsurance receivables	19	–	–	683	683	683
Other receivables	24	–	–	2,983	2,983	2,983
Accrued investment income	24	–	–	1,710	1,710	1,710
Cash and cash equivalents	26	–	–	3,941	3,941	3,941
Financial assets		84,425	138,852	19,403	242,680	242,680

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	28	11,391	515	11,906	11,906
Borrowings	30	–	5,757	5,757	6,169
Obligations under repurchase agreements	31	–	1,826	1,826	1,826
Derivative financial instruments	22	412	–	412	412
Other liabilities	34	1,116	8,301	9,417	9,417
Financial liabilities		12,919	16,399	29,318	29,730

23. FAIR VALUE MEASUREMENT (continued)

Fair value of financial instruments (continued)

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
31 December 2018						
Financial investments	21					
Loans and deposits		–	–	7,392	7,392	7,392
Debt securities		27,736	112,485	–	140,221	140,221
Equity securities		38,099	–	–	38,099	38,099
Derivative financial instruments	22	430	–	–	430	430
Reinsurance receivables	19	–	–	539	539	539
Other receivables	24	–	–	2,242	2,242	2,242
Accrued investment income	24	–	–	1,604	1,604	1,604
Cash and cash equivalents	26	–	–	2,451	2,451	2,451
Financial assets		66,265	112,485	14,228	192,978	192,978

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	28	6,907	549	7,456	7,456
Borrowings	30	–	4,954	4,954	4,984
Obligations under repurchase agreements and securities lending agreements	31	–	1,683	1,683	1,683
Derivative financial instruments	22	243	–	243	243
Other liabilities	34	1,153	4,831	5,984	5,984
Financial liabilities		8,303	12,017	20,320	20,350

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net positions of foreign currency derivative, is shown in note 38 for the Group's key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

23. FAIR VALUE MEASUREMENT (continued)

Fair value measurements on a recurring basis

The Group measures at fair value property held for own use, investment property, financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis.

The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fair value of properties is based on valuation by independent professional valuers.

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the year ended 31 December 2019.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments and properties.

Determination of fair value

Loans and receivables

For loans and advances that are repriced frequently and have not had any significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair values.

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers, private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor's credit spreads, foreign exchange rates and credit default rates. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Derivative financial instruments

The Group values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

When the Group holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Group takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that require the exchange of collateral on the basis of each party's net credit risk exposure). The Group measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Property held for own use and investment property

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's properties at least on an annual basis. The valuation on open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of other properties were derived using the Market Data Approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity.

The properties held for own use and investment properties, in most cases, are valued on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. The current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the properties in use would be taken into account when they would maximise the fair value of the properties; the Group is occupying these properties for operational purposes.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

The carrying amount of amounts receivable from reinsurers is not considered materially different to their fair value.

Fair value of securities sold under repurchase agreements and the associated payables

The contract values of payables under repurchase agreements approximate their fair value as these obligations are short-term in nature.

Other assets

The carrying amount of other financial assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

23. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Investment contract liabilities

For investment contract liabilities, the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder, the fair value generally approximates to the fair value of the underlying assets.

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 27. These are not measured at fair value as there is currently not an agreed definition of fair value for investment and insurance contracts with DPF under IFRS. In the absence of any agreed methodology, it is not possible to provide a range of estimates within which fair value is likely to fall.

Borrowings

The fair values of borrowings with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities or prices obtained from brokers.

Other liabilities

The fair values of other unquoted financial liabilities is estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those without stated maturity, where the carrying value approximates to fair value.

Fair value hierarchy for fair value measurement on a recurring basis

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three “levels” based on the observability of inputs available in the marketplace used to measure their fair values as discussed below:

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities. The Group considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.

- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.

- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Group's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Group considers factors specific to the asset or liability.

A summary of assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2019				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	1,019	1,019
Investment property	–	–	4,834	4,834
Financial assets				
Available for sale				
Debt securities				
Participating funds and Other participating business with distinct portfolios	72	33,153	230	33,455
Other policyholder and shareholder	133	104,220	1,044	105,397
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios	8	24,529	575	25,112
Unit-linked and consolidated investment funds	–	5,848	18	5,866
Other policyholder and shareholder	1	1,886	267	2,154
Equity securities				
Participating funds and Other participating business with distinct portfolios	16,108	896	1,735	18,739
Unit-linked and consolidated investment funds	23,559	244	298	24,101
Other policyholder and shareholder	6,348	755	379	7,482
Derivative financial instruments				
Foreign exchange contracts	–	458	–	458
Interest rate contracts	–	487	–	487
Other contracts	14	12	–	26
Total assets on a recurring fair value measurement basis	46,243	172,488	10,399	229,130
% of Total	*20.2*	*75.3*	*4.5*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	11,391	11,391
Derivative financial instruments				
Foreign exchange contracts	–	228	–	228
Interest rate contracts	–	161	–	161
Other contracts	12	11	–	23
Other liabilities	–	1,116	–	1,116
Total liabilities on a recurring fair value measurement basis	12	1,516	11,391	12,919
% of Total	*0.1*	*11.7*	*88.2*	*100.0*

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

US$m	Fair value hierarchy Level 1	Level 2	Level 3	Total
31 December 2018				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	982	982
Investment property	–	–	4,794	4,794
Financial assets				
Available for sale				
Debt securities				
Participating funds and Other participating business with distinct portfolios	27	21,645	309	21,981
Other policyholder and shareholder	–	89,591	913	90,504
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios	7	21,785	531	22,323
Unit-linked and consolidated investment funds	–	4,697	68	4,765
Other policyholder and shareholder	1	618	29	648
Equity securities				
Participating funds and Other participating business with distinct portfolios	12,124	710	1,058	13,892
Unit-linked and consolidated investment funds	18,223	195	–	18,418
Other policyholder and shareholder	4,859	655	275	5,789
Derivative financial instruments				
Foreign exchange contracts	–	235	–	235
Interest rate contracts	–	122	–	122
Other contracts	2	71	–	73
Total assets on a recurring fair value measurement basis	35,243	140,324	8,959	184,526
% of Total	*19.1*	*76.0*	*4.9*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	6,907	6,907
Derivative financial instruments				
Foreign exchange contracts	–	201	–	201
Interest rate contracts	–	42	–	42
Other liabilities	–	1,153	–	1,153
Total liabilities on a recurring fair value measurement basis	–	1,396	6,907	8,303
% of Total	*–*	*16.8*	*83.2*	*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 year ended 31 December 2019, the Group transferred US$379m (thirteen months ended 31 December 2018: US$15m) 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$36m of asset (thirteen months ended 31 December 2018: nil) from Level 2 to Level 1 during the year ended 31 December 2019.

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

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.

The tables below set out a summary of changes in the Group's Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended 31 December 2019 and the thirteen months ended 31 December 2018. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 31 December 2019 and 31 December 2018.

Level 3 assets and liabilities

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 January 2019	**982**	**4,794**	**1,850**	**1,333**	**–**	**(6,907)**
Net movement on investment contract liabilities	–	–	–	–	–	(480)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(26)	103	(10)	(35)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	44	60	(6)	24	–	–
Acquisition of subsidiaries	–	–	247	448	–	(4,004)
Transfer from investment property	9	(9)	–	–	–	–
Purchases	10	9	559	706	–	–
Sales	–	(120)	(19)	(31)	–	–
Settlements	–	–	(487)	–	–	–
Transfer out of Level 3	–	(3)	–	(33)	–	–
At 31 December 2019	**1,019**	**4,834**	**2,134**	**2,412**	**–**	**(11,391)**
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	**(26)**	**103**	**(3)**	**19**	**–**	**–**

23. FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

Level 3 assets and liabilities (continued)

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 December 2017	979	4,365	1,732	1,060	–	(7,020)
Net movement on investment contract liabilities	–	–	–	–	–	593
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(30)	477	15	(14)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	34	(37)	(55)	(16)	–	–
Acquisition of subsidiaries	–	–	–	–	–	(480)
Transfer to other assets	–	(34)	–	–	–	–
Transfer from investment property	8	(8)	–	–	–	–
Purchases	1	38	635	375	–	–
Sales	(10)	(7)	(11)	(72)	–	–
Settlements	–	–	(492)	–	–	–
Transfer into Level 3	–	–	26	–	–	–
At 31 December 2018	982	4,794	1,850	1,333	–	(6,907)
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses	(30)	477	14	19	–	–

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 28.

Assets transferred out of Level 3 mainly relate to equity securities of which market-observable inputs became available during the year and were used in determining the fair value.

There are not any differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

23. FAIR VALUE MEASUREMENT (continued)

Significant unobservable inputs for level 3 fair value measurements

As at 31 December 2019 and 31 December 2018, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 31 December 2019 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	**817**	**Discounted cash flows**	**Risk adjusted discount rate**	**3.69% – 14.14%**

Description	Fair value at 31 December 2018 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	872	Discounted cash flows	Risk adjusted discount rate	3.83% – 13.41%

Fair value of the Group's properties are determined based on appropriate valuation techniques which may consider among others income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable.

Valuation processes

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses 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.

23. FAIR VALUE MEASUREMENT (continued)

Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2019 and 31 December 2018 is given below.

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2019				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	**2,959**	**2,769**	**4,358**	**10,086**
Reinsurance receivables	**–**	**683**	**–**	**683**
Other receivables	**55**	**2,855**	**73**	**2,983**
Accrued investment income	**36**	**1,674**	**–**	**1,710**
Cash and cash equivalents	**3,941**	**–**	**–**	**3,941**
Total assets for which the fair value is disclosed	**6,991**	**7,981**	**4,431**	**19,403**
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	**–**	**–**	**515**	**515**
Borrowings	**5,350**	**819**	**–**	**6,169**
Obligations under repurchase agreements	**–**	**1,826**	**–**	**1,826**
Other liabilities	**354**	**7,888**	**59**	**8,301**
Total liabilities for which the fair value is disclosed	**5,704**	**10,533**	**574**	**16,811**

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2018				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	601	2,525	4,266	7,392
Reinsurance receivables	–	539	–	539
Other receivables	5	2,178	59	2,242
Accrued investment income	26	1,578	–	1,604
Cash and cash equivalents	2,451	–	–	2,451
Total assets for which the fair value is disclosed	3,083	6,820	4,325	14,228
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	–	–	549	549
Borrowings	4,504	480	–	4,984
Obligations under repurchase and securities lending agreements	–	1,683	–	1,683
Other liabilities	476	4,131	224	4,831
Total liabilities for which the fair value is disclosed	4,980	6,294	773	12,047

24. OTHER ASSETS

US$m	As at 31 December 2019	As at 31 December 2018
Accrued investment income	**1,710**	1,604
Pension scheme assets		
Defined benefit pension scheme surpluses	**44**	47
Insurance receivables due from insurance and investment contract holders	**1,459**	1,316
Prepayments – operating lease of leasehold land	**–**	385
Others[(1)]	**2,392**	1,551
Total	**5,605**	4,903

Note:
(1) Represents, among others, prepayments and investment-related receivables.

All amounts other than certain prepayments are generally expected to be recovered within 12 months after the end of the reporting period.

25. IMPAIRMENT OF FINANCIAL ASSETS

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

Available for sale debt securities

During the year ended 31 December 2019, no impairment loss (thirteen months ended 31 December 2018: US$81m) was recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2019 was nil (31 December 2018: nil).

Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 21 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 31 December 2019 was US$14m (31 December 2018: US$13m).

The Group has a portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short-term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within one year and cover is cancelled if consideration is not received.

26. CASH AND CASH EQUIVALENTS

US$m	As at 31 December 2019	As at 31 December 2018
Cash	**3,158**	1,657
Cash equivalents	**783**	794
Total[(1)]	**3,941**	2,451

Note:
(1) Of cash and cash equivalents, US$703m (31 December 2018: US$590m) are held to back unit-linked contracts and US$49m (31 December 2018: US$82m) 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.

27. INSURANCE CONTRACT LIABILITIES

The movements of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) and ceded insurance contract liabilities (see note 19) are shown as follows:

US$m	Gross	Reinsurance	Net
At 1 December 2017	148,897	(1,974)	146,923
Valuation premiums and deposits	31,660	(1,668)	29,992
Liabilities released for policy termination or other policy benefits paid and related expenses	(17,576)	1,202	(16,374)
Fees from account balances	(1,924)	–	(1,924)
Accretion of interest	5,610	(13)	5,597
Change in net asset values attributable to policyholders	(666)	–	(666)
Acquisition of subsidiaries	91	(18)	73
Foreign exchange movements	(1,949)	148	(1,801)
Other movements	621	–	621
At 31 December 2018	**164,764**	**(2,323)**	**162,441**
At 1 January 2019	**164,764**	**(2,323)**	**162,441**
Valuation premiums and deposits	**33,900**	**(1,804)**	**32,096**
Liabilities released for policy termination or other policy benefits paid and related expenses	**(20,586)**	**1,269**	**(19,317)**
Fees from account balances	**(2,401)**	**–**	**(2,401)**
Accretion of interest	**6,077**	**(20)**	**6,057**
Change in net asset values attributable to policyholders	**3,937**	**–**	**3,937**
Acquisition of subsidiaries	**2,807**	**(285)**	**2,522**
Foreign exchange movements	**2,211**	**13**	**2,224**
Other movements	**(1,112)**	**–**	**(1,112)**
At 31 December 2019	**189,597**	**(3,150)**	**186,447**

27. INSURANCE CONTRACT LIABILITIES (continued)

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can also be analysed as follows:

US$m	As at 31 December 2019	As at 31 December 2018
Deferred profit	**9,963**	8,386
Unearned revenue	**2,091**	3,224
Policyholders' share of participating surplus	**9,286**	7,474
Liabilities for future policyholder benefits	**168,257**	145,680
Total	**189,597**	164,764

Business description

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life assurance with DPF	Participating funds	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders	Singapore, Mainland China, Malaysia
	Other participating business	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders • Morbidity	Hong Kong, Thailand, Other Markets
Traditional non-participating life assurance		Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses	All(1)
Accident and health		These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses	All(1)
Unit-linked		Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	• Investment performance • Lapses • Expenses • Mortality	All(1)
Universal life		The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer	Benefits are based on the account balance and death benefit	• Investment performance • Crediting rates • Lapses • Expenses • Mortality	All(1)

Note:

(1) Other than the Group Corporate Centre segment.

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items to which profit for the year/period and shareholders' equity are sensitive are market, insurance and lapse risks which are shown in the table below. Indirect exposure indicates that there is a second order impact. For example, whilst the profit for the year/period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of unit-linked contracts), there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

		Market and credit risk			
		Direct exposure			
Type of contract		Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	Participating funds	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality
	Other participating business	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality • Morbidity
Traditional non-participating life assurance		• Guarantees • Asset-liability mismatch risk	• Investment performance • Asset-liability mismatch risk • Credit risk	• Not applicable	• Mortality • Persistency • Morbidity
Accident and health		• Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Not applicable	• Morbidity • Persistency
Pension		• Net neutral • Asset-liability mismatch risk	• Net neutral • Asset-liability mismatch risk	• Performance-related investment management fees	• Persistency
Unit-linked		• Net neutral	• Net neutral	• Performance-related investment management fees	• Persistency • Mortality
Universal life		• Guarantees • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Spread between earned rate and crediting rate to policyholders	• Mortality • Persistency • Withdrawals

The Group is also exposed to foreign exchange rate risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions (continued)

Valuation interest rates

As at 31 December 2019 and 31 December 2018, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by operating segment, year of issuance and products, within the first 20 years are as follows:

	As at 31 December 2019	As at 31 December 2018
Hong Kong	**3.50% – 7.50%**	3.50% – 7.50%
Thailand	**3.13% – 9.00%**	3.13% – 9.00%
Singapore	**2.00% – 7.00%**	2.00% – 7.00%
Malaysia	**3.70% – 5.43%**	3.70% – 5.43%
Mainland China	**2.75% – 7.00%**	2.75% – 7.00%
Australia	**0.51% – 7.11%**	2.04% – 7.11%
Indonesia	**3.02% – 8.61%**	3.02% – 8.75%
Philippines	**2.20% – 9.20%**	2.20% – 9.20%
South Korea	**2.17% – 6.50%**	2.74% – 6.50%
Sri Lanka	**8.61% – 10.96%**	8.34% – 12.57%
Taiwan (China)	**1.75% – 6.50%**	1.75% – 6.50%
Vietnam	**5.53% – 11.48%**	5.53% – 11.48%

28. INVESTMENT CONTRACT LIABILITIES

US$m	Year ended 31 December 2019	Thirteen months ended 31 December 2018
At beginning of financial year/period	**7,885**	8,082
Investment contract benefits	**992**	(462)
Fees charged	**(93)**	(134)
Acquisition of subsidiaries	**4,004**	480
Net withdrawals and other movements	**(603)**	(3)
Foreign exchange movements	**88**	(78)
At end of financial year/period[1]	**12,273**	7,885

Note:

(1) Of investment contract liabilities, US$367m (31 December 2018: US$429m) represents deferred fee income. Movement of deferred fee income of US$62m represents revenue recognised as a result of performance obligations satisfied during the year.

29. EFFECT OF CHANGES IN ASSUMPTIONS AND ESTIMATES

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

US$m	**As at 31 December 2019**	As at 31 December 2018
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	**127**	42
0.5 pps decrease in investment return	**(143)**	(64)
10% increase in expenses	**(50)**	(11)
10% increase in mortality rates	**(80)**	(55)
10% increase in lapse/discontinuance rates	**(66)**	(39)

Future policy benefits for the Group's majority traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of these traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group's traditional life products, except for a limited number of cases where statutory requirements are adopted in the applicable jurisdiction.

For interest sensitive insurance contracts, such as universal life products and unit-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US$38m decrease in profit (thirteen months ended 31 December 2018: US$11m increase in profit).

30. BORROWINGS

US$m	As at 31 December 2019	As at 31 December 2018
Medium-term notes	**5,757**	4,954
Total	**5,757**	4,954

Interest expense on borrowings is shown in note 11. Further information relating to interest rates and the maturity profile of borrowings is presented in note 38.

The following table summarises the Company's outstanding medium-term notes placed to the market at 31 December 2019:

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
13 March 2013[(1)]	US$500m	3.125%	10 years	13 March 2023
11 March 2014[(1)]	US$500m	4.875%	30 years	11 March 2044
11 March 2015[(1)]	US$750m	3.200%	10 years	11 March 2025
16 March 2016[(1)]	US$750m	4.500%	30 years	16 March 2046
23 May 2017[(2)]	US$500m	4.470%	30 years	23 May 2047
6 April 2018[(1)]	US$500m	3.900%	10 years	6 April 2028
12 April 2018	HK$3,900m	2.760%	3 years	12 April 2021
20 September 2018[(1)]	US$500m	3M LIBOR + 0.52%	3 years	20 September 2021
16 January 2019	HK$1,300m	2.950%	3.5 years	16 July 2022
16 January 2019	HK$1,100m	3.680%	12 years	16 January 2031
9 April 2019[(1)]	US$1,000m	3.600%	10 years	9 April 2029

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 (China). 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 year ended 31 December 2019 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, as well as 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 31 December 2019 and 31 December 2018.

31. OBLIGATIONS UNDER REPURCHASE AND SECURITIES LENDING 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. In addition, the Group has entered into securities lending agreement whereby securities are loaned to a national monetary authority.

The securities related to these agreements are not de-recognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase and securities lending 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 or securities lending agreements which do not qualify for de-recognition at each year/period end:

US$m	**As at 31 December 2019**	As at 31 December 2018
Debt securities – AFS		
Repurchase agreements	**1,947**	1,748
Securities lending	**–**	340
Debt securities – FVTPL		
Repurchase agreements	**41**	16
Total	**1,988**	2,104

Collateral

At 31 December 2019, the Group had no pledged debt securities (31 December 2018: nil). Cash collateral of US$1m (31 December 2018: US$5m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

The Group did not have any securities lending transactions outstanding as at 31 December 2019. The securities lending transactions outstanding as at 31 December 2018 were conducted with a national monetary authority on securities denominated in local currency issued by the same authority.

At 31 December 2019, the obligations under repurchase agreements were US$1,826m (31 December 2018: US$1,683m).

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Offsetting, enforceable master netting agreements and similar agreements

The following table shows the assets that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year/period end:

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2019						
Financial assets:						
Derivative assets	**971**	**–**	**971**	**(7)**	**(581)**	**383**
Reverse repurchase agreements	**265**	**–**	**265**	**(265)**	**–**	**–**
Total	**1,236**	**–**	**1,236**	**(272)**	**(581)**	**383**

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2018						
Financial assets:						
Derivative assets	430	–	430	(41)	(251)	138
Reverse repurchase agreements	149	–	149	(149)	–	–
Total	579	–	579	(190)	(251)	138

32. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Offsetting, enforceable master netting agreements and similar agreements (continued)

The following table shows the liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year/period end:

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2019						
Financial liabilities:						
Derivative liabilities	**412**	**–**	**412**	**(266)**	**(37)**	**109**
Repurchase agreements	**1,826**	**–**	**1,826**	**(1,826)**	**–**	**–**
Total	**2,238**	**–**	**2,238**	**(2,092)**	**(37)**	**109**

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
31 December 2018						
Financial liabilities:						
Derivative liabilities	243	–	243	(141)	(20)	82
Repurchase agreements	1,683	–	1,683	(1,683)	–	–
Total	1,926	–	1,926	(1,824)	(20)	82

The Group entered into enforceable master netting agreements for derivative transactions, as well as the repurchase and securities lending agreements for debt instruments with various counterparties. Except for certain futures contracts executed through clearing house mechanism where the settlement arrangement satisfied the IFRS netting criteria, the transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the IFRS netting criteria. The provision in the master netting agreement and similar agreements enables a party to terminate transactions early and settle at a net amount if a default or termination event occurs.

33. PROVISIONS

US$m	Employee benefits	Other	Total
At 1 December 2017	143	91	234
Charged to the consolidated income statement	10	30	40
Charged to other comprehensive income	(8)	–	(8)
Exchange differences	–	(1)	(1)
Released during the period	–	(11)	(11)
Utilised during the period	(18)	(64)	(82)
Other movements	3	(7)	(4)
At 31 December 2018	**130**	**38**	**168**
Charged to the consolidated income statement	**13**	**34**	**47**
Charged to other comprehensive income	**25**	**–**	**25**
Acquisition of subsidiaries	**–**	**15**	**15**
Exchange differences	**9**	**1**	**10**
Released during the year	**–**	**(6)**	**(6)**
Utilised during the year	**(7)**	**(33)**	**(40)**
Other movements	**6**	**–**	**6**
At 31 December 2019	**176**	**49**	**225**

Other provisions

Other provisions comprise provisions in respect of regulatory matters, litigation, reorganisation and restructuring. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate, the Group is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

34. OTHER LIABILITIES

US$m	**As at 31 December 2019**	As at 31 December 2018
Trade and other payables	**6,262**	3,964
Lease liabilities[(1)]	**556**	–
Third-party interests in consolidated investment funds	**1,116**	1,153
Reinsurance-related payables	**1,483**	867
Total	**9,417**	5,984

Note:

(1) Potential future cash outflows of US$2m have not been included in lease liabilities because it is not reasonably certain that the leases will be extended (or not terminated).

Third-party interests in consolidated investment funds consist of third-party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period. The realisation of third-party interests in investment funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third-party investors.

Reinsurance-related payables of US$573m (31 December 2018: US$124m) are expected to be settled more than 12 months after the end of the reporting period.

35. SHARE CAPITAL AND RESERVES

Share capital

	As at 31 December 2019		As at 31 December 2018	
	Million shares	US$m	Million shares	US$m
Ordinary shares[1], issued and fully paid				
At beginning of the financial year/period	**12,077**	**14,073**	12,074	14,065
Shares issued under share option scheme and agency share purchase plan	**12**	**56**	3	8
At end of the financial year/period	**12,089**	**14,129**	12,077	14,073

Note:

(1) Ordinary shares have no nominal value.

The Company issued 10,552,614 shares under share option scheme (thirteen months ended 31 December 2018: 1,355,304 shares) and 1,260,386 shares under agency share purchase plan (thirteen months ended 31 December 2018: 1,167,021 shares) during the year ended 31 December 2019.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2019 with the exception of 3,127,664 shares (thirteen months ended 31 December 2018: 1,409,735 shares) of the Company purchased by and 911,718 shares (thirteen months ended 31 December 2018: nil) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the year ended 31 December 2019, 15,525,163 shares (thirteen months ended 31 December 2018: 12,870,000 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 31 December 2019, 39,862,439 shares (31 December 2018: 52,259,936 shares) of the Company were held by the employee share-based trusts.

Reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

Property revaluation reserve

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

Other reserves

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

36. NON-CONTROLLING INTERESTS

US$m	As at 31 December 2019	As at 31 December 2018
Equity shares in subsidiaries	**69**	71
Share of earnings	**374**	356
Share of other reserves	**5**	(27)
Total	**448**	400

37. GROUP CAPITAL STRUCTURE

Capital Management Approach

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely and satisfying regulatory capital requirements at all times.

The Group's capital management function oversees all capital-related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining AIA's capacity to pay dividends to shareholders.

Regulatory Solvency

The Group 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 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019			31 December 2018		
US$m	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	**11,856**	**3,272**	**362%**	9,208	2,189	421%
AIA International	**9,280**	**2,443**	**380%**	6,772	1,855	365%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

37. GROUP CAPITAL STRUCTURE (continued)

Regulatory Solvency (continued)

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.

Capital and Regulatory Orders Specific to the Group

As of 31 December 2019, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

Hong Kong Insurance Authority

AIA Group Limited has given to the HKIA an undertaking that AIA Group Limited will:

(i) ensure that (a) each of AIA Co. and AIA International will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong ("minimum amount"); (b) it will not withdraw capital or transfer any funds or assets out of AIA Co. or AIA International that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; and (c) should the solvency ratio of either AIA Co. or AIA International fall below the respective minimum amounts, AIA Group Limited will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the HKIA;

(ii) notify the HKIA in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;

(iii) be subject to the supervision of the HKIA and AIA Group Limited will be required to continually comply with the HKIA's guidance on the "fit and proper" standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Group's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Group's corporate governance; the soundness of the Group's risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and

(iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidelines issued by the HKIA from time to time.

38. RISK MANAGEMENT

Risk management framework

AIA recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the Group. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

Insurance risk

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

Lapse

Lapse risk is the risk policies lapse, on average, earlier than assumed in the pricing or reserving assumptions.

Ensuring customers buy products that meet their needs is central to the Group's Operating Philosophy. Through effective implementation of the Business Quality Framework, comprehensive sales training programmes and active monitoring of sales activities and persistency, the Group seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers' needs.

Expense

Expense risk is the risk of greater than expected trends in, or sudden shocks to, the amount or timing of expenses incurred by the business.

Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Group's very substantial experience within the markets in which we operate.

Morbidity and Mortality

Morbidity and mortality risk is the risk that the incidence and/or amounts of medical/death claims are higher than the assumptions made in pricing and/or reserving.

The Group adheres to well-defined market-oriented underwriting and claims guidelines and practices that have been developed based on extensive historical experience and with the assistance of professional reinsurers.

The Group's actuarial teams conduct regular experience studies of all the insurance risk factors in its in-force book. These internal studies together with external data are used to identify emerging trends which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Group seeks to anticipate and respond promptly to potential adverse experience impacts on its products.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters.

38. RISK MANAGEMENT (continued)

Investment and financial risks

Credit risk

Credit risk is the risk that third parties fail to meet their obligations to the Group when they fall due. Although the primary source of credit risk is the Group's investment portfolio, such risk can also arise through reinsurance, procurement, and treasury activities.

The Group's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of defence. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Group's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating determined by the investment teams. The Group's Risk Management function manages the Group's internal ratings framework and conducts periodic rating reviews. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Group's insurance liabilities.

AIA manages interest rate risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2019				
Financial assets				
Loans and deposits	1,042	8,238	806	10,086
Other receivables	2	1	2,677	2,680
Debt securities	8,229	163,755	–	171,984
Equity securities	–	–	50,322	50,322
Reinsurance receivables	–	–	683	683
Accrued investment income	–	–	1,710	1,710
Cash and cash equivalents	3,639	–	302	3,941
Derivative financial instruments	–	–	971	971
Total financial assets	12,912	171,994	57,471	242,377
Financial liabilities				
Investment contract liabilities	–	–	11,906	11,906
Borrowings	500	5,257	–	5,757
Obligations under repurchase agreements	1,826	–	–	1,826
Other liabilities	682	141	8,594	9,417
Derivative financial instruments	–	–	412	412
Total financial liabilities	3,008	5,398	20,912	29,318

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Exposure to interest rate risk (continued)

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2018				
Financial assets				
Loans and deposits	978	6,406	8	7,392
Other receivables	2	–	1,970	1,972
Debt securities	6,499	133,722	–	140,221
Equity securities	–	–	38,099	38,099
Reinsurance receivables	–	–	539	539
Accrued investment income	–	–	1,604	1,604
Cash and cash equivalents	2,201	–	250	2,451
Derivative financial instruments	–	–	430	430
Total financial assets	9,680	140,128	42,900	192,708
Financial liabilities				
Investment contract liabilities	–	–	7,456	7,456
Borrowings	500	4,454	–	4,954
Obligations under repurchase and securities lending agreements	1,683	–	–	1,683
Other liabilities	260	2	5,722	5,984
Derivative financial instruments	–	–	243	243
Total financial liabilities	2,443	4,456	13,421	20,320

Equity price risk

Equity price risk arises from changes in the market value of equity securities. Investments in equity securities on a long-term basis are expected to align policyholders expectations, provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group's strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Equity price risk (continued)

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 29. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios described in note 2.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

	31 December 2019			31 December 2018		
US$m	**Impact on profit before tax**	**Impact on total equity (before the effects of taxation)**	**Impact on allocated equity (before the effects of taxation)**	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
Equity price risk						
10 per cent increase in equity prices	**1,849**	**1,849**	**1,849**	1,369	1,369	1,369
10 per cent decrease in equity prices	**(1,849)**	**(1,849)**	**(1,849)**	(1,369)	(1,369)	(1,369)
Interest rate risk						
+50 basis points shift in yield curves	**(355)**	**(8,992)**	**(355)**	(258)	(6,504)	(258)
- 50 basis points shift in yield curves	**378**	**10,047**	**378**	274	7,231	274

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in 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.

Foreign exchange rate net exposure

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2019						
Equity analysed by original currency	**33,310**	**2,725**	**6,703**	**(2,604)**	**2,312**	**4,608**
Net positions of currency derivative	**(8,371)**	**592**	**3,349**	**3,274**	**(123)**	**(629)**
Currency exposure	**24,939**	**3,317**	**10,052**	**670**	**2,189**	**3,979**
5% strengthening of original currency						
Impact on profit before tax	**152**	**(40)**	**(17)**	**11**	**(8)**	**(25)**
Impact on other comprehensive income	**(180)**	**151**	**519**	**23**	**118**	**224**
Impact on total equity	**(28)**	**111**	**502**	**34**	**110**	**199**
5% strengthening of the US dollar						
Impact on profit before tax	**152**	**84**	**20**	**4**	**9**	**26**
Impact on other comprehensive income	**(180)**	**(195)**	**(522)**	**(38)**	**(119)**	**(225)**
Impact on total equity	**(28)**	**(111)**	**(502)**	**(34)**	**(110)**	**(199)**

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2018						
Equity analysed by original currency	19,278	2,527	3,819	(1,821)	2,153	4,380
Net positions of currency derivative	(8,448)	595	3,209	2,806	–	(560)
Currency exposure	10,830	3,122	7,028	985	2,153	3,820
5% strengthening of original currency						
Impact on profit before tax	100	(36)	7	12	3	(21)
Impact on other comprehensive income	(125)	158	344	37	105	212
Impact on total equity	(25)	122	351	49	108	191
5% strengthening of the US dollar						
Impact on profit before tax	100	70	(5)	4	(2)	23
Impact on other comprehensive income	(125)	(192)	(346)	(53)	(106)	(214)
Impact on total equity	(25)	(122)	(351)	(49)	(108)	(191)

38. RISK MANAGEMENT (continued)

Investment and financial risks (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[2]
31 December 2019						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	**9,383**	**2,657**	**1,048**	**594**	**1,828**	**3,256**
Other receivables	**2,598**	**2,488**	**75**	**7**	**–**	**28**
Debt securities	**166,118**	**2,849**	**19,404**	**31,219**	**112,646**	**–**
Equity securities	**26,221**	**–**	**–**	**–**	**–**	**26,221**
Reinsurance receivables	**683**	**683**	**–**	**–**	**–**	**–**
Accrued investment income	**1,644**	**1,635**	**–**	**–**	**–**	**9**
Cash and cash equivalents	**3,189**	**3,189**	**–**	**–**	**–**	**–**
Derivative financial instruments	**937**	**167**	**189**	**196**	**385**	**–**
Subtotal	**210,773**	**13,668**	**20,716**	**32,016**	**114,859**	**29,514**
Financial assets (Unit-linked contracts and consolidated investment funds)	**31,604**	**–**	**–**	**–**	**–**	**31,604**[3]
Total	**242,377**	**13,668**	**20,716**	**32,016**	**114,859**	**61,118**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	**142,217**	**3,233**	**11,800**	**13,426**	**113,758**	**–**
Borrowings	**5,757**	**–**	**1,665**[1]	**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	**158,518**	**11,145**	**14,232**	**15,955**	**115,963**	**1,223**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	**31,098**	**–**	**–**	**–**	**–**	**31,098**
Total	**189,616**	**11,145**	**14,232**	**15,955**	**115,963**	**32,321**

Note:

(1) Including US$665m which fall due after 2 years through 5 years.

38. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk (continued)

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity(2)
31 December 2018						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	7,311	1,011	708	270	2,422	2,900
Other receivables	1,913	1,788	68	5	–	52
Debt securities	135,456	2,683	17,352	30,450	84,971	–
Equity securities	19,681	–	–	–	–	19,681
Reinsurance receivables	539	539	–	–	–	–
Accrued investment income	1,546	1,537	–	–	–	9
Cash and cash equivalents	1,779	1,779	–	–	–	–
Derivative financial instruments	428	121	85	164	58	–
Subtotal	168,653	9,458	18,213	30,889	87,451	22,642
Financial assets (Unit-linked contracts and consolidated investment funds)	24,055	–	–	–	–	24,055(3)
Total	192,708	9,458	18,213	30,889	87,451	46,697
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	122,563	2,914	10,824	11,965	96,860	–
Borrowings	4,954	500	1,496(4)	1,241	1,717	–
Obligations under repurchase and securities lending agreements	1,683	1,683	–	–	–	–
Other liabilities	4,754	3,526	126	5	2	1,095
Derivative financial instruments	243	54	98	53	38	–
Subtotal	134,197	8,677	12,544	13,264	98,617	1,095
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	24,073	–	–	–	–	24,073
Total	158,270	8,677	12,544	13,264	98,617	25,168

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 payable 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$668m (31 December 2018: US$299m) due in one year or less, US$2,392m (31 December 2018: US$2,339m) due after 1 year through 5 years, US$1,792m (31 December 2018: US$1,463m) due after 5 years through 10 years and US$1,014m (31 December 2018: US$664m) due after 10 years, in accordance with the contractual terms of the financial investments.

(4) These borrowings fall due after 2 years through 5 years.

39. EMPLOYEE BENEFITS

Defined benefit plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Indonesia, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam. The latest independent actuarial valuation of the plans was at 31 December 2019 and was prepared by credentialed actuaries of Towers Watson Hong Kong Limited. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 40 per cent (31 December 2018: 48 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US$88m (31 December 2018: US$82m). The total expenses relating to these plans recognised in the consolidated income statement was US$13m (thirteen months ended 31 December 2018: US$10m).

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was US$90m (thirteen months ended 31 December 2018: US$89m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 22 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

40. SHARE-BASED COMPENSATION

Share-based compensation plans

During the year ended 31 December 2019, 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 Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP). In addition, the Group made further awards of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

RSU Scheme

Under the RSU Scheme, the vesting of the awarded RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. RSU awards are vested either entirely after a specific period of time or in tranches over the vesting period. For RSU awards that are vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the awarded RSUs are expected to be settled in equity. The maximum number of shares that can be awarded under this scheme is 301,100,000 (31 December 2018: 301,100,000), representing approximately 2.5 per cent (31 December 2018: 2.5 per cent) of the number of shares in issue on the listing date.

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

RSU Scheme (continued)

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial year/period	**37,801,324**	42,600,687
Awarded	**10,672,622**	11,617,538
Forfeited	**(2,202,873)**	(4,544,909)
Vested	**(13,537,092)**	(11,871,992)
Outstanding at end of financial year/period	**32,733,981**	37,801,324

SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. Share option (SO) awards are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the Group. For SO awards vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. The awarded share options expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share. Except in jurisdictions where restrictions apply, the awarded share options are expected to be settled in equity; awards that the Group has the legal or constructive obligation to settle in cash are insignificant to the Group. The total number of shares under options that can be awarded under the scheme is 301,100,000 (31 December 2018: 301,100,000), representing approximately 2.5 per cent (31 December 2018: 2.5 per cent) of the number of shares in issue on the listing date.

Information about share options outstanding and share options exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

	Year ended 31 December 2019		Thirteen months ended 31 December 2018	
	Number of share options	Weighted average exercise price (HK$)	Number of share options	Weighted average exercise price (HK$)
Share options				
Outstanding at beginning of financial year/period	**30,403,944**	**46.22**	29,112,234	42.58
Awarded	**4,412,153**	**76.42**	4,601,313	67.03
Exercised	**(10,552,614)**	**40.71**	(1,355,304)	38.00
Forfeited or expired	**(465,441)**	**66.45**	(1,954,299)	46.73
Outstanding at end of financial year/period	**23,798,042**	**53.86**	30,403,944	46.22
Share options exercisable at end of financial year/period	**9,119,636**	**37.93**	12,849,114	38.11

At the respective dates on which the share options were exercised, the weighted average share price of the Company was HK$78.65 for the year ended 31 December 2019 (thirteen months ended 31 December 2018: HK$67.88).

40. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

SO Scheme (continued)

The range of exercise prices for the share options outstanding as of 31 December 2019 and 31 December 2018 is summarised in the table below.

	Year ended 31 December 2019		Thirteen months ended 31 December 2018	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK$26 – HK$35	**3,167,121**	**2.27**	4,350,787	3.11
HK$36 – HK$45	**4,436,084**	**5.42**	11,259,533	6.40
HK$46 – HK$55	**6,387,390**	**6.71**	9,041,481	7.29
HK$56 – HK$65	**1,336,469**	**7.72**	1,336,469	8.72
HK$66 – HK$75	**4,221,746**	**8.20**	4,415,674	9.20
HK$76 – HK$85	**4,249,232**	**9.24**	–	–
Outstanding at end of financial year/period	**23,798,042**	**6.65**	30,403,944	6.70

ESPP

Under the plan, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the Group. The level of qualified employee contribution is limited to not more than 8 per cent of the annual basic salary subject to a maximum of HK$117,000 per annum. The awarded matching restricted stock purchase units are expected to be settled in equity. For the year ended 31 December 2019, eligible employees paid US$27m (thirteen months ended 31 December 2018: US$24m) to purchase 2,640,834 ordinary shares (thirteen months ended 31 December 2018: 2,833,351 ordinary shares) of the Company.

ASPP

The structure of the ASPP generally follows that of the ESPP, the key difference being that the eligible agents are required to pay a subscription price of US$1 to subscribe for each new share in the Company at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will award one matching restricted stock subscription unit to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share of the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased during the plan cycle and maintain their agent contracts with the Group. The awarded matching restricted stock subscription units are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum of US$15,000 per annum. For the year ended 31 December 2019, eligible agents paid US$25m (thirteen months ended 31 December 2018: US$25m) to purchase 2,501,196 ordinary shares (thirteen months ended 31 December 2018: 2,886,679 ordinary shares) of the Company.

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.

40. SHARE-BASED COMPENSATION (continued)

Valuation methodology (continued)

The fair value calculated for share options is inherently subjective due to the assumptions made and the limitations of the model utilised.

	Year ended 31 December 2019			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	**1.44% – 1.59%**	**1.36% – 1.67%***	**1.44% – 1.76%**	**1.59%**
Volatility	**20%**	**20%**	**20%-24%**	**20%**
Dividend yield	**1.50%**	**1.50% – 1.60%**	**1.50% – 1.60%**	**1.50%**
Exercise price (HK$)	**76.38 – 78.70**	**n/a**	**n/a**	**n/a**
Share option life (in years)	**10**	**n/a**	**n/a**	**n/a**
Expected life (in years)	**7.97**	**n/a**	**n/a**	**n/a**
Weighted average fair value per option/unit at measurement date (HK$)	**15.55**	**67.32**	**75.36**	**65.08**

	Thirteen months ended 31 December 2018			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.87% – 2.33%	1.48% – 2.11%*	1.35% – 2.27%	1.44%
Volatility	20%	20%	20%	20%
Dividend yield	1.50% – 1.80%	1.50% – 1.80%	1.50% – 1.80%	1.80%
Exercise price (HK$)	63.64 – 67.15	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.89 – 7.95	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK$)	13.69	57.52	60.26	54.26

* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for awards made during the year ended 31 December 2019 is HK$76.37 (thirteen months ended 31 December 2018: HK$67.03). The total fair value of share options awarded during the year ended 31 December 2019 is US$9m (thirteen months ended 31 December 2018: US$8m).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the year ended 31 December 2019 is US$88m (thirteen months ended 31 December 2018: US$82m).

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directors' remuneration

The Executive Director receives compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long-term incentives represent the variable components in the Executive Director's compensation and are linked to the performance of the Group and the Executive Director. Details of share-based payment schemes are described in note 40.

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contributions	Other benefits[3]	Inducement fees	Total
Year ended 31 December 2019								
Executive Director								
Mr. Ng Keng Hooi[4]	**–**	**1,617,677**	**3,267,000**	**4,816,710**	**96,476**	**697,485**	**–**	**10,495,348**
Total	**–**	**1,617,677**	**3,267,000**	**4,816,710**	**96,476**	**697,485**	**–**	**10,495,348**

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contributions	Other benefits	Inducement fees	Total
Thirteen months ended 31 December 2018								
Executive Director								
Mr. Ng Keng Hooi[4]	–	1,689,773	3,854,533	4,023,357	99,406	–	–	9,667,069
Total	–	1,689,773	3,854,533	4,023,357	99,406	–	–	9,667,069

Notes:

(1) Includes non-cash benefits for housing, medical and life insurance, club and professional membership, company car and perquisites.

(2) Includes SOs and RSUs awarded based upon the fair value at grant date.

(3) Includes a tax reimbursement to relief double taxation in Singapore and Hong Kong.

(4) Mr. Ng Keng Hooi is currently the Group Chief Executive and President of the Company. He receives his remuneration exclusively for his role as Group Chief Executive and President and receives no separate fees for his role as Director of the Company or for acting as a director of any subsidiary of the Company.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

The remuneration of Independent Non-executive Directors of the Company at 31 December 2019 and 31 December 2018 are included in the tables below:

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Inducement fees	Total
Year ended 31 December 2019								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	**627,500**	**149,080**	**–**	**–**	**–**	**–**	**–**	**776,580**
Mr. Jack Chak-Kwong So	**268,000**	**–**	**–**	**–**	**–**	**–**	**–**	**268,000**
Mr. Chung-Kong Chow	**228,000**	**–**	**–**	**–**	**–**	**–**	**–**	**228,000**
Mr. John Barrie Harrison	**268,000**	**–**	**–**	**–**	**–**	**–**	**–**	**268,000**
Mr. George Yong-Boon Yeo	**253,000**	**–**	**–**	**–**	**–**	**–**	**–**	**253,000**
Mr. Mohamed Azman Yahya	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Professor Lawrence Juen-Yee Lau	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Ms. Swee-Lian Teo	**213,000**	**–**	**–**	**–**	**–**	**–**	**–**	**213,000**
Dr. Narongchai Akrasanee[3]	**273,000**	**–**	**–**	**–**	**–**	**–**	**–**	**273,000**
Mr. Cesar Velasquez Purisima	**183,000**	**–**	**–**	**–**	**–**	**–**	**–**	**183,000**
Total	**2,739,500**	**149,080**	**–**	**–**	**–**	**–**	**–**	**2,888,580**

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Inducement fees	Total
Thirteen months ended 31 December 2018								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	618,411	133,594	–	–	–	–	–	752,005
Mr. Jack Chak-Kwong So	282,082	–	–	–	–	–	–	282,082
Mr. Chung-Kong Chow	238,685	–	–	–	–	–	–	238,685
Mr. John Barrie Harrison	282,082	–	–	–	–	–	–	282,082
Mr. George Yong-Boon Yeo	265,808	–	–	–	–	–	–	265,808
Mr. Mohamed Azman Yahya	222,411	–	–	–	–	–	–	222,411
Professor Lawrence Juen-Yee Lau	222,411	–	–	–	–	–	–	222,411
Ms. Swee-Lian Teo	222,411	–	–	–	–	–	–	222,411
Dr. Narongchai Akrasanee[3]	287,427	–	–	–	–	–	–	287,427
Mr. Cesar Velasquez Purisima	189,863	–	–	–	–	–	–	189,863
Total	2,831,591	133,594	–	–	–	–	–	2,965,185

Notes:

(1) Saved as disclosed below, all Directors receive the fees for their role as a Director of the Company and not for acting as a director of any subsidiary of the Company.

(2) Includes non-cash benefits for housing, club and professional membership, medical insurance and company car.

(3) US$50,000 and US$54,167 which represented remuneration to Dr. Narongchai Akrasanee in respect of his services as Chairman of Advisory Board of AIA Thailand for the year ended 31 December 2019 and the thirteen months ended 31 December 2018 respectively are included in his fees stated above.

Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in the year ended 31 December 2019 and the thirteen months ended 31 December 2018 is presented in the table below.

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contributions	Other benefits[3]	Inducement fees	Total
Year ended 31 December 2019	**–**	**5,806,998**	**5,878,400**	**10,892,582**	**313,044**	**765,257**	**–**	**23,656,281**
Thirteen months ended 31 December 2018	–	5,885,017	8,676,292	10,343,424	326,851	465,665	–	25,697,249

Notes:

(1) 2019 and 2018 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.

(2) Includes SOs and RSUs awarded to the five highest-paid individuals based upon the fair value at grant date.

(3) 2019 other benefits include relief of double taxation arrangement and 2018 other benefits include tax equalisation.

41. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Remuneration of five highest-paid individuals (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK$	Year ended 31 December 2019	Thirteen months ended 31 December 2018
23,500,001 to 24,000,000	**1**	–
25,000,001 to 25,500,000	**1**	–
26,500,001 to 27,000,000	**1**	–
27,500,001 to 28,000,000	**1**	–
29,000,001 to 29,500,000	**–**	1
31,500,001 to 32,000,000	**–**	2
32,500,001 to 33,000,000	**–**	1
75,500,001 to 76,000,000	**–**	1
82,000,001 to 83,000,000	**1**	–

Key management personnel remuneration

Key management personnel have been identified as the members of the Group's Executive Committee.

US$	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Key management compensation and other expenses		
Salaries and other short-term employee benefits	**23,633,256**	28,562,471
Post-employment benefits	**1,422,732**	726,421
Share-based payments(1)	**16,552,154**	16,266,771
Termination benefits	**618,081**	–
Total	**42,226,223**	45,555,663

Note:

(1) Include SOs and RSUs awarded to the key management personnel based upon the fair value at grant date.

The emoluments of the key management personnel are within the following bands:

US$	Year ended 31 December 2019	Thirteen months ended 31 December 2018
Below 1,000,000	**2**	1
1,000,001 to 2,000,000	**4**	–
2,000,001 to 3,000,000	**4**	4
3,000,001 to 4,000,000	**4**	4
4,000,001 to 5,000,000	**–**	3
Over 7,000,000	**1**	1

42. RELATED PARTY TRANSACTIONS

Remuneration of Directors and key management personnel is disclosed in note 41.

43. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

As indicated in note 2, the Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. Prior to the adoption of IFRS 16, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

US$m	As at 31 December 2018
Properties and others expiring	
Not later than one year	171
Later than one and not later than five years	301
Later than five years	41
Total	513

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.25%.

US$m	
Commitments under operating leases as at 31 December 2018	513
Discounted using the Group's incremental borrowing rates	(42)
Short-term and low-value leases recognised on a straight-line basis as expense	(32)
Contracts reassessed as service agreements	(18)
Adjustments as a result of a different treatment of extension and termination options	73
Other adjustments	4
Lease liability recognised as at 1 January 2019	**498**

43. COMMITMENTS AND CONTINGENCIES (continued)

Investment and capital commitments

US$m	As at 31 December 2019	As at 31 December 2018
Not later than one year	**1,911**	1,353
Later than one and not later than five years	**8**	5
Total	**1,919**	1,358

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 and claims. The Group believes that these matters are 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$462m at 31 December 2019 (31 December 2018: US$486m). The liabilities and related reinsurance assets, which totalled US$6m (31 December 2018: US$2m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

44. SUBSIDIARIES

The principal subsidiary companies which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 31 December 2019 Group's interest %	As at 31 December 2019 NCI's interest %	As at 31 December 2018 Group's interest %	As at 31 December 2018 NCI's interest %
AIA Company Limited[1]	Hong Kong	Insurance	2,596,049,861 ordinary shares of US$7,407,084,182 issued share capital	**100%**	**–**	100%	–
AIA International Limited	Bermuda	Insurance	3,000,000 ordinary shares of US$1.20 each	**100%**	**–**	100%	–
AIA Australia Limited	Australia	Insurance	662,068,300 ordinary shares of A$743,872,800 issued share capital	**100%**	**–**	100%	–
AIA Pension and Trustee Co. Ltd.	British Virgin Islands	Trusteeship	19,500,000 ordinary shares of US$1 each	**100%**	**–**	100%	–
AIA Bhd.	Malaysia	Insurance	191,859,543 ordinary shares of RM810,000,000 issued share capital	**100%**	**–**	100%	–
AIA Singapore Private Limited	Singapore	Insurance	1,374,000,001 ordinary shares of S$1 each	**100%**	**–**	100%	–
PT. AIA Financial	Indonesia	Insurance	1,910,844,141 ordinary shares of Rp1,000 each	**100%**	**–**	100%	–
The Philippine American Life and General Insurance (PHILAM LIFE) Company	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	**100%**	**–**	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND3,224,420,000,000	**100%**	**–**	100%	–
AIA Insurance Lanka Limited (formerly known as AIA Insurance Lanka PLC)	Sri Lanka	Insurance	Stated capital of LKR511,921,836	**99.01%**	**0.99%**	97.16%	2.84%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US$1 each	**90%**	**10%**	90%	10%
BPI-Philam Life Assurance (BPLAC) Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	**51%**	**49%**	51%	49%
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US$1 each	**100%**	**–**	100%	–
AIA Life Insurance Co. Ltd.	South Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	**100%**	**–**	100%	–
AIA New Zealand Limited (formerly known as Sovereign Assurance Company Limited)	New Zealand	Insurance	187,805,849 ordinary shares of NZD539,676,534 issued share capital	**100%**	**–**	100%	–
The Colonial Mutual Life Assurance Society Limited [3]	Australia	Insurance	2,112,434,048 ordinary shares of A$1,401,434,048 issued share capital	**Note 3**	**Note 3**	N/A	N/A

Notes:

(1) The Company's subsidiary.

(2) All of the above subsidiaries are audited by PricewaterhouseCoopers.

(3) As described in note 5, the Group has not legally acquired the voting equity of this entity but has entered into a contractual joint cooperation agreement under which it exercises control over it with the exception of a stake in BoCommLife Insurance Company Limited. No non-controlling interest is recorded in relation to this subsidiary.

All subsidiaries are unlisted.

45. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year ended 31 December 2019, AIA Co. submitted an application to the China Banking and Insurance Regulatory Commission (CBIRC) seeking approval to convert its existing Shanghai Branch to a 100 per cent wholly-owned subsidiary, with which it intends to manage and operate its life insurance business in Mainland China. As at 12 March 2020, the application is pending approval from the CBIRC.

In the first quarter of 2020, a number of our markets are facing the uncertain impact of the COVID-19 virus and the measures taken to limit its spread. The Group is closely monitoring the developing situation. We have seen a significant disruption in the Group's new business sales in the first quarter of 2020.

On 12 March 2020, a Committee appointed by the Board of Directors proposed a final dividend of 93.30 Hong Kong cents per share (thirteen months ended 31 December 2018: final dividend of 84.80 Hong Kong cents per share and a special dividend of 9.50 Hong Kong cents per share).

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US$m	As at 31 December 2019	As at 31 December 2018
Assets		
Investment in subsidiaries	**17,476**	15,751
Financial investments:		
Available for sale		
Debt securities(2)	**–**	2,917
At fair value through other comprehensive income		
Debt securities(2)	**7,374**	–
At fair value through profit or loss		
Debt securities	**12**	–
Equity securities	**87**	–
Derivative financial instruments	**–**	5
	7,473	2,922
Loans to/amounts due from subsidiaries	**2,915**	7,384
Other assets	**235**	115
Cash and cash equivalents	**160**	14
Total assets	**28,259**	26,186
Liabilities		
Borrowings	**6,351**	5,547
Derivative financial instruments	**27**	33
Other liabilities	**238**	151
Total liabilities	**6,616**	5,731
Equity		
Share capital	**14,129**	14,073
Employee share-based trusts	**(220)**	(258)
Other reserves	**260**	231
Retained earnings	**7,079**	6,488
Amounts reflected in other comprehensive income	**395**	(79)
Total equity	**21,643**	20,455
Total liabilities and equity	**28,259**	26,186

Notes:

(1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.

(2) Includes United States Treasury securities of US$2,561m as at 31 December 2019 (31 December 2018: US$2,549m of available for sale – debt securities).

47. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2019	**14,073**	**(258)**	**231**	**6,488**	**(79)**	**20,455**
Net profit	–	–	–	2,552	–	2,552
Fair value gains on debt securities at fair value through other comprehensive income	–	–	–	–	303	303
Fair value losses on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	–	–	–	–	171	171
Dividends	–	–	–	(1,961)	–	(1,961)
Shares issued under share option scheme and agency share purchase plan	56	–	–	–	–	56
Share-based compensation	–	–	88	–	–	88
Purchase of shares held by employee share-based trusts	–	(21)	–	–	–	(21)
Transfer of vested shares from employee share-based trusts	–	59	(59)	–	–	–
Balance at 31 December 2019	**14,129**	**(220)**	**260**	**7,079**	**395**	**21,643**

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 December 2017	14,065	(297)	200	3,315	(66)	17,217
Net profit	–	–	–	4,762	–	4,762
Fair value losses on available for sale financial assets	–	–	–	–	(34)	(34)
Fair value losses on available for sale financial assets transferred to income on disposal	–	–	–	–	21	21
Dividends	–	–	–	(1,589)	–	(1,589)
Shares issued under share option scheme and agency share purchase plan	8	–	–	–	–	8
Share-based compensation	–	–	82	–	–	82
Purchase of shares held by employee share-based trusts	–	(12)	–	–	–	(12)
Transfer of vested shares from employee share-based trusts	–	51	(51)	–	–	–
Balance at 31 December 2018	14,073	(258)	231	6,488	(79)	20,455

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS

In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December with effect from 2018. Accordingly, the last consolidated financial statements covered a 13-month period from 1 December 2017 to 31 December 2018. In conjunction with this change and for the purpose of enhancing the comparability of financial information, the following financial information covering the year ended 31 December 2019 for the current period and the corresponding twelve months period ended 31 December 2018 in the prior year is voluntarily presented by the Company.

The accounting policies adopted to prepare the following supplementary financial information are consistent with those shown in note 2 of this 2019 consolidated financial statements.

(a) Consolidated Income Statement

US$m	**Year ended 31 December 2019**	Twelve months ended 31 December 2018
Revenue		
Premiums and fee income	**34,777**	31,271
Premiums ceded to reinsurers	**(2,166)**	(1,842)
Net premiums and fee income	**32,611**	29,429
Investment return	**14,350**	2,655
Other operating revenue	**281**	285
Total revenue	**47,242**	32,369
Expenses		
Insurance and investment contract benefits	**33,400**	23,633
Insurance and investment contract benefits ceded	**(1,940)**	(1,675)
Net insurance and investment contract benefits	**31,460**	21,958
Commission and other acquisition expenses	**4,283**	3,781
Operating expenses	**2,468**	2,171
Finance costs	**283**	212
Other expenses	**845**	739
Total expenses	**39,339**	28,861
Profit before share of losses from associates and joint ventures	**7,903**	3,508
Share of losses from associates and joint ventures	**(8)**	–
Profit before tax	**7,895**	3,508
Income tax (expense)/credit attributable to policyholders' returns	**(179)**	65
Profit before tax attributable to shareholders' profits	**7,716**	3,573
Tax expense	**(1,208)**	(849)
Tax attributable to policyholders' returns	**179**	(65)
Tax expense attributable to shareholders' profits	**(1,029)**	(914)
Net profit	**6,687**	2,659
Net profit attributable to:		
Shareholders of AIA Group Limited	**6,648**	2,597
Non-controlling interests	**39**	62
Earnings per share (US$)		
Basic	**0.55**	0.22
Diluted	**0.55**	0.22

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(b) 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	
	Year ended 31 December 2019	Twelve months ended 31 December 2018
Hong Kong	**7.84**	7.84
Thailand	**31.03**	32.33
Singapore	**1.36**	1.35
Malaysia	**4.14**	4.03
Mainland China	**6.91**	6.61

Exchange rates are expressed in units of local currency per US$1.

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(c) Operating profit after tax

Operating profit after tax may be reconciled to net profit as follows:

US$m	Year ended 31 December 2019	Twelve months ended 31 December 2018
Operating profit after tax	**5,786**	5,343
Non-operating items, net of related changes in insurance and investment contract liabilities:		
Short-term fluctuations in investment return related to equities and real estate (net of tax of: year ended 31 December 2019: US$(43)m; twelve months ended 31 December 2018: US$187m)	**937**	(2,036)
Reclassification of revaluation gain for property held for own use (net of tax of: year ended 31 December 2019: US$10m; twelve months ended 31 December 2018: US$11m) (1)	**(170)**	(212)
Corporate transaction related costs (net of tax of: year ended 31 December 2019: US$33m; twelve months ended 31 December 2018: US$(35)m)	**(85)**	(148)
Implementation costs for new accounting standards (net of tax of: year ended 31 December 2019: US$13m; twelve months ended 31 December 2018: US$5m)	**(39)**	(42)
Other non-operating investment return and other items (net of tax of: year ended 31 December 2019: US$(12)m; twelve months ended 31 December 2018: US$12m)	**258**	(246)
Net profit	**6,687**	2,659
Operating profit after tax attributable to:		
Shareholders of AIA Group Limited	**5,741**	5,298
Non-controlling interests	**45**	45
Net profit attributable to:		
Shareholders of AIA Group Limited	**6,648**	2,597
Non-controlling interests	**39**	62

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.

Note:

(1) 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.

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(d) Total weighted premium income and annualised new premiums

TWPI US$m	Year ended 31 December 2019	Twelve months ended 31 December 2018
TWPI by geography		
Hong Kong	**13,107**	11,444
Thailand	**4,352**	3,895
Singapore	**2,916**	2,738
Malaysia	**2,142**	2,083
Mainland China	**4,804**	4,006
Other Markets	**6,681**	6,377
Total	**34,002**	30,543
First year premiums by geography		
Hong Kong	**2,134**	2,386
Thailand	**694**	554
Singapore	**367**	337
Malaysia	**325**	307
Mainland China	**1,204**	1,050
Other Markets	**935**	1,067
Total	**5,659**	5,701
Single premiums by geography		
Hong Kong	**2,089**	2,556
Thailand	**222**	269
Singapore	**1,258**	1,747
Malaysia	**234**	195
Mainland China	**326**	142
Other Markets	**722**	687
Total	**4,851**	5,596
Renewal premiums by geography		
Hong Kong	**10,764**	8,802
Thailand	**3,636**	3,314
Singapore	**2,423**	2,226
Malaysia	**1,794**	1,757
Mainland China	**3,567**	2,942
Other Markets	**5,674**	5,241
Total	**27,858**	24,282

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(d) Total weighted premium income and annualised new premiums (continued)

ANP US$m	Year ended 31 December 2019	Twelve months ended 31 December 2018
ANP by geography		
Hong Kong	**2,393**	2,697
Thailand	**729**	611
Singapore	**538**	547
Malaysia	**406**	382
Mainland China	**1,248**	1,067
Other Markets[1]	**1,271**	1,206
Total	**6,585**	6,510

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 year ended 31 December 2019 (twelve months ended 31 December 2018: exclude any contribution from Tata AIA Life).

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(e) Segment information

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
Year ended 31 December 2019								
ANP	2,393	729	538	406	1,248	1,271	–	6,585
TWPI	13,107	4,352	2,916	2,142	4,804	6,681	–	34,002
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	14,191	4,222	3,372	1,826	4,814	4,413	58	32,896
Investment return	3,119	1,394	1,225	582	971	1,157	451	8,899
Total revenue	17,310	5,616	4,597	2,408	5,785	5,570	509	41,795
Net insurance and investment contract benefits	12,970	3,190	3,348	1,585	3,783	2,705	43	27,624
Commission and other acquisition expenses	1,602	814	390	216	315	951	9	4,297
Operating expenses	454	236	222	183	376	759	238	2,468
Finance costs and other expenses	164	55	30	16	64	59	194	582
Total expenses	15,190	4,295	3,990	2,000	4,538	4,474	484	34,971
Share of losses from associates and joint ventures	–	–	–	–	–	(8)	–	(8)
Operating profit before tax	2,120	1,321	607	408	1,247	1,088	25	6,816
Tax on operating profit before tax	(174)	(257)	(24)	(68)	(186)	(242)	(79)	(1,030)
Operating profit/(losses) after tax	1,946	1,064	583	340	1,061	846	(54)	5,786
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,931	1,064	583	333	1,061	823	(54)	5,741
Non-controlling interests	15	–	–	7	–	23	–	45
Key operating ratios:								
Expense ratio	3.5%	5.4%	7.6%	8.5%	7.8%	11.4%	–	7.3%
Operating margin	14.8%	24.4%	20.0%	15.9%	22.1%	12.7%	–	17.0%
Operating return on shareholders' allocated equity	22.8%	16.5%	17.6%	19.7%	28.8%	10.6%	–	14.4%
Operating profit before tax includes:								
Finance costs	31	2	–	2	47	8	181	271
Depreciation and amortisation	79	22	28	22	75	83	31	340

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(e) Segment information (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
31 December 2019								
Total assets	**92,233**	**38,842**	**40,397**	**15,896**	**29,084**	**51,901**	**15,779**	**284,132**
Total liabilities	**75,901**	**28,333**	**36,034**	**13,958**	**24,690**	**40,925**	**6,335**	**226,176**
Total equity	**16,332**	**10,509**	**4,363**	**1,938**	**4,394**	**10,976**	**9,444**	**57,956**
Shareholders' allocated equity	**9,420**	**6,697**	**3,515**	**1,782**	**3,805**	**8,634**	**8,992**	**42,845**
Net capital (out)/in flows	**(986)**	**(1,037)**	**(295)**	**(176)**	**(1,022)**	**(214)**	**1,910**	**(1,820)**
Total assets includes:								
Investments in associates and joint ventures	**3**	**–**	**–**	**4**	**–**	**608**	**–**	**615**

Segment information may be reconciled to the consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[(1)]	Consolidated income statement	
Year ended 31 December 2019					
Net premiums, fee income and other operating revenue	**32,896**	**–**	**(4)**	**32,892**	Net premiums, fee income and other operating revenue
Investment return	**8,899**	**1,474**	**3,977**	**14,350**	Investment return
Total revenue	**41,795**	**1,474**	**3,973**	**47,242**	**Total revenue**
Net insurance and investment contract benefits	**27,624**	**494**	**3,342**	**31,460**	Net insurance and investment contract benefits
Other expenses	**7,347**	**–**	**532**	**7,879**	Other expenses
Total expenses	**34,971**	**494**	**3,874**	**39,339**	**Total expenses**
Share of losses from associates and joint ventures	**(8)**	**–**	**–**	**(8)**	Share of losses from associates and joint ventures
Operating profit before tax	**6,816**	**980**	**99**	**7,895**	**Profit before tax**

Note:
(1) Include unit-linked contracts.

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(e) Segment information (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
Twelve months ended 31 December 2018								
ANP	2,697	611	547	382	1,067	1,206	–	6,510
TWPI	11,444	3,895	2,738	2,083	4,006	6,377	–	30,543
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	12,858	3,832	3,114	1,831	3,878	4,177	26	29,716
Investment return	2,647	1,322	1,175	592	860	1,112	368	8,076
Total revenue	15,505	5,154	4,289	2,423	4,738	5,289	394	37,792
Net insurance and investment contract benefits	11,572	2,895	3,103	1,577	2,968	2,791	25	24,931
Commission and other acquisition expenses	1,414	757	353	254	266	721	13	3,778
Operating expenses	401	218	209	180	323	640	200	2,171
Finance costs and other expenses	137	51	29	12	35	52	159	475
Total expenses	13,524	3,921	3,694	2,023	3,592	4,204	397	31,355
Share of losses from associates and joint ventures	–	–	–	–	–	–	–	–
Operating profit/(losses) before tax	1,981	1,233	595	400	1,146	1,085	(3)	6,437
Tax on operating profit/(losses) before tax	(152)	(238)	(37)	(75)	(276)	(234)	(82)	(1,094)
Operating profit/(losses) after tax	1,829	995	558	325	870	851	(85)	5,343
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,814	995	558	320	870	826	(85)	5,298
Non-controlling interests	15	–	–	5	–	25	–	45
Key operating ratios:								
Expense ratio	3.5%	5.6%	7.6%	8.6%	8.1%	10.0%	–	7.1%
Operating margin	16.0%	25.5%	20.4%	15.6%	21.7%	13.3%	–	17.5%
Operating return on shareholders' allocated equity	23.2%	16.8%	18.2%	20.2%	24.6%	12.3%	–	14.5%
Operating profit/(losses) before tax includes:								
Finance costs	31	1	–	–	21	3	139	195
Depreciation and amortisation	33	11	19	16	25	49	11	164

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(e) Segment information (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	Mainland China	Other Markets	Group Corporate Centre	Total
31 December 2018								
Total assets	71,898	31,632	36,064	14,526	24,228	39,095	12,363	229,806
Total liabilities	64,299	24,627	32,865	12,885	20,068	30,889	4,767	190,400
Total equity	7,599	7,005	3,199	1,641	4,160	8,206	7,596	39,406
Shareholders' allocated equity	7,508	6,181	3,115	1,601	3,565	6,901	7,924	36,795
Net capital (out)/in flows	(1,054)	(149)	(267)	(185)	(542)	(556)	1,245	(1,508)
Total assets includes:								
Investments in associates and joint ventures	–	–	–	6	–	604	–	610

Segment information may be reconciled to the consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[1]	Consolidated income statement	
Twelve months ended 31 December 2018					
Net premiums, fee income and other operating revenue	29,716	–	(2)	29,714	Net premiums, fee income and other operating revenue
Investment return	8,076	(3,140)	(2,281)	2,655	Investment return
Total revenue	37,792	(3,140)	(2,283)	32,369	**Total revenue**
Net insurance and investment contract benefits	24,931	(917)	(2,056)	21,958	Net insurance and investment contract benefits
Other expenses	6,424	–	479	6,903	Other expenses
Total expenses	31,355	(917)	(1,577)	28,861	**Total expenses**
Share of losses from associates and joint ventures	–	–	–	–	Share of losses from associates and joint ventures
Operating profit before tax	6,437	(2,223)	(706)	3,508	**Profit before tax**

Note:

(1) Include unit-linked contracts.

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(f) Investment return

US$m	Year ended 31 December 2019	Twelve months ended 31 December 2018
Interest income	**6,714**	6,235
Dividend income	**914**	795
Rental income[1]	**180**	171
Investment income	**7,808**	7,201
Available for sale		
Net realised gains/(losses) from debt securities	**610**	(13)
Impairment of debt securities	**–**	(81)
Net gains/(losses) of available for sale financial assets reflected in the consolidated income statement	**610**	(94)
At fair value through profit or loss		
Net gains/(losses) of financial assets designated at fair value through profit or loss		
Net gains of debt securities	**1,256**	53
Net gains/(losses) of equity securities	**4,897**	(4,814)
Net fair value movement on derivatives	**93**	(206)
Net gains/(losses) in respect of financial instruments at fair value through profit or loss	**6,246**	(4,967)
Net fair value movement of investment property and property held for own use	**103**	469
Net foreign exchange (losses)/gains	**(461)**	54
Other net realised gains/(losses)	**44**	(8)
Investment experience	**6,542**	(4,546)
Investment return	**14,350**	2,655

Note:
(1) Represents rental income from operating leases contracts in which the Group acts as a lessor.

Foreign currency movements resulted in the following (losses)/gains recognised in the consolidated income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US$m	Year ended 31 December 2019	Twelve months ended 31 December 2018
Foreign exchange (losses)/gains	**(345)**	69

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(g) Expenses

US$m	Year ended 31 December 2019	Twelve months ended 31 December 2018
Insurance contract benefits	**14,011**	12,471
Change in insurance contract liabilities	**18,397**	11,758
Investment contract benefits	**992**	(596)
Insurance and investment contract benefits	**33,400**	23,633
Insurance and investment contract benefits ceded	**(1,940)**	(1,675)
Insurance and investment contract benefits, net of reinsurance ceded	**31,460**	21,958
Commission and other acquisition expenses incurred	**6,499**	6,271
Deferral and amortisation of acquisition costs	**(2,216)**	(2,490)
Commission and other acquisition expenses	**4,283**	3,781
Employee benefit expenses	**1,569**	1,370
Depreciation	**228**	74
Amortisation	**69**	53
Operating lease rentals	**–**	174
Other operating expenses(1)	**602**	500
Operating expenses	**2,468**	2,171
Investment management expenses and others	**530**	479
Depreciation on property held for own use	**42**	35
Restructuring and other non-operating costs(2)	**246**	204
Change in third-party interests in consolidated investment funds	**27**	21
Other expenses	**845**	739
Finance costs	**283**	212
Total	**39,339**	28,861

Notes:

(1) Includes payments for short-term leases of US$34m for the year ended 31 December 2019.

(2) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of corporate transaction related costs and implementation costs for new accounting standards.

Finance costs may be analysed as:

US$m	Year ended 31 December 2019	Twelve months ended 31 December 2018
Repurchase agreements	**54**	39
Medium-term notes	**208**	164
Other loans	**5**	9
Lease liabilities	**16**	–
Total	**283**	212

48. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(h) Earnings per share

Basic

	Year ended 31 December 2019	Twelve months ended 31 December 2018
Net profit attributable to shareholders of AIA Group Limited (US$m)	**6,648**	2,597
Weighted average number of ordinary shares in issue (million)	**12,042**	12,021
Basic earnings per share (US cents per share)	**55.21**	21.60

Diluted

	Year ended 31 December 2019	Twelve months ended 31 December 2018
Net profit attributable to shareholders of AIA Group Limited (US$m)	**6,648**	2,597
Weighted average number of ordinary shares in issue (million)	**12,042**	12,021
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	**29**	35
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,071**	12,056
Diluted earnings per share (US cents per share)	**55.07**	21.54

At 31 December 2019, 4,249,232 share options (31 December 2018: 5,752,143) 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

	Year ended 31 December 2019	Twelve months ended 31 December 2018
Basic (US cents per share)	**47.67**	44.07
Diluted (US cents per share)	**47.56**	43.94

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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The Supplementary Embedded Value Information (the "EV Information") of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 190 to 215, which comprises:

- the consolidated EV results as at and for the year ended 31 December 2019;
- the sensitivity analysis as at and for the year then ended; and
- a summary of significant methodology and assumptions and other explanatory notes.

Our opinion

In our opinion, the EV Information of the Group as at and for the year ended 31 December 2019 is prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the EV Information section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of Matter – Basis of Preparation

We draw attention to Sections 4 and 5 of the EV Information, which describe the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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Other Matter

The EV Information includes comparative information. The comparative information included in Section 1 Summary of key metrics for Underlying Free Surplus Generation ("UFSG") for the year ended 31 December 2018 as well as the related year on year percentage movements and Section 2.8 Free Surplus Generation for the year ended 31 December 2018 as well as the related year on year percentage movements has not been audited.

The Group has prepared a separate set of consolidated financial statements for the year ended 31 December 2019 in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and International Financial Reporting Standards issued by the International Accounting Standards Board, on which we issued a separate auditor's report to the shareholders of the Company dated 12 March 2020.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the EV Information and our auditor's report thereon.

Our opinion on the EV Information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of EV Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the EV Information or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Directors and Those Charged with Governance for the EV Information

The Directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information and for such internal control as the Directors determine is necessary to enable the preparation of the EV Information that is free from material misstatement, whether due to fraud or error.

In preparing the EV Information, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's EV Information reporting process.

Auditor's Responsibilities for the Audit of the EV Information

Our objectives are to obtain reasonable assurance about whether the EV Information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this EV Information.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the EV Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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Auditor's Responsibilities for the Audit of the EV Information (continued)

- Evaluate the appropriateness of the EV basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the EV Information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the EV Information of the entities or business activities within the Group to express an opinion on the EV Information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lars Christian Jordy Nielsen.

PricewaterhouseCoopers

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

12 March 2020

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CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

1. HIGHLIGHTS

Embedded Value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB) for all entities other than Tata AIA Life Insurance Company Limited (Tata AIA Life). This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. For Tata AIA Life, the Group uses the Indian Embedded Value (IEV) methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India.

The equity attributable to shareholders of the Company on an 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.

Prior to 2019, VONB for the Group was calculated before deducting the amount attributable to non-controlling interests and did not include the Group's share of Tata AIA Life. Likewise, prior to 2019, EV for Tata AIA Life was accounted for in the adjusted net worth (ANW) using the equity method of accounting (without any VIF reported for Tata AIA Life). In this report, the 2019 full year VONB for the Group is calculated after deducting the amount attributable to non-controlling interests, and the Group's 49 per cent share of the 2019 full year EV and VONB information of Tata AIA Life is recognised in the Group's full year result using financial information on a one-quarter-lag basis as described in Section 4.1. The prior period results are not restated as the impact of these different treatments is not material.

On 1 November 2019, the Group, CBA and The Colonial Mutual Life Assurance Society Limited (CMLA) entered into a contractual joint cooperation agreement (the Agreement), which provided an alternative completion structure for the original planned acquisition. The financial results of the Agreement are reported in the Group's results for the year ended 31 December 2019 from the date of the Agreement. See Sections 2 and 4 of this report and note 5 of the Group's 2019 consolidated financial statements for more details.

Summary of key metrics[1 and 2] (US$ millions)

	As at 31 December 2019	As at 31 December 2018	Change CER	Change AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	**63,905**	56,203	12%	14%
Embedded value (EV)	**61,985**	54,517	12%	14%
Adjusted net worth (ANW)	**28,241**	24,637	14%	15%
Value of in-force business (VIF)	**33,744**	29,880	11%	13%
	Year ended 31 December 2019	**Year ended 31 December 2018**	**YoY CER**	**YoY AER**
Value of new business (VONB)	**4,154**	3,955	6%	5%
Annualised new premiums (ANP)	**6,585**	6,510	2%	1%
VONB margin	**62.9%**	60.0%	3.0 pps	2.9 pps
EV operating profit	**8,685**	8,278	6%	5%
Operating return on EV (Operating ROEV)	**15.9%**	16.3%	(0.6) pps	(0.4) pps
Underlying Free Surplus Generation (UFSG)	**5,501**	4,945[3]	13%[3]	11%[3]

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) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

(3) The UFSG for the year ended 31 December 2018 and growth rates quoted for UFSG are unaudited.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

The EV as at 31 December 2019 is presented consistently with the segment information in the IFRS consolidated financial statements. The EV for local business units as of 31 December 2019 is presented before deducting the amounts attributable to non-controlling interests, with an additional line showing the non-controlling interests, while the EV for local business units as of 31 December 2018 is presented net of amounts attributable to non-controlling interests. Further the EV for Tata AIA Life has been included as described in Sections 4.1 and 4.2.

Summary of EV by Business Unit(1) (US$ millions)

	As at 31 December 2019				
Business Unit	ANW(2)	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	8,372	15,059	1,534	13,525	**21,897**
AIA Thailand	4,816	5,583	1,365	4,218	**9,034**
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	6,256	4,888	1,309	3,579	**9,835**
Group Corporate Centre	8,970	(180)	–	(180)	**8,790**
Subtotal	35,504	38,624	5,254	33,370	**68,874**
Adjustment to reflect consolidated reserving and capital requirements(3)	(6,905)	3,180	1,583	1,597	**(5,308)**
After-tax value of unallocated Group Office expenses	–	(1,067)	–	(1,067)	**(1,067)**
Total (before non-controlling interests)	28,599	40,737	6,837	33,900	**62,499**
Non-controlling Interests	(358)	(164)	(8)	(156)	**(514)**
Total	**28,241**	**40,573**	**6,829**	**33,744**	**61,985**

	As at 31 December 2018				
Business Unit	ANW(2)	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	6,608	12,617	867	11,750	18,358
AIA Thailand	4,787	4,861	808	4,053	8,840
AIA Singapore	2,376	3,968	665	3,303	5,679
AIA Malaysia	1,206	1,630	206	1,424	2,630
AIA China	2,938	5,248	–	5,248	8,186
Other Markets	4,873	3,833	985	2,848	7,721
Group Corporate Centre	7,870	(131)	–	(131)	7,739
Subtotal	30,658	32,026	3,531	28,495	59,153
Adjustment to reflect consolidated reserving and capital requirements(3)	(6,021)	3,284	936	2,348	(3,673)
After-tax value of unallocated Group Office expenses	–	(963)	–	(963)	(963)
Total	24,637	34,347	4,467	29,880	54,517

Notes:

(1) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

(2) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS consolidated financial statements.

(3) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

Derivation of the consolidated ANW from IFRS equity[1] (US$ millions)

	As at 31 December 2019	As at 31 December 2018
IFRS equity attributable to shareholders of the Company	**57,508**	39,006
Elimination of IFRS deferred acquisition and origination costs assets	**(26,328)**	(24,626)
Difference between IFRS policy liabilities and local statutory policy liabilities	**3,388**	15,587
Difference between net IFRS policy liabilities and local statutory policy liabilities	**(22,940)**	(9,039)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	**–**	523
Elimination of intangible assets	**(2,520)**	(1,970)
Recognition of deferred tax impacts of the above adjustments	**3,008**	2,075
Recognition of non-controlling interests impacts of the above adjustments	**90**	63
ANW (Business Unit)	**35,146**	30,658
Adjustment to reflect consolidated reserving requirements, net of tax	**(6,905)**	(6,021)
ANW (Consolidated)	**28,241**	24,637

Note:

(1) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

2.3 Breakdown of ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.6 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

Free surplus and required capital for the Group[1 and 2] (US$ millions)

	As at 31 December 2019		As at 31 December 2018	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	**24,523**	**14,917**	22,093	14,751
Required capital	**10,623**	**13,324**	8,565	9,886
ANW	**35,146**	**28,241**	30,658	24,637

Note:

(1) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

(2) The required capital of Tata AIA Life as at 2018 is presented as zero. Following the change in basis of preparation as mentioned in Sections 4.1 and 4.2, starting from 2019, the required capital of Tata AIA Life is presented in accordance with Section 4.6.

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[1] (US$ millions)

	As at 31 December 2019	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	**20,000**	**16,641**
6 – 10 years	**16,759**	**9,383**
11 – 15 years	**18,398**	**7,029**
16 – 20 years	**18,724**	**4,963**
21 years and thereafter	**166,423**	**9,052**
Total	**240,304**	**47,068**

	As at 31 December 2018	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	18,922	15,668
6 – 10 years	15,095	8,280
11 – 15 years	14,753	5,440
16 – 20 years	14,312	3,588
21 years and thereafter	151,000	6,790
Total	214,082	39,766

Note:

(1) The profile of projected after-tax distributable earnings for the Group's in-force business as at 31 December 2018 exclude Tata AIA Life, while the information as at 31 December 2019 include the Group's share of Tata AIA Life. Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$47,068 million (2018: US$39,766 million) plus the free surplus of US$14,917 million (2018: US$14,751 million) shown in Section 2.3 of this report is equal to the EV of US$61,985 million (2018: US$54,517 million) shown in Section 2.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business

The VONB for the Group for the year ended 31 December 2019 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS consolidated financial statements. Section 4.1 of this report contains a list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 31 December 2019, which includes the Group's share of Tata AIA Life and is presented after the deduction of the amount attributable to non-controlling interests, was US$4,154 million, an increase of US$199 million, or 5 per cent on actual exchange rates (AER), from US$3,955 million(1) for the year ended 31 December 2018. The Group VONB for the year ended 31 December 2018 is presented before the deduction of the amount attributable to non-controlling interests and does not include the Group's share of Tata AIA Life.

Summary of VONB by Business Unit(3) (US$ millions)

	Year ended 31 December 2019			Year ended 31 December 2018		
Business Unit	VONB before CoC	CoC	VONB after CoC	VONB before CoC	CoC	VONB after CoC
AIA Hong Kong	1,728	107	**1,621**	1,837	125	1,712
AIA Thailand	559	65	**494**	503	56	447
AIA Singapore	384	32	**352**	410	53	357
AIA Malaysia	276	18	**258**	264	17	247
AIA China	1,248	81	**1,167**	1,051	86	965
Other Markets(1)	646	111	**535**	522	87	435
Total before unallocated Group Office expenses and Non-Controlling Interests (Business Unit)	4,841	414	**4,427**	4,587	424	4,163
Adjustment to reflect consolidated reserving and capital requirements	(88)	(1)	**(87)**	(76)	(20)	(56)
Total before unallocated Group Office expenses and Non-Controlling Interests (Consolidated)	4,753	413	**4,340**	4,511	404	4,107
After-tax value of unallocated Group Office expenses	(154)	–	**(154)**	(152)	–	(152)
Total before Non-Controlling Interests (Consolidated)	4,599	413	**4,186**	4,359	404	3,955
Non-Controlling Interests(2)	(32)	–	**(32)**	n/a	n/a	n/a
Total(2)	**4,567**	**413**	**4,154**	4,359	404	3,955

Notes:

(1) In 2019, ANP and VONB for Other Markets includes 49 per cent of the results from Tata AIA Life to reflect our shareholding. VONB and ANP previously reported for 2018 has not been restated and does not include any contribution from Tata AIA Life.

(2) The total reported VONB for the Group in 2019 excludes the VONB attributable to non-controlling interests of US$32 million. VONB for 2018 has not been restated and is reported before deducting the amount attributable to non-controlling interests of US$27 million, as previously disclosed in our Annual Report 2018.

(3) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 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 year ended 31 December 2019.

The VONB margin and PVNBP margin are defined as VONB, gross of non-controlling interests and excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB used in the margin calculation is gross of non-controlling interests and excludes pension business to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the year ended 31 December 2019 was 62.9 per cent compared with 60.0 per cent for the year ended 31 December 2018. The Group PVNBP margin for the year ended 31 December 2019 was 11 per cent compared with 10 per cent for the year ended 31 December 2018.

Breakdown of VONB, ANP, VONB margin and PVNBP margin(1, 2 and 3) (US$ millions)

	VONB after CoC(1)	ANP(1)	VONB Margin(1)	PVNBP Margin(1)
Year				
Values for 2019				
12 months ended 31 December 2019(2)	**4,154**	**6,585**	**62.9%**	**11%**
Values for 2018				
12 months ended 31 December 2018(1)	3,955	6,510	60.0%	10%
Quarter				
Values for 2019				
3 months ended 31 March 2019(1)	**1,169**	**1,827**	**63.6%**	**11%**
3 months ended 30 June 2019(1)	**1,106**	**1,616**	**67.9%**	**11%**
3 months ended 30 September 2019(1)	**980**	**1,444**	**67.0%**	**12%**
3 months ended 31 December 2019(2)	**899**	**1,698**	**54.1%**	**9%**
Values for 2018				
3 months ended 31 March 2018(1)	1,021	1,696	59.7%	10%
3 months ended 30 June 2018(1)	933	1,556	59.3%	10%
3 months ended 30 September 2018(1)	979	1,582	61.1%	10%
3 months ended 31 December 2018(1)	1,022	1,676	60.1%	10%

Notes:

(1) The VONB, ANP, VONB margin and PVNBP margin for the periods in 2018 and the 3-month periods up to 30 September 2019 are presented before deducting the amount attributable to non-controlling interests and without the Group's share of Tata AIA Life.

(2) The VONB in the 3 months and the 12 months ended 31 December 2019 are calculated after deducting the amount attributable to non-controlling interests for 2019 full year and include the Group's share of Tata AIA Life for 2019 full year. The ANP, VONB margin and PVNBP margin for the 3 months and the 12 months ended 31 December 2019 include the Group's share of Tata AIA Life for 2019 full year.

(3) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 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)

	Year ended 31 December 2019			Year ended 31 December 2018		
Business Unit	VONB Excluding Pension	ANP	VONB Margin	VONB Excluding Pension	ANP	VONB Margin
AIA Hong Kong	1,583	2,393	**66.1%**	1,671	2,697	62.0%
AIA Thailand	494	729	**67.7%**	447	611	73.1%
AIA Singapore	352	538	**65.5%**	357	547	65.4%
AIA Malaysia	256	406	**63.1%**	244	382	63.8%
AIA China	1,167	1,248	**93.5%**	965	1,067	90.5%
Other Markets[1]	533	1,271	**41.9%**	431	1,206	35.8%
Total before unallocated Group Office expenses (Business Unit)	4,385	6,585	**66.6%**	4,115	6,510	63.2%
Adjustment to reflect consolidated reserving and capital requirements	(87)	–		(56)	–	
Total before unallocated Group Office expenses (Consolidated)	4,298	6,585	**65.3%**	4,059	6,510	62.4%
After-tax value of unallocated Group Office expenses	(154)	–		(152)	–	
Total[2]	**4,144**	**6,585**	**62.9%**	3,907	6,510	60.0%

Note:

(1) In 2019, ANP and VONB for Other Markets includes 49 per cent of the results from Tata AIA Life to reflect our shareholding. VONB and ANP previously reported for 2018 have not been restated and do not include any contribution from Tata AIA Life.

(2) VONB margin for the Group is calculated gross of non-controlling interests.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of movement in EV[3] (US$ millions)

	Year ended 31 December 2019			Year ended 31 December 2018			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
Opening EV	24,637	29,880	**54,517**	20,974	29,805	50,779	7%
Purchase price	(1,454)	–	**(1,454)**	(918)	–	(918)	n/m[1]
Acquired EV[2]	790	417	**1,207**	487	320	807	n/m
Effect of acquisition	(664)	417	**(247)**	(431)	320	(111)	n/m
Value of new business[4]	(702)	4,856	**4,154**	(660)	4,615	3,955	5%
Expected return on EV[4]	5,072	(967)	**4,105**	4,550	(657)	3,893	5%
Operating experience variances	394	206	**600**	355	257	612	n/m
Operating assumption changes	(18)	52	**34**	29	(38)	(9)	n/m
Finance costs	(208)	–	**(208)**	(173)	–	(173)	20%
EV operating profit	4,538	4,147	**8,685**	4,101	4,177	8,278	5%
Investment return variances	(942)	1,459	**517**	(1,428)	(790)	(2,218)	n/m
Effect of changes in economic assumptions	65	(319)	**(254)**	(3)	50	47	n/m
Other non-operating variances	2,491	(2,569)	**(78)**	3,452	(3,182)	270	n/m
Total EV profit	6,152	2,718	**8,870**	6,122	255	6,377	39%
Dividends	(1,961)	–	**(1,961)**	(1,589)	–	(1,589)	23%
Other capital movements	136	–	**136**	98	–	98	n/m
Effect of changes in exchange rates	(59)	729	**670**	(537)	(500)	(1,037)	n/m
Closing EV	**28,241**	**33,744**	**61,985**	24,637	29,880	54,517	14%

Notes:

(1) Not meaningful (n/m).

(2) The acquired EV for Sovereign is calculated as at 2 July 2018 net of the related reinsurance agreement, while the acquired EV due to the alternative arrangements for CMLA is calculated as at 1 November 2019 net of the related reinsurance arrangement. See note 5 to the IFRS consolidated financial statements for more details.

(3) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

(4) For 2019 the VONB is presented net of amount attributable to non-controlling interests, while for 2018 the VONB attributable to non-controlling interests is presented within the expected return on EV.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV grew to US$61,985 million at 31 December 2019, an increase of 14 per cent over the year from US$54,517 million at 31 December 2018. The growth in EV of US$7,468 million was shown after a deduction of US$247 million as of 1 November 2019 relating to the alternative arrangements with CBA in relation to CMLA and the effect of the change in basis of preparation from 2018 to 2019 (please refer to Sections 4.1 and 4.2 for a description of these changes). The purchase price of US$1,454 million for the acquisition as at 1 November 2019 was as per note 5 to the IFRS consolidated financial statements. The acquired EV of US$1,207 million is calculated as at 1 November 2019 net of the related reinsurance agreement.

EV operating profit grew by 5 per cent on AER to US$8,685 million (2018: US$8,278 million) compared with 2018. The growth reflected a combination of a higher VONB of US$4,154 million (2018: US$3,955 million) and a higher expected return on EV of US$4,105 million (2018: US$3,893 million). Overall operating experience variances and operating assumption changes were again positive at US$634 million (2018: US$603 million). Finance costs were US$208 million (2018: US$173 million).

The VONB for the year ended 31 December 2019 is calculated at the point of sale for business written during the year. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB up to 31 December 2019. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the year and that expected based on the operating assumptions.

The operating experience variances, net of tax, increased EV by US$600 million (2018: US$612 million), driven by:

- Expense variances of US$28 million (2018: US$53 million), offset by development costs of US$24 million (2018: nil);
- Mortality and morbidity claims variances of US$212 million (2018: US$233 million); and
- Persistency and other variances of US$384 million (2018: US$326 million) which included persistency variances of US$77 million (2018: US$94 million) and other variances arising from management actions of US$307 million (2018: US$232 million).

The effect of changes in operating assumptions during the year was an increase in EV by US$34 million (2018: US$(9) million).

The EV profit of US$8,870 million (2018: US$6,377 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 year and the expected investment returns reflecting short-term fluctuations in investment returns. This amounted to an increase in EV of US$517 million (2018: US$(2,218) million) driven by the effect of short-term interest rate, equity market and other capital market movements on the Group's investment portfolio and statutory reserves compared with the expected returns.

The effect of changes in economic assumptions reduced EV by US$254 million (2018: US$47 million).

Other non-operating variances reduced EV by US$78 million (2018: US$270 million) which comprised negative impacts from changing the EV reporting basis for Tata AIA Life as described in Sections 4.1 and 4.2, and certain non-operating project costs. This was partly offset by a net positive impact from adjustments to capital requirements on consolidation, positive impacts from a tax rule change in China in the first half of 2019, and other items including modelling-related enhancements.

The Group paid total shareholder dividends of US$1,961 million (2018: US$1,589 million). Other capital movements increased EV by US$136 million (2018: US$98 million).

Foreign exchange movements increased EV by US$670 million (2018: US$(1,037) million).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

Operating ROEV[1] (US$ millions)

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 15.9 per cent (2018: 16.3 per cent) for the year ended 31 December 2019.

	Year ended 31 December 2019	Year ended 31 December 2018	YoY CER	YoY AER
EV operating profit	**8,685**	8,278	6%	5%
Opening EV	**54,517**	50,779	10%	7%
Operating ROEV	**15.9%**	16.3%	(0.6) pps	(0.4) pps

Note:

(1) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

2.7 EV Equity

The EV Equity grew to US$63,905 million at 31 December 2019, an increase of 14 per cent on AER from US$56,203 million as at 31 December 2018.

Derivation of EV Equity from EV[2] (US$ millions)

	As at 31 December 2019	As at 31 December 2018	Change CER	Change AER
EV	**61,985**	54,517	12%	14%
Goodwill and other intangible assets[1]	**1,920**	1,686	13%	14%
EV Equity	**63,905**	56,203	12%	14%

Note:

(1) Consistent with the IFRS consolidated financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

(2) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

2. EMBEDDED VALUE RESULTS (continued)

2.8 Free Surplus Generation

Free Surplus Generation(1) (US$ millions)

	Year ended 31 December 2019	Year ended 31 December 2018 (unaudited)	YoY CER (unaudited)	YoY AER (unaudited)
Opening free surplus	**14,751**	12,586	18%	17%
Release of free surplus through the subsidiarisation of AIA Korea on 1 January 2018	**–**	1,886	n/m(2)	n/m
Effect of acquisition	**(1,045)**	(497)	n/m	n/m
Underlying free surplus generation	**5,501**	4,945	13%	11%
Free surplus used to fund new business	**(1,477)**	(1,540)	(2)%	(4)%
Investment return variances and other items	**(588)**	(795)	n/m	n/m
Unallocated Group Office expenses	**(192)**	(170)	13%	13%
Dividends	**(1,961)**	(1,589)	23%	23%
Finance costs and other capital movements	**(72)**	(75)	(4)%	(4)%
Closing free surplus	**14,917**	14,751	1%	1%

Free surplus increased by US$166 million (2018: US$2,165 million(3)) to US$14,917 million (2018: US$14,751 million(3)) as of 31 December 2019. The growth in free surplus was after a deduction of US$1,045 million as of 1 November 2019 relating to the alternative arrangements with CBA in relation to CMLA.

Underlying free surplus generation, as defined in Section 4.8, increased by 13 per cent(3) to US$5,501 million (2018: US$4,945 million(3)). Investment in writing new business reduced free surplus by US$1,477 million (2018: US$1,540 million(3)).

Investment return variances and other items amounted to US$(588) million (2018: US$(795) million(3)), reflecting the effect of short-term 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$192 million (2018: US$170 million(3)) in 2019.

Notes:

(1) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.
(2) Not meaningful (n/m).
(3) All the 2018 numbers and growth rates quoted in this section are unaudited.

3. SENSITIVITY ANALYSIS

The EV as at 31 December 2019 and the VONB for the year ended 31 December 2019 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 31 December 2019 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 December 2019); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 December 2019).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 December 2019 and the values of debt instruments held at 31 December 2019 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 31 December 2019 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 31 December 2019 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

3. SENSITIVITY ANALYSIS (continued)

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV[1] (US$ millions)

	As at 31 December 2019		As at 31 December 2018	
Scenario	EV	Ratio	EV	Ratio
Central value	**61,985**		54,517	
Impact of:				
200 bps increase in risk discount rates	**(8,500)**	**(13.7)%**	(6,607)	(12.1)%
200 bps decrease in risk discount rates	**13,696**	**22.1%**	10,604	19.5%
10% increase in equity prices	**968**	**1.6%**	736	1.4%
10% decrease in equity prices	**(967)**	**(1.6)%**	(731)	(1.3)%
50 bps increase in interest rates	**719**	**1.2%**	158	0.3%
50 bps decrease in interest rates	**(797)**	**(1.3)%**	(249)	(0.5)%
5% appreciation in the presentation currency	**(1,837)**	**(3.0)%**	(1,711)	(3.1)%
5% depreciation in the presentation currency	**1,837**	**3.0%**	1,711	3.1%
10% increase in lapse/discontinuance rates	**(999)**	**(1.6)%**	(885)	(1.6)%
10% decrease in lapse/discontinuance rates	**1,087**	**1.8%**	984	1.8%
10% increase in mortality/morbidity rates	**(4,627)**	**(7.5)%**	(3,796)	(7.0)%
10% decrease in mortality/morbidity rates	**4,540**	**7.3%**	3,779	6.9%
10% decrease in maintenance expenses	**699**	**1.1%**	625	1.1%
Expense inflation set to 0%	**868**	**1.4%**	672	1.2%

Sensitivity of VONB (US$ millions)

	Year ended 31 December 2019		Year ended 31 December 2018	
Scenario	VONB	Ratio	VONB	Ratio
Central value	**4,154**		3,955	
Impact of:				
200 bps increase in risk discount rates	**(956)**	**(23.0)%**	(952)	(24.1)%
200 bps decrease in risk discount rates	**1,527**	**36.8%**	1,599	40.4%
50 bps increase in interest rates	**151**	**3.6%**	142	3.6%
50 bps decrease in interest rates	**(207)**	**(5.0)%**	(184)	(4.7)%
5% appreciation in the presentation currency	**(129)**	**(3.1)%**	(120)	(3.0)%
5% depreciation in the presentation currency	**129**	**3.1%**	120	3.0%
10% increase in lapse/discontinuance rates	**(209)**	**(5.0)%**	(195)	(4.9)%
10% decrease in lapse/discontinuance rates	**224**	**5.4%**	215	5.4%
10% increase in mortality/morbidity rates	**(362)**	**(8.7)%**	(359)	(9.1)%
10% decrease in mortality/morbidity rates	**348**	**8.4%**	351	8.9%
10% decrease in maintenance expenses	**97**	**2.3%**	96	2.4%
Expense inflation set to 0%	**61**	**1.5%**	60	1.5%

Note:

(1) Please refer to Sections 4.1 and 4.2 for a description of the change in basis of preparation from 2018 to 2019.

4. METHODOLOGY

4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Co., a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International, a company incorporated in Bermuda and an indirect subsidiary of the Company. Furthermore, AIA Co. has branches located in Brunei, Mainland China and Thailand and AIA International has branches located in Hong Kong, Macau, New Zealand and Taiwan.

The following is a list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co., and the business acquired by the Group from CBA via a contractual joint cooperation agreement (CMLA), Sovereign Assurance Company Limited, a subsidiary of AIA International, and the New Zealand branch of AIA International;
- AIA Cambodia refers to AIA (Cambodia) Life Insurance Plc., a subsidiary of AIA International;
- AIA China refers to the Mainland China branches of AIA Co.;
- AIA Hong Kong refers to the total of the following three entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong and Macau business written by AIA Co.; and
  - AIA Pension and Trustee Co. Ltd., a subsidiary of AIA Co.
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to AIA Life Insurance Co. Ltd., a subsidiary of AIA International;
- AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co. and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Co., and AIA General Bhd.;
- AIA Myanmar refers to AIA Myanmar Life Insurance Co. Ltd., a subsidiary of AIA Co.;
- AIA Philippines refers to The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and the Brunei branch of AIA Co.;
- AIA Sri Lanka refers to AIA Insurance Lanka Limited, a 99 per cent owned subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.;
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International; and
- Tata AIA Life refers to Tata AIA Life Insurance Company Limited, an associate 49 per cent owned by AIA International.

Prior to 2019, the EV for Tata AIA Life was accounted for in the adjusted net worth (ANW) using the equity method of accounting (without any VIF reported for Tata AIA Life). This method is calculated based on the cost of investment of the Group's 49 per cent share in Tata AIA Life, subsequently adjusted for the Group's share of post-acquisition changes to equity. Starting from 2019, the Group recognises its share of the 2019 full year EV information of Tata AIA Life in its results on a one-quarter-lag basis, where the ending EV balance is based on EV of Tata AIA Life as of 30 September 2019, and the EV analysis of movement in Section 2.6 reflects the EV movement generated by Tata AIA Life between 1 October 2018 and 30 September 2019. The impact on opening EV of US$(221) million, which represents mainly the difference between the cost of investment under the equity method of accounting and the Group's share of the EV of Tata AIA Life, is included in the other non-operating variances in Section 2.6. The full year VONB impact of the above-mentioned changes is reflected in Section 2.5 in the 3 months ended 31 December 2019 VONB result. The prior period results are not restated as the impact of these different treatments is not material.

4. METHODOLOGY (continued)

4.1 Entities Included in This Report (continued)

Results are presented consistently with the segment information in the IFRS consolidated financial statements. The summary of the EV of the Group by Business Unit in this report also includes the results for the "Group Corporate Centre" segment. The results shown for this segment consist of the ANW for the Group's corporate functions and the present value of remittance taxes payable on distributable profits. The ANW has been derived from the IFRS equity for this segment plus mark-to-market adjustments less the value of excluded intangible assets. For the VONB, "Other Markets" includes the present value of allowance for remittance taxes payable on distributable profits.

4.2 Embedded Value and Value of New Business

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB for all entities other than Tata AIA Life. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently. Alternative valuation methodologies and approaches continue to emerge and may be considered by AIA.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the Group is calculated based on assumptions applicable at the point of sale. Prior to 2019, VONB for the Group was calculated before deducting the amount attributable to non-controlling interests (with the amount for non-controlling interests separately disclosed in the footnote of relevant tables of VONB). Starting from 2019, full year VONB for the Group is calculated after deducting the amount attributable to non-controlling interests. The full year impact of this change is reflected in Section 2.5 in the 3 months ended 31 December 2019 VONB result. The prior period results are not restated as the impact is not material.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed as per note 23 to the Group's IFRS consolidated financial statements as at the valuation date.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company.

4. METHODOLOGY (continued)

4.2 Embedded Value and Value of New Business (continued)

A deduction has been made from the EV and VONB for the present value of future after-tax unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated to the Business Units. These unallocated Group Office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

For Tata AIA Life, the Group uses, from 2019, the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India. The EV and VONB reported for Tata AIA Life are reported on a one-quarter-lag basis as described in Section 4.1.

4.3 Definition of New Business

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group renewable business including group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds the prior year's premiums. For individually significant group cases, the VONB is calculated over each premium rate guarantee period entered upon contract inception or renewal.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For pension business, sales of new contracts during the period and any new contributions, including assets transferred in, are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using annualised new premiums (ANP), which is an internal measure of new business sales.

4.4 Consolidation of Branches and Subsidiaries of AIA Co. and AIA International

The Group's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities. AIA operates in a number of territories as branches and subsidiaries of these entities. In addition, AIA International, which is incorporated in Bermuda, is subject to the BMA reserving and capital requirements. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

The EV and VONB results for the Group shown in Section 2 of this report have been adjusted to reflect the consolidated reserving and capital requirements. This approach was taken to reflect the distribution of profits from AIA Co. and AIA International after allowing for the Hong Kong, BMA, local regulatory and other reserving and capital requirements as applied by the Group. The EV and VONB for each Business Unit reflect the local reserving and capital requirements, as discussed in Section 4.6 of this report, before a Group-level adjustment to reflect the consolidated reserving and capital requirements.

4. METHODOLOGY (continued)

4.5 Valuation of Future Statutory Losses

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. There are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW and EV. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the consolidated reserving and capital requirements have the effect of reducing the level of any future projected statutory losses. Based on the assumptions described in Section 5 of this report, and allowing for the consolidated statutory reserving and capital requirements, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4.6 Required Capital

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 required capital for each Business Unit are set out in the table below:

Business Unit	Required Capital
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	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement[(1)]
AIA Vietnam	100% of required minimum solvency margin
Tata AIA Life	175 % of required minimum solvency margin

Note:

(1) The Office of Insurance Commission (OIC) has implemented new Risk-Based Capital 2 (Thailand RBC 2) requirement effective from 31 December 2019. The new requirement has been applied to the EV calculations as of 31 December 2019. Consistent with prior reporting periods, VONB has been calculated at the point of sale and therefore has not reflected the new requirement within the reported VONB in 2019. 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. The additional reserving and capital requirements on the consolidated basis as described below continue to apply for AIA Thailand and therefore there is no material impact of this change to the Group's overall EV results.

4. METHODOLOGY (continued)

4.6 Required Capital (continued)

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.

4.7 Foreign Exchange

The EV as at 31 December 2019 and 31 December 2018 have been translated into US dollars using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US dollars using the corresponding average exchange rates for each quarter. The other components of the EV profit shown in the analysis of movement in EV have been translated using average exchange rates for the period.

Change on AER is calculated based on the translated figures as described above. Change on constant exchange rates (CER) is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for EV as at the end of the current year and as at the end of the prior year, which is translated using the CER.

4.8 Underlying Free Surplus Generation

The free surplus is defined as the ANW in excess of the required capital, stated to reflect consolidated reserving and capital requirements. The underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items. It excludes free surplus used to fund new business, unallocated group office expenses, investment variances and other non-operating items. The underlying free surplus generation is also calculated after reflecting consolidated reserving and capital requirements.

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 31 December 2019 and the VONB for the year ended 31 December 2019 and highlights certain differences in assumptions between the EV as at 31 December 2018 and the EV as at 31 December 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.

	Current market 10-year government bond yields referenced in EV calculations (%)	
Business Unit	**As at 31 December 2019**	As at 31 December 2018
AIA Australia		
• Australia	**1.37**	2.32
• New Zealand	**1.65**	2.37
AIA China	**3.14**	3.31
AIA Hong Kong[1]	**1.92**	2.68
AIA Indonesia	**7.06**	8.03
AIA Korea	**1.67**	1.96
AIA Malaysia	**3.31**	4.08
AIA Philippines	**4.46**	7.07
AIA Singapore	**1.74**	2.04
AIA Sri Lanka	**10.07**	11.87
AIA Taiwan	**0.67**	0.86
AIA Thailand	**1.49**	2.51
AIA Vietnam	**3.56**	5.10

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk discount rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that the VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

	Risk discount rates assumed in EV calculations (%)		Long-term investment returns assumed in EV calculations (%)			
			10-year government bonds		Local equities	
Business Unit	**As at 31 Dec 2019**	As at 31 Dec 2018	**As at 31 Dec 2019**	As at 31 Dec 2018	**As at 31 Dec 2019**	As at 31 Dec 2018
AIA Australia						
• Australia	**6.45**	7.35	**2.30**	3.00	**6.60**	7.50
• New Zealand	**6.85**	7.75	**2.60**	3.50	**7.10**	8.00
AIA China	**9.75**	9.75	**3.70**	3.70	**9.30**	9.30
AIA Hong Kong(1)	**7.20**	7.50	**2.70**	3.00	**7.50**	7.80
AIA Indonesia	**13.00**	13.00	**7.50**	7.50	**12.00**	12.00
AIA Korea	**8.10**	8.60	**2.20**	2.70	**6.50**	7.20
AIA Malaysia	**8.55**	8.75	**4.00**	4.20	**8.60**	8.80
AIA Philippines	**11.80**	11.80	**5.30**	5.30	**10.50**	10.50
AIA Singapore	**6.90**	7.10	**2.50**	2.70	**7.00**	7.20
AIA Sri Lanka	**15.70**	15.70	**10.00**	10.00	**12.00**	12.00
AIA Taiwan	**7.55**	7.85	**1.30**	1.60	**5.90**	6.60
AIA Thailand	**7.90**	8.60	**2.70**	3.20	**7.70**	9.00
AIA Vietnam	**10.80**	11.80	**5.00**	6.00	**10.30**	11.30

Notes:

(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 Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and retirement rates for pension products.

Assumptions have been developed by each of the Business Units based on their recent historical experience, and their best estimate expectations of current and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

5.4 Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

Group Office expenses

Group Office expense assumptions have been set, after excluding non-operating expenses, based on actual acquisition and maintenance expenses in the year ended 31 December 2019. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

5. ASSUMPTIONS (continued)

5.5 Expense Inflation

The expected long-term expense inflation rates used by Business Units are set out below:

Expense inflation assumptions by Business Unit (%)

Business Unit	**As at 31 December 2019**	As at 31 December 2018
AIA Australia		
• Australia	**2.05**	2.75
• New Zealand	**2.00**	2.00
AIA China	**2.00**	2.00
AIA Hong Kong	**2.00**	2.00
AIA Indonesia	**3.50**	6.00
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**	5.00
Tata AIA Life	**7.25**	n/a

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5.6 Mortality

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Group.

For products that are exposed to longevity risk, an allowance has been made for expected improvements in mortality; otherwise no allowance has been made for mortality improvements.

5.7 Morbidity

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

5. ASSUMPTIONS (continued)

5.8 Reinsurance

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in-force as at the valuation date and the recent historical and expected future experience.

5.9 Policyholder Dividends, Profit Sharing and Interest Crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's best estimate of future policies, strategies and operations consistent with the investment return assumptions used in the EV results.

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

5.10 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 31 December 2019**	As at 31 December 2018
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	**25.0**	25.0
AIA Korea(1)	**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**	n/a

Note:

(1) 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. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2021.

5. ASSUMPTIONS (continued)

5.10 Taxation (continued)

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 31 December 2019 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

5.11 Statutory Valuation Bases

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

5.12 Product Charges

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

6. EVENTS AFTER THE REPORTING PERIOD

The Monetary Authority of Singapore (MAS) has announced that the new Risk-Based Capital 2 (Singapore RBC 2) requirement for insurers will be effective on 31 March 2020. This new Singapore RBC 2 requirement has not been applied to the EV as of 31 December 2019.

Subsequent to the year ended 31 December 2019, AIA Co. submitted an application to the China Banking and Insurance Regulatory Commission (CBIRC) seeking approval to convert its existing Shanghai Branch to a 100 per cent wholly-owned subsidiary, with which it intends to manage and operate its life insurance business in Mainland China. As at 12 March 2020, the application is pending approval from the CBIRC.

In the first quarter of 2020, a number of our markets are facing the uncertain impact of the COVID-19 virus and the measures taken to limit its spread. The Group is closely monitoring the developing situation. We have seen a significant disruption in the Group's new business sales in the first quarter of 2020.

On 12 March 2020, a Committee appointed by the Board of Directors proposed a final dividend of 93.30 Hong Kong cents per share (thirteen months ended 31 December 2018: final dividend of 84.80 Hong Kong cents per share and a special dividend of 9.50 Hong Kong cents per share).

GLOSSARY

active agent	an agent who sells at least one policy per month.
active market	a market in which all the following conditions exist: • the items traded within the market are homogeneous; • willing buyers and sellers can normally be found at any time; and • prices are available to the public. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
adjusted net worth or ANW.........	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Issuer. ANW for the Group is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis.
AIA or the Group.........................	the Issuer and its subsidiaries.
AIA China....................................	AIA Life Insurance Company Limited (友邦人寿保险有限公司).
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Issuer.
AIA Hong Kong	AIA International Limited (Hong Kong branch).
AIA IM HK...................................	AIA Investment Management HK Limited.
AIA IM SG...................................	AIA Investment Management Private Limited.
AIA IM TH	AIA Investment Management (Thailand) Limited.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Issuer.
AIA Malaysia...............................	AIA Bhd.
AIA New Zealand........................	AIA New Zealand Limited.
AIA Re	AIA Reinsurance Limited.

AIA Singapore............................	AIA Singapore Private Limited.
AIA Sri Lanka	AIA Insurance Lanka Limited.
AIA Thailand	the business and operations of AIA Co.'s Thailand branches.
AIA Vitality	a science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
AIA-PT	AIA Pension and Trustee Co. Ltd.
AIA-T	AIA Company (Trustee) Limited.
amortised cost	the amount at which the financial asset or financial liability is measured at initial recognition minus principal prepayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.
annualised new premiums or ANP....................................	ANP represents 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within the Group. ANP excludes new business of pension business, personal lines and motor insurance. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums.
available for sale (AFS) financial assets	financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
bancassurance	the distribution of insurance products through banks or other financial institutions.
Board	board of directors of the Issuer.
China or Mainland China	the PRC and for geographical reference only (unless otherwise stated) excludes Taiwan (China), Macau and Hong Kong.
CMLA...	The Colonial Mutual Life Assurance Society Limited (including its affiliated companies), one of the largest life insurance providers in Australia.
consolidated investment funds......................................	investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.

Cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for the Group is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.
deferred acquisition costs or DAC....................................	DAC are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. Such assets are tested for recoverability at least annually.
deferred origination costs or DOC	origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
embedded value or EV.............	an actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV for the Group is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
equity attributable to shareholders of the Issuer on the embedded value basis or EV Equity	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Issuer.
Euro	the currency of the monetary union of European Union member states.
fair value	the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in

an arm's length transaction.

fair value through profit or loss or FVTPL	Under IAS 39, Financial Instruments: Recognition and Measurement, financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.
first year premiums	first year premiums are premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
FRC	Financial Risk Committee.
Group available capital	the group-level total available capital, which is calculated as the sum of the available capital of each relevant regulated entity within the Group.
group insurance	an insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group LCSM Cover Ratio	the Group Local Capital Summation Method cover ratio under the new Group-Wide Supervision framework, which is the ratio of Group available capital to the Group minimum capital requirement. The Group LCSM Cover Ratio has been calculated based on our current understanding of the likely application of the GWS framework to the Group.
Group LCSM surplus	the difference between the Group available capital and the Group minimum capital requirement.
Group minimum capital requirement	the group-level minimum capital requirement, which is calculated as the sum of the minimum required capital of each relevant regulated entity within the Group.
GWS framework	the Group-Wide Supervision framework.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HIBOR	Hong Kong Interbank Offered Rate.
HKFRS	Hong Kong Financial Reporting Standards.
HKIA	Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance.
HKICPA	Hong Kong Institute of Certified Public Accountants.
HKSE Rules or Listing	Rules Governing the Listing of Securities on The Stock

Rules	Exchange of Hong Kong Limited.
holding company financial resources................................	represents the debt and equity securities, deposits, cash and cash equivalents, and dividends paid but not settled by subsidiaries, net of obligations under repurchase agreements at the Group's listed holding company.
Hong Kong.................................	The Hong Kong Special Administrative Region of the PRC; in the context of the Group's reportable segments, Hong Kong includes Macau.
Hong Kong Companies Ordinance...............................	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Ordinance or HKIO.................	Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	independent financial adviser.
IFRS	standards and interpretations adopted by the IASB comprising: • International Financial Reporting Standards; • International Accounting Standards; and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).
iMO	iMO is a mobile office platform with a comprehensive suite of applications that allow agents and agency leaders to manage their daily activities from lead generation, sales productivity and recruitment activity through to development training and customer analytics.
interactive Point of Sale or iPoS	iPoS is a secure, mobile point-of-sale technology that features a paperless sales process from the completion of the customer's financial-needs analysis to proposal generation with electronic biometric signature of life insurance applications on tablet devices. It is part of iMO.
investment experience................	realised and unrealised investment gains and losses recognised in the consolidated income statement.
investment income	investment income comprises interest income, dividend income and rental income.

investment return	investment return consists of investment income plus investment experience.
IPO	initial public offering.
the Issuer	AIA Group Limited.
LCSM..	Local Capital Summation Method, which is the method to be used by the HKIA as a measure of group capital under the new GWS framework.
liability adequacy testing.............	an assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.
LIBOR...	London Interbank Offered Rate.
Macau...	The Macao Special Administrative Region of the PRC.
Million Dollar Round Table or MDRT..................................	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.
N/A...	not applicable.
n/a..	not available.
operating profit after tax or OPAT	operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
Operating return on EV or operating ROEV	operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
Operating return on shareholders' allocated equity or operating ROE..........	operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Issuer, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
ORC...	Operational Risk Committee.
Other participating business with distinct portfolios	business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is

	supported by an explicit statutory reserve and reporting in the relevant territory.
participating funds......................	Participating funds are distinct portfolios where the policyholders have a contractual right to receive, at the discretion of the insurer as to the timing, additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation.
persistency.................................	the percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co.
Policyholder and Shareholder Investments	investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
PRC	The People's Republic of China.
protection gap	the difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.
RAS	Risk Appetite Statement.
regulatory minimum capital	net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	premiums receivable in subsequent years of a recurring premium policy.
Renminbi or CNY	the currency of China.
rider	a supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.
risk appetite	the amount of risk that companies are willing to take in order to achieve their business objectives.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RMF	Risk Management Framework.

SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time.
shareholders' allocated equity......................................	Shareholders' allocated equity is total equity attributable to shareholders of the Issuer less fair value reserve.
Singapore	The Republic of Singapore; in the context of our reportable segments, Singapore includes Brunei.
single premium	a single payment that covers the entire cost of an insurance policy.
SME	small-and-medium sized enterprise.
SOFR..	Secured Overnight Funding Rate.
solvency	the ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	the ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
Sovereign....................................	ASB Group (Life) Limited (renamed AIA Sovereign Limited in July 2018) and its subsidiaries, including Sovereign Assurance Company Limited (subsequently renamed as AIA New Zealand on 2 August 2019), a licensed insurer in New Zealand.
Sterling or £	the currency of the United Kingdom.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA Life...............................	Tata AIA Life Insurance Company Limited.
total weighted premium income or TWPI......................	TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums, before reinsurance ceded. As such it provides an indication of the Group's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
unit-linked investments	financial investments held to back unit-linked contracts.
unit-linked products	unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
United Kingdom	The United Kingdom of Great Britain and Northern Ireland.

United States or U.S.	The United States of America.
universal life	a type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.
value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. VIF for the Group is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
value of new business or VONB	VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for the Group is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB excluding pension business, expressed as a percentage of ANP. VONB margin for the Group is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
working capital	working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.

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HEALTHIER, LONGER,
BETTER LIVES

Appendix II – Pricing Supplement dated 30 March 2021

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UK MIFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

The Securities have not and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any other jurisdiction. The Securities may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the Securities Act. The Securities are only being offered and sold outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S promulgated under the Securities Act.

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information in this Pricing Supplement amends and supplements the Offering Circular dated 16 March 2021 (the "**Offering Circular**"), and supersedes the information in the Offering Circular to the extent inconsistent with the information in the Offering Circular. This Pricing Supplement should be read together with the Offering Circular, which is hereby incorporated by reference. Terms used herein but not defined herein shall have the respective meanings as set forth in the Offering Circular.

This Pricing Supplement is intended for the sole use of the person to whom it is provided by the sender, and it is being distributed to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKSE**") ("**Professional Investors**") only.

Notice to Hong Kong investors: the Issuer confirms that the Securities are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Securities are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The HKSE has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Securities on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Securities or the Issuer or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Pricing Supplement, 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 Pricing Supplement.

This Pricing Supplement includes particulars given in compliance with the Rules Governing the Listing of Securities on the HKSE (the "**HKSE Rules**" or "**Listing Rules**") for the purpose of giving information with regard to us. We accept full responsibility for the accuracy of the information contained in this Pricing Supplement and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Securities are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

ANY DISCLAIMERS OR OTHER NOTICES THAT MAY APPEAR BELOW ARE NOT APPLICABLE TO THIS COMMUNICATION AND SHOULD BE DISREGARDED. SUCH DISCLAIMERS OR OTHER NOTICES WERE AUTOMATICALLY GENERATED AS A RESULT OF THIS COMMUNICATION BEING SENT VIA BLOOMBERG OR ANOTHER EMAIL SYSTEM.

Pricing Supplement dated 30 March 2021

AIA Group Limited
Issue of U.S.$750,000,000 2.70 per cent. Resettable Subordinated Perpetual Securities under the U.S.$12,000,000,000 Global Medium Term Note and Securities Programme

The document constitutes the Pricing Supplement relating to the issue of Securities described herein. The Securities are expected to qualify as Tier 2 group capital under the Hong Kong Insurance Authority's Insurance (Group Capital) Rules.

Terms used herein shall be deemed to be defined as such for the purposes of the Securities Conditions (the "**Conditions**") set forth in the Offering Circular dated 16 March 2021 (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Securities and must be read in conjunction with the Offering Circular.

1.	Issuer:		AIA Group Limited
2.	(i)	Series Number:	23
	(ii)	Tranche Number:	1
3.	Type of Security and Ranking:		Subordinated Perpetual Securities
4.	Specified Currency or Currencies:		United States Dollar ("U.S.$")
5.	Aggregate Nominal Amount:		
	(i)	Series:	U.S.$750,000,000
	(ii)	Tranche:	U.S.$750,000,000
6.	(i)	Issue Price:	100.00 per cent of the Aggregate Nominal Amount
	(ii)	Net Proceeds:	U.S.$745,875,000
7.	Maturity Date:		Not Applicable
8.	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
9.	(i)	Issue Date:	7 April 2021
	(ii)	Distribution Commencement Date:	Issue Date
10.	Distribution Basis:		Set out under paragraph 14 below Optional Distribution Deferral applies. Distributions are compounding in accordance with Condition 5(a)(vi) (see paragraphs 14 and 15 below)
11.	Put/Call Options:		Tax Event Redemption Rating Event Redemption Regulatory Event Redemption Issuer's Call Option Issuer's Call Option (Make Whole Redemption) Minimal Outstanding Amount Redemption (See paragraphs 17 to 23 below)

12.	Listing:	Hong Kong (*expected effective listing date of the Securities: 8 April 2021*)
13.	Method of Distribution:	Syndicated

PROVISIONS RELATING TO DISTRIBUTION (IF ANY) PAYABLE

14. (i) Rate of Distribution:

The rate of distribution (the "**Distribution Rate**") applicable to the Securities shall be:

(i) from, and including, the Issue Date to, but excluding, 7 April 2026 (the "**First Reset Date**"), 2.70 per cent. per annum; and

(ii) thereafter, in respect of the period from, and including, the First Reset Date and each Reset Date falling thereafter to, but excluding, the immediately following Reset Date (each a "**Reset Period**"), the relevant Reset Distribution Rate.

Where:

"**Comparable Treasury Issue**" means the U.S. Treasury security selected by the Issuer as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years;

"**Comparable Treasury Price**" means:

(i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third New York Business Day preceding the relevant Reset Date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(ii) if such release (or any successor release) is not published or does not contain such prices on such New York Business Day:

(A) the average of the Reference Treasury Dealer Quotations for the relevant Reset Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations; or

(B) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations, if the Comparable Treasury Price cannot be determined in accordance with the above provisions, as determined by the Independent Investment Bank;

"**Independent Investment Bank**" means an independent investment bank of international repute (acting as an expert) selected by the Issuer (at the expense of the Issuer) and notified to the Fiscal Agent and Calculation Agent in writing;

"**Initial Spread**" means 1.758 per cent. (*For the avoidance of doubt, there is no step-up to the Initial Spread)*;

"**Reference Treasury Dealer**" means each of any three investment banks of recognised standing that is a primary U.S. Government securities dealer in New York, selected by the Issuer (at the expense of the Issuer);

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any Reset Date, the average as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such Reset Date;

"**Reset Date**" means the First Reset Date and each date that falls five, or a multiple of five, years following the First Reset Date;

"**Reset Distribution Rate**" means, in respect of any respective Reset Period, the applicable Distribution Rate per annum as calculated by the sum of (x) the U.S. Treasury Benchmark Rate in relation to that Reset Period, and (y) the Initial Spread;

"**U.S. Treasury Benchmark Rate**" means the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the applicable Reset Date.

(ii)	Distribution Payment Date(s):	7 April and 7 October in each year, subject to adjustment in accordance with the Modified Following Business Day Convention

	(iii)	Fixed Distribution Amount(s):	U.S.$13.50 per Calculation Amount in respect of the period from (and including) the Issue Date to (but excluding) the First Reset Date
	(iv)	Optional Distribution Deferral:	Applicable; provided that (and to the extent that this proviso would not prevent the Securities from being treated under Applicable Supervisory Rules as at least Tier 2 group capital (or, if different, whatever terminology is employed by the Applicable Supervisory Rules)), in the event that a Regulatory Event has occurred and is continuing and the Issuer has not either (i) exercised its option to redeem the Securities (in accordance with paragraph 26 below) or (ii) substituted the Securities or varied the terms of the Securities (in accordance with paragraph 27 below), then the Issuer shall not be entitled pursuant to Condition 5(a)(ii) to defer Distributions on any Distribution Payment Date following the fifth anniversary of the date of such Regulatory Event and all Arrears of Distribution and Additional Distribution Amounts shall be satisfied no later than on the Distribution Payment Date falling on (or immediately after) the later of (x) the fifth anniversary of the Distribution Payment Date in respect of which the Issuer first elected to defer the relevant Distribution and (y) the fifth anniversary of the date on which the Regulatory Event occurred.
	(v)	Optional Distribution Cancellation:	Not Applicable
	(vi)	Broken Amount(s):	Not Applicable
	(vii)	Day Count Fraction:	30/360
15.	Dividend Pusher and Dividend Stopper:		Applicable Discretionary Payment Restriction (Stopper) applies Discretionary Redemption Restriction (Stopper) applies
	(i)	Dividend Pusher Lookback Period:	Not Applicable
	(ii)	Relevant Obligations (Pusher):	Not Applicable
	(iii)	Relevant Obligations (Stopper):	Junior Obligations and Parity Obligations

	(iv)	Compulsory Distribution Payment Event	Not Applicable
16.	Other terms relating to the method of calculating Distribution:		Not Applicable

PROVISIONS RELATING TO REDEMPTION

17.	Issuer's Call Option		Applicable, subject to the Redemption Conditions (as further described in paragraph 26 below)
	(i)	Optional Redemption Date(s):	On the First Reset Date, and on any Distribution Payment Date after the First Reset Date
	(ii)	Optional Redemption Amount of each Security:	U.S.$1,000 per Calculation Amount
	(iii)	If redeemable in part:	Not Applicable
	(iv)	Notice period:	The Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Securityholders, redeem the Securities on any Optional Redemption Date in whole but not in part
18.	Issuer's Call Option (Make Whole Redemption)		Applicable, subject to the Redemption Conditions (as further described in paragraph 26 below)
	(i)	Make Whole Optional Redemption Date(s):	Any date from the Issue Date up to (but excluding) the First Reset Date
	(ii)	Reference Security:	The U.S. Treasury security having a maturity of the First Reset Date that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity
	(iii)	Reference Security Price:	As specified in paragraph (i) of the definition of Reference Security Price set forth in 5(d) of the Conditions
	(iv)	Make Whole Redemption Margin:	0.25 per cent.
	(v)	Quotation Time:	11:00 a.m. (CET) on the third Business Day preceding the relevant Make Whole Optional Redemption Date
	(vi)	If redeemable in part:	
		(a) Minimum Redemption Amount:	Not Applicable

	(b)	Maximum Redemption Amount:	Not Applicable
	Make Whole Redemption Amount:		An amount calculated by the Determination Agent equal to the higher of (i) the principal amount of such Security and (ii) the sum of (x) the present value of the principal amount of such Security and (y) the present values of Distribution payable for the relevant Distribution Payment Dates from, and including, the relevant Make Whole Optional Redemption Date to the First Reset Date (exclusive of Distribution accrued to the Make Whole Optional Redemption Date), in each case, discounted to such redemption date at the Make Whole Reference Rate, plus the Make Whole Redemption Margin
19.	Rating Event Redemption:		Applicable, subject to the Redemption Conditions (as further described in paragraph 26 below)
	(i)	Early Redemption Amount (Rating Event):	U.S.$1,000 per Calculation Amount
	(ii)	Relevant Rating Agencies in relation to any Rating Event:	Moody's, Fitch
20.	Accounting Event Redemption:		Not Applicable
21.	Minimal Outstanding Amount Redemption		Applicable, subject to the Redemption Conditions (as further described in paragraph 26 below)
	(i)	Early Redemption Amount (Minimal Outstanding Amount):	U.S.$1,000 per Calculation Amount
22.	Tax Event Redemption:		Applicable, subject to the Redemption Conditions (as further described in paragraph 26 below)
	(i)	Early Redemption Amount (Tax Event):	U.S.$1,000 per Calculation Amount
23.	Other Special Events:		Applicable: Regulatory Event, as further described in paragraph 26 below (including, but not limited to, the Redemption Conditions)
	(i)	Early Redemption Amount (Regulatory Event):	U.S.$1,000 per Calculation Amount
24.	Conditional Purchase:		Condition 6(i) (*Redemption, Purchase and Options — Purchases*) shall be conditional.

The Issuer, any of its Subsidiaries or any of their respective agents may at any time purchase Securities in the open market or otherwise and at any price with Relevant Regulatory Approval, to the extent required by the Applicable Supervisory Rules.

OTHER PROVISIONS APPLICABLE TO THE SECURITIES

25. **DEFINITIONS**

The following definitions in Condition 5(d) shall be amended and restated in their entirety to read as follows:

"**Early Redemption Amount**" means any of an Early Redemption Amount (Minimal Amount Outstanding), Early Redemption Amount (Rating Event), Early Redemption Amount (Tax Event), and Early Redemption Amount (Regulatory Event);

"**Senior Creditors**" means all policyholders (including, for the avoidance of doubt, all obligations to such policyholders under policies and contracts of insurance) and other unsubordinated creditors of the Issuer and any other member of the Insurance Group (as defined in Condition 6);

26. **REDEMPTION, PURCHASE AND OPTIONS**

Condition 6 (Redemption, Purchase and Options) shall be amended as follows:

Paragraph (d) thereof shall be deleted in its entirety and replaced with paragraph (d) below:

(d) ***Rating Event Redemption***

(i) This Condition 6(d) shall apply to Securities only if Rating Event Redemption is specified as being applicable in the relevant Pricing Supplement.

(ii) The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable) at their Early Redemption Amount (Rating Event), if, immediately before giving such notice, the Issuer delivers to the Fiscal Agent the certificate referred to below stating that an amendment, clarification or change has occurred in the rules, criteria, guidelines or methodologies of relevant Rating Agencies or any of their respective successors to the rating business thereof, which amendment, clarification or change (x) results in, or will result in, a lower equity credit for the Securities than the equity credit assigned to the Securities immediately prior to such amendment, clarification or change, or (y) results in or will result in the shortening of the length of time the Securities are assigned a particular level of equity credit by such rating agency as compared to the length of time the Securities would have been assigned that level of equity credit by such rating agency on the date agreement is reached to assign equity credit to the Securities (a "**Rating Event**").

(iii) Prior to the publication of any notice of redemption pursuant to this Condition 6(d), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances.

(iv) Upon the expiry of any such notice as is referred to in this Condition 6(d), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(d), provided that such date for redemption shall be no earlier than the last day before the date on which the Securities will no longer be eligible for the same or higher category of equity credit.

Paragraphs (k) and (l), as follows, shall be inserted at the end thereof:

(k) ***Regulatory Event Redemption***

(i) The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable) at their Early Redemption Amount (Regulatory Event), if, immediately before giving such notice, the Securities, having qualified as Tier 2 group capital under the Applicable Supervisory Rules (or, if different, whatever terminology is employed by the then Applicable Supervisory Rules), are no longer capable of qualifying (in whole or in part) as Tier 2 group capital under the Applicable Supervisory Rules (or, if different, whatever terminology is employed by the then Applicable Supervisory Rules), except where such non-qualification is as a result of any other applicable limitation on the amount of such capital (a "**Regulatory Event**").

(ii) Prior to the publication of any notice of redemption pursuant to this Condition 6(k), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances.

(iii) Upon expiry of any such notice as is referred to in this Condition 6(k), the Issuer shall be bound to redeem the Securities in accordance with this Condition 6(k).

(l) ***Redemption Conditions*****:** Notwithstanding anything to the contrary set forth herein, a redemption or purchase pursuant to this Condition 6 shall be subject to the following conditions (such conditions being referred to herein as the "**Redemption Conditions**") to the extent the Securities qualify as at least Tier 2 group capital under the Applicable Supervisory Rules (or, if different, whatever terminology is employed by the then Applicable Supervisory Rules) and such Redemption Condition is required by the Applicable Supervisory Rules,

(i) the Securities may not be redeemed or purchased pursuant to this Condition 6 at any time prior to the fifth anniversary of the Issue Date of the Securities (or, if any further Tranche(s) of the Securities has or have been issued pursuant to Condition 14 and consolidated to form a single series with the Securities, prior to the fifth anniversary of the Issue Date of such latest Tranche to be issued), unless such redemption or purchase is effected with Relevant Regulatory Approval, to the extent required by the Applicable Supervisory Rules, and (x) funded out of the proceeds of a new issuance of capital having equal or better capital treatment as the Securities under the Applicable Supervisory Rules or (y) effected by way of exchange or conversion of such Securities into another form of capital having equal or better capital treatment as the Securities under the Applicable Supervisory Rules; and

(ii) the Securities may not be redeemed or purchased pursuant to this Condition 6 at any time unless such redemption or purchase is effected with Relevant Regulatory Approval.

The determination by the Issuer in connection with any redemption that the applicable conditions to redemption set forth in this Condition 6(l) have or have not been met or that no such conditions to redemption apply shall, in the absence of manifest error, be treated and accepted by the Securityholders and all other interested parties as correct and sufficient evidence thereof and shall be final and binding on such parties, and the Fiscal Agent shall be entitled to rely on such determination without liability to any person.

In the event that the option of the Issuer (i) to redeem the Securities following the occurrence of any Special Event, (ii) to substitute the Securities, or vary the terms of the Securities, following the occurrence of any Special Event, (iii) to exercise its Call Option (Make Whole Redemption), or (iv) to conduct a Minimal Outstanding Amount Redemption, would at any time prevent the Securities from being treated under the then Applicable Supervisory Rules as at least Tier 2 group capital (or, if different, whatever terminology is employed by the then Applicable Supervisory Rules), the terms of the Securities shall automatically be amended so as to exclude any feature relating to such option that is preventing the Securities from being treated under the then Applicable Supervisory Rules as at least Tier 2 group capital (or, if different, whatever terminology is employed by the then Applicable Supervisory Rules). Should such automatic exclusion occur, notice of such fact shall be given promptly by the Issuer to the Securityholders.

As used herein:

"**Applicable Supervisory Rules**" means the Hong Kong Insurance Authority's Insurance (Group Capital) Rules or such insurance supervisory laws, rules, regulations and guidelines relating to group supervision which are applicable to the Insurance Group from time to time.

"**Insurance Group**" means all subsidiaries of the Issuer that are regulated insurance or reinsurance companies and all other entities that are included within the regulatory group that includes the Issuer pursuant to the Applicable Supervisory Rules.

"**Relevant Regulator**" means the regulator which is considered the group supervisor of the Insurance Group under the Applicable Supervisory Rules. For the avoidance of doubt, the Relevant Regulator as of the date of this Pricing Supplement is the Hong Kong Insurance Authority.

"**Relevant Regulatory Approval**" means the Relevant Regulator has given, and not withdrawn by the relevant date, its prior consent to the redemption or, as the case may be, purchase of such Securities.

GENERAL PROVISIONS APPLICABLE TO THE SECURITIES

27.	Special Event Substitution or Variation:	Applicable
28.	Form of Securities:	**Registered Securities:** Unrestricted Global Certificate exchangeable for unrestricted Individual Security Certificates in the limited circumstances described in the Unrestricted Global Certificate
29.	Additional Business Centre(s) or other special provisions relating to	Hong Kong

	payment dates:	
30.	Talons for future Coupons or Receipts to be attached to Definitive Securities (and dates on which such Talons mature):	No
31.	Redenomination, Renominalisation and Reconventioning Provisions:	Not Applicable
32.	Consolidation Provisions:	The provisions in Condition 14 (*Further Issues*) apply
33.	Other Terms or Special Conditions:	See paragraphs 25 and 26 hereof

DISTRIBUTION

34.	(i) If syndicated, names of Managers:	The Hongkong and Shanghai Banking Corporation Limited Morgan Stanley & Co. International plc Standard Chartered Bank Australia and New Zealand Banking Group Limited Citigroup Global Markets Inc. Goldman Sachs (Asia) L.L.C.
	(ii) Stabilising Manager(s) (if any):	Morgan Stanley & Co. International plc
35.	If non-syndicated, name and address of Dealer:	Not Applicable
36.	U.S. Selling Restrictions:	Reg. S Category 2; Not Rule 144A Eligible
37.	Additional Selling Restrictions:	**Canada** The Securities may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or

		territories of Canada may provide a purchaser with remedies for rescission or damages if the Offering Circular as amended by this Pricing Supplement (including any further amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.
38.	Prohibition of Sales to EEA Retail Investors:	Applicable
39.	Prohibition of Sales to UK Retail Investors:	Applicable

OPERATIONAL INFORMATION

	ISIN Code:	XS2328261263
	Common Code:	232826126
	CUSIP:	Not Applicable
	Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s):	Not Applicable
	Delivery:	Delivery against payment
	Additional Paying Agent(s) (if any):	Not Applicable

GENERAL

	The aggregate principal amount of Securities issued has been translated into U.S. dollars:	Not Applicable
	Ratings:	The Securities to be issued are expected to be rated: Moody's: A3 Fitch: A-
	HKIA Insurance (Group Capital) Rules:	The Securities are expected to qualify as Tier 2 group capital under the Hong Kong Insurance Authority's Insurance (Group Capital) Rules.

STABILISATION

In connection with the issue of the Securities, Morgan Stanley & Co. International plc (or persons acting on behalf of Morgan Stanley & Co. International plc) (the "Stabilising Manager") may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over allotment must be conducted by the Stabilisation Manager (or person(s) acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

INVESTMENT AND TAX CONSIDERATIONS

There are significant risks associated with the Securities including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Securities, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Securities unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Securities.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Securities described herein pursuant to the U.S.$12,000,000,000 Global Medium Term Note and Securities Programme.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of AIA Group Limited:

By: ....

Name: Scott Frederick Engle
Title: Group Treasurer

APPENDIX

1. *Unless otherwise defined in the following paragraphs, terms defined in the Offering Circular shall have the same meaning in the following paragraphs.*

2. *A new paragraph shall be inserted at the end of the "Summary" section of the Offering Circular, comprising the following information:*

RECENT DEVELOPMENTS

On 24 March 2021, we announced that we had entered into an exclusive 15 year strategic bancassurance partnership with The Bank of East Asia ("BEA"). We will pay a total consideration of approximately US$650 million for the distribution partnership with BEA and for the acquisition of 100% of BEA Life Limited, a wholly-owned subsidiary of BEA. We will also acquire a closed portfolio of life insurance policies underwritten by Blue Cross (Asia-Pacific) Insurance Limited. The acquisition of BEA Life Limited is expected to complete by the end of 2021, subject to obtaining the relevant regulatory approvals.

On 29 March 2021, S&P Global Ratings revised our long-term issuer credit ratings to A+ with a "stable" outlook from A with a "positive" outlook.

3. *The risk factor "There are limited remedies for default under the Securities" on pages 51 and 52 of the Offering Circular shall be amended and restated in its entirety as follows:*

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. Moreover, pursuant to the HKIO, any person instituting Winding-Up proceedings in respect of a designated insurance holding company is required to provide a copy of the petition to the HKIA, and the HKIA may, if it considers appropriate, support or oppose the making of the Winding-Up order. 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.

4. *New paragraphs shall be inserted at the end of the "Risk Factors" section of the Offering Circular, comprising the following information:*

An early redemption of the Securities is subject to the receipt of prior regulatory approval.

The Issuer may, at its option, redeem or purchase some or all of the Securities at any time or from time to time subject to the terms described in Condition 6 (*Redemption, Purchase and Options*), as amended by paragraphs 17 to 19, 21 to 23 and 26 of this Pricing Supplement. However, notwithstanding anything to the contrary set forth in the Conditions, (i) the Securities may not be redeemed or purchased at any time prior to the fifth anniversary of the Issue Date, unless such redemption or purchase is effected with the prior approval of the Relevant Regulator (which, as of the date of this Pricing Supplement, is the Hong Kong Insurance Authority (the "**HKIA**")) and (x) funded out of the proceeds of a new issuance of capital having equal or better capital treatment as the Securities under applicable supervisory rules or (y) effected by way of exchange or conversion of such Securities into another form of capital having equal or better capital treatment as the Securities under such rules; and (ii) the Securities may not be redeemed or purchased at any time unless such redemption or purchase is effected with the prior approval of the Relevant Regulator. If any such regulatory approval is required but not obtained, then the Issuer will not be able to make an early redemption of the Securities, even if such repayment would otherwise be advantageous to, or anticipated by, the Issuer or the Securityholders.

In addition, if a Special Event has occurred and is continuing, then the Issuer may, subject to satisfaction of Conditions 4 and 13, but without any requirement for the consent or approval of Securityholders, substitute all, but not some only, of the Securities for, or vary the terms of the Securities with the effect that they remain or become, “Qualifying Securities” as defined in the Conditions.

The Issuer’s obligations under the Securities are subordinated.

The Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and rank *pari passu* in right of payment and without any preference among themselves. In the event of the winding-up of the Issuer, the payment obligations of the Issuer under or arising from the Securities shall be subordinated to the claims of all Senior Creditors (as defined in Condition 18, as amended by paragraph 25 of this Pricing Supplement), including all policyholders (including, for the avoidance of doubt, all obligations to such policyholders under policies and contracts of insurance) and other unsubordinated creditors of the Issuer and any other member of the Insurance Group.

Although the Securities may pay a higher rate of interest than comparable securities which are not subordinated, there is a significant risk that an investor in Securities will lose all or some of its investment should the Issuer become insolvent.

The Issuer may on any Distribution Payment Date elect to defer paying Distributions to the next Distribution Payment Date.

The Issuer may, at its sole discretion, elect to defer, in whole or in part, any Distribution (including any Arrears of Distribution and any Additional Distribution Amount, as defined in the Conditions) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date, subject to certain exceptions and conditions set forth in Condition 5. The Issuer is not subject to any limit as to the number of times Distributions may be deferred. Any failure to pay any Distribution that is deferred in accordance with Condition 5 will not constitute a default of the Issuer in respect of the Securities.

The Distribution Rate on the Securities will reset on each Reset Date, which can be expected to affect the Distribution on an investment in the Securities and could affect the market value of the Securities.

The Distribution Rate on the Securities will be reset on each Reset Date to the applicable Reset Distribution Rate as determined by the Calculation Agent in accordance with the Conditions. The Reset Distribution Rate for any Reset Period could be less than the initial Distribution Rate or the Reset Distribution Rate for prior Reset Periods and could affect the market value of an investment in the Securities.

There are no limitations on the amount of senior or *pari passu* securities that the Issuer may issue.

There is no restriction on the amount of securities which the Issuer may issue and which may rank senior to, or *pari passu* with, the Securities. The issue of any such securities may reduce the amount recoverable by Securityholders on a winding-up of the Issuer and/or increase the likelihood of a deferral of payments under the Securities.

Perpetual Securities.

The Issuer is under no obligation to redeem the Securities at any time and the Securityholders have no right to call for their redemption.

The resolution regime in Hong Kong will, if the Issuer is designated as an entity that is subject to the regime, empower the HKIA to override the contractual terms of the Securities.

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong as may be designated by the relevant resolution authorities. The resolution regime provides the HKIA, as the relevant resolution authority for insurance companies in Hong Kong, with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, and subject to certain safeguards, the HKIA is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. As of the date of this Pricing Supplement, the Issuer has not been designated as an entity subject to FIRO. However, if the Issuer were to be so designated, such powers would include, but are not limited to, powers to cancel, write-off, modify, convert or replace all or a part of the Securities or the principal amount of, or distributions on, the Securities, and powers to amend or alter the contractual provisions of the Securities, all of which would significantly adversely affect the value of the Securities, and result in a loss to the holders thereof of some or all of their investment. Securityholders may, upon designation of the Issuer as an entity that is subject to the regime, be subject to and bound by the FIRO and should consider that the terms of the Securities may be subject to material amendment, and that their holding of Securities may be cancelled, written-off, modified, converted or replaced without their consent.

The Securities may not qualify as at least Tier 2 group capital under the HKIA's Insurance (Group Capital) Rules.

The Securities are expected to fully comply with Schedule 2 (*Tier 2 Group Capital*) of the Insurance (Group Capital) Rules and to qualify as Tier 2 group capital under the Insurance (Group Capital) Rules, but, as the HKIA has not formally adopted guidelines regarding the features of financial instruments that would be eligible to count towards Tier 2 group capital, no assurance can be given that they will qualify under such rules. If the Securities were not to qualify as at least Tier 2 group capital under the applicable supervisory rules upon the effectiveness thereof, it would not constitute a Regulatory Event.