# LEADING with PURPOSE

**ANNUAL REPORT 2019**

STOCK CODE 1299

**AIA GROUP LIMITED**
友邦保險控股有限公司

HEALTHIER, LONGER, BETTER LIVES

## VISION & PURPOSE

**Our Vision** is to be the world's pre-eminent life insurance provider.

**Our Purpose** is to play a leadership role in driving economic and social development across the region.

# ABOUT AIA

AIA Group Limited and its subsidiaries (collectively "AIA" or the "Group") comprise the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific – wholly-owned branches and subsidiaries in Hong Kong SAR, Thailand, Singapore, Malaysia, Mainland China, South Korea, the Philippines, Australia, Indonesia, Taiwan (China), Vietnam, New Zealand, Macau SAR, Brunei, Cambodia, Myanmar, a 99 per cent subsidiary in Sri Lanka, and a 49 per cent joint venture in India.

The business that is now AIA was first established in Shanghai a century ago in 1919. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US$284 billion as of 31 December 2019.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia-Pacific, AIA serves the holders of more than 36 million individual policies and over 16 million participating members of group insurance schemes.

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

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

# Driving economic and social development across Asia since 1919

**1919**
AIA put down its corporate roots in Asia when the group founder Mr. Cornelius Vander Starr established an insurance agency in Shanghai.

**1921**
Mr. Cornelius Vander Starr founded Asia Life Insurance Company, his first life insurance enterprise in Shanghai.

**1931**
Mr. Cornelius Vander Starr founded International Assurance Company, Limited (INTASCO), in Shanghai.

INTASCO established branch offices in Hong Kong and Singapore.

**1947**
The Philippine American Life and General Insurance Company (Philam Life) was founded in the Philippines.

INTASCO moved its head office to Hong Kong.

**1948**
INTASCO changed its name to American International Assurance Company, Limited.

**1992**
We re-established our presence in China through a branch office in Shanghai, the first foreign-owned life business to receive a licence in the country.

**1998**
We celebrated the return to our former headquarters building on The Bund in Shanghai.

**2009**
We completed the reorganisation driven by AIG's liquidity crisis in 2008, leading to the positioning of the Company for a public listing.

**2010**
AIA Group Limited successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited, the third-largest IPO ever globally at the time.

**2011**
AIA Group Limited became a constituent stock of the Hang Seng Index.

We launched a sponsored Level 1 American Depositary Receipt programme.

**2013**
AIA completed the full integration of the businesses of AIA and ING Malaysia.

We commenced business in Sri Lanka through the acquisition of Aviva NDB Insurance.

**2014**
AIA and Citibank formed a landmark, long-term and exclusive bancassurance partnership that encompasses 11 markets in the Asia-Pacific region.

AIA became the Official Shirt Partner of Tottenham Hotspur Football Club to promote the role of sports as a key element of healthy living.

**2015**
AIA became the #1 MDRT company in the world.

MDRT®

**2016**
The AIA Leadership Centre opened in Bangkok.

We increased AIA Group's stake in Tata AIA Life Insurance Company Limited, a joint venture in India, from 26 per cent to 49 per cent.

**2017**
AIA presented the Hong Kong Observation Wheel and the AIA Vitality Park.

**2018**
AIA launched new brand promise: Healthier, Longer, Better Lives

# LEADING with PURPOSE

Our Centennial year — marking a 100-year journey that has seen AIA become the largest independent publicly listed pan-Asian life insurance group — was celebrated across the region by events and physical challenges supporting local community charities and special causes.

We are committed to leading our industry by delivering on our promise of Healthier, Longer, Better Lives, with the purpose of driving economic and social development across the markets in which we operate.

# 2019

## AIA Celebrates Its Centennial Year

Our 100-year journey has been one of pioneering growth that has seen AIA become the largest independent, publicly listed, pan-Asian life insurance group, with a presence across 18 markets. In 2019, we held a year-long series of centennial-themed activities in all our markets in support of local community charities and special causes.

## AIA Opens New Sales and Service Centres in Mainland China

AIA set up sales and service centres in Tianjin and Shijiazhuang, Hebei in accordance with the pilot programme promoting insurance integration under the Beijing–Tianjin–Hebei Integration Plan.

## AIA Granted Approval to Operate in Myanmar

AIA was granted approval to operate in Myanmar through a 100% wholly-owned subsidiary. We opened for business in November 2019 and became the first foreign insurer to issue a policy in the country.

## AIA and CBA Execute Joint Cooperation Agreement and Extend Strategic Partnership to 25 years

AIA and Commonwealth Bank of Australia (CBA) executed a Joint Cooperation Agreement enabling AIA to exercise a level of direct management control and oversight over CBA's life insurance business in Australia. Additionally, AIA Australia's strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand were extended to 25 years.

## AIA and Spurs Extend Global Principal Partnership until 2027

AIA and Tottenham Hotspur Football Club extended their partnership to the end of the 2026/27 season. The AIA brand will continue to appear on the front of the team shirts in all competitions.

## AIA Tops The Table for Fifth Year Running

AIA became the only multinational company in the world to rank number one in terms of the largest number of Million Dollar Round Table members for five consecutive years.

# AIA AT-A-GLANCE

Presence in
**18 Markets**

**The largest listed company on the Hong Hong Stock Exchange**
which is incorporated and headquartered in Hong Kong

**The largest[1] life insurer in the world**

**No.1 Worldwide for MDRT Members**
The only multinational company to top the table for five consecutive years

Provides protection to people across the Asia-Pacific region with total sum assured of
**US$1.74 trillion**

The only international life insurer headquartered and listed in Hong Kong and
**100% focused on Asia-Pacific**

**Over 14 million benefit payments**
were made during 2019, helping customers and their families to cope with challenges at different life stages

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

Note:
(1) The largest life insurer in the world by market capitalisation as at 12 March 2020.

# CONTENTS


## OVERVIEW

004 Financial Highlights
006 Chairman's Statement
009 Group Chief Executive and President's Report

## FINANCIAL AND OPERATING REVIEW

017 Financial Review
038 Business Review
056 Risk Management
064 Regulatory and International Developments
066 Our People

## CORPORATE GOVERNANCE

071 Statement of Directors' Responsibilities
072 Board of Directors
080 Executive Committee
085 Report of the Directors
095 Corporate Governance Report
108 Remuneration Report

## FINANCIAL STATEMENTS

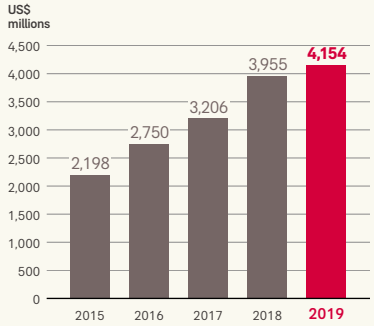
125 Independent Auditor's Report
132 Consolidated Income Statement
133 Consolidated Statement of Comprehensive Income
134 Consolidated Statement of Financial Position
136 Consolidated Statement of Changes in Equity
138 Consolidated Statement of Cash Flows
140 Notes to the Consolidated Financial Statements and Significant Accounting Policies
257 Supplementary Financial Information on a Calendar Year Basis
269 Independent Auditor's Report on the Supplementary Embedded Value Information
273 Supplementary Embedded Value Information

## ADDITIONAL INFORMATION

299 Information for Shareholders
302 Corporate Information
303 Glossary

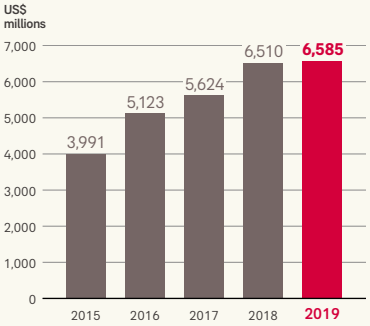
# 2019 RESULTS AT-A-GLANCE[1]

## VALUE OF NEW BUSINESS[2][8]



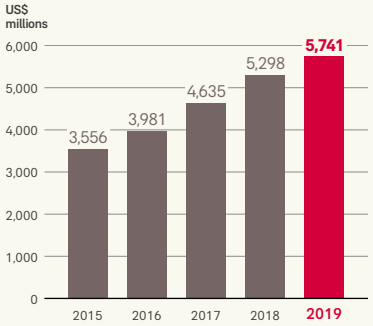

+6% YoY (CER) | +5% YoY (AER)

## ANNUALISED NEW PREMIUMS[3][8]



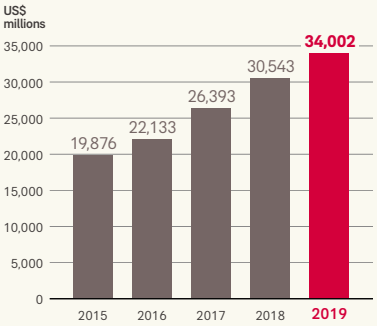

+2% YoY (CER) | +1% YoY (AER)

## OPERATING PROFIT AFTER TAX[4]



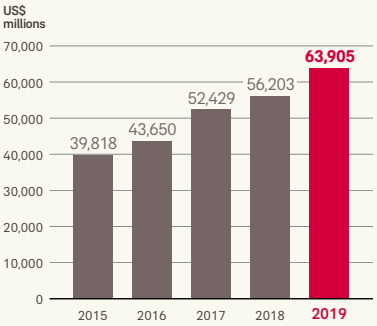

+9% YoY (CER) | +8% YoY (AER)

## TOTAL WEIGHTED PREMIUM INCOME[5]



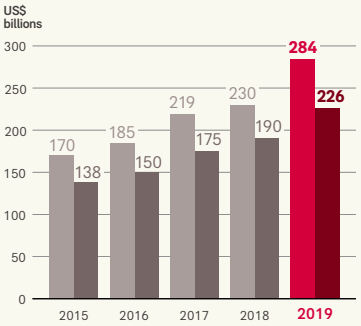

+13% YoY (CER) | +11% YoY (AER)

## EV EQUITY[6]




+12% YoY (CER) | +14% YoY (AER)

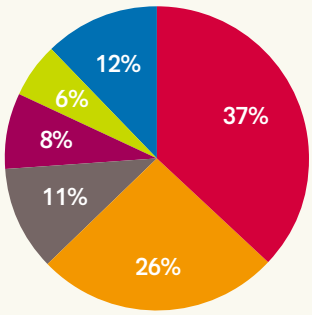
## TOTAL ASSETS AND TOTAL LIABILITIES



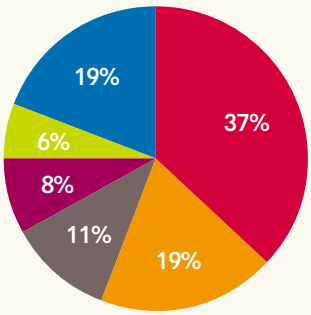

+24% TOTAL ASSETS | +19% TOTAL LIABILITIES

# 2019 BREAKDOWN BY MARKET SEGMENT

## VALUE OF NEW BUSINESS (2)(7)

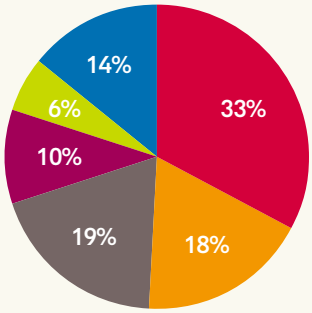



## ANNUALISED NEW PREMIUMS (3)

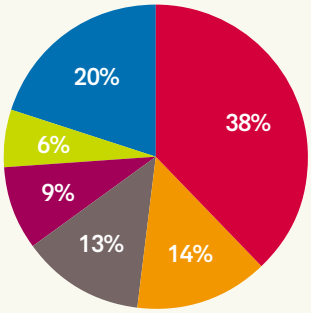



- Hong Kong
- Mainland China
- Thailand
- Singapore
- Malaysia
- Other Markets (8)

## OPERATING PROFIT AFTER TAX (4)




## TOTAL WEIGHTED PREMIUM INCOME (5)




Notes:

(1) The financial information from 2017 to 2019 is presented on the 31 December financial year-end basis. The financial information from 2015 to 2016 is presented on the 30 November financial year-end basis. For clarity, the growth rates are presented on the 31 December financial year-end basis.

(2) Value of new business (VONB) is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business.

(3) Annualised new premiums (ANP) is a measure of new business activity that is calculated as the sum of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded.

(4) Operating profit after tax (OPAT) is shown after non-controlling interests.

(5) Total weighted premium income (TWPI) consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded.

(6) Embedded value (EV) is an actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV Equity is the total of embedded value, goodwill and other intangible assets.

(7) Based on local statutory basis, before unallocated Group Office expenses and deduction of the amount attributable to non-controlling interests, VONB by segment includes pension business.

(8) In 2019, ANP and VONB for Other Markets include 49 per cent of the results from our joint venture in India, Tata AIA Life Insurance Company Limited (Tata AIA Life), to reflect our shareholding. ANP and VONB for 2018 and before have not been restated and do not include any contribution from Tata AIA Life. The total reported VONB for the Group in 2019 excludes the VONB attributable to non-controlling interests. VONB for 2018 and before have not been restated and are reported before deducting the amount attributable to non-controlling interests, as previously disclosed. The IFRS results of Tata AIA Life are accounted for using the equity method. The results of Tata AIA Life are accounted for on a one quarter lag basis in AIA's consolidated results. For clarity, TWPI does not include any contribution from Tata AIA Life.

# CHAIRMAN'S STATEMENT

## AIA's long history in Asia through many different market cycles has provided us with a secure and trusted brand. Despite a challenging operating environment, we have achieved continued growth in 2019 through the strength and resilience of our businesses and the scale of AIA's opportunities in the Asia-Pacific region.

Over the course of the year, consumer confidence was affected by various geopolitical events, including uncertainty over trade negotiations between China and the United States, and the social unrest in Hong Kong. Against this backdrop, AIA continued to deliver growth in all our main financial metrics.

Value of new business (VONB) increased to US$4,154 million in the context of external headwinds, particularly in relation to events in Hong Kong. Excluding Hong Kong, the Group's VONB grew by 16 per cent. Operating profit after tax (OPAT) increased by 9 per cent to US$5,741 million and underlying free surplus generation (UFSG) grew by 13 per cent to US$5,501 million. Growth rates are shown on constant exchange rates (CER) as this provides a clearer picture of the year-on-year performance of the underlying business.

Equity attributable to shareholders of AIA Group Limited (the Company) on the embedded value basis (EV Equity) grew to US$63,905 million over the year, which was an increase of 12 per cent. As at 31 December 2019, underscoring the Group's financial strength, the solvency ratio for our principal regulated operating company, AIA Company Limited (AIA Co.), was 362 per cent and the Group's free surplus above required regulatory capital was US$14,917 million, as measured under the Hong Kong Insurance Ordinance (HKIO) basis.

The board of Directors (Board) has recommended a final dividend of 93.30 Hong Kong cents per share, following AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group within the context of the immediate macroeconomic and capital markets environment.

AIA's long-term opportunities in the region are significant: as growing numbers of people in Asia enjoy middle-class incomes and lifestyles, their need for savings and financial protection will continue to increase. At the same time, Asia remains significantly underinsured and government social welfare provision is limited in many markets. This "protection gap" creates an important opportunity for AIA, as the leading pan-Asian life insurer, to meet customers' needs.

AIA celebrated its Centennial in 2019, which was a source of great pride for everyone involved with the Group. From Shanghai, where AIA's story began in 1919, to our newest operation, Myanmar which began operations in November 2019, we held events across our 18 markets to mark this historic milestone. Our employees and their families joined with customers, friends and partners of AIA – including representatives from Tottenham Hotspur Football Club (Spurs) – to celebrate our extraordinary journey. I would like to express the Board's profound gratitude to all of AIA's customers, employees, agents and partners whose loyalty and dedication over generations have made the Group what it is today. Our centenary gave us a wonderful opportunity to recognise the contribution of everyone who has worked with the Group, past and present, and to look forward with confidence to the century that lies ahead.

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

AIA recognises the seriousness, scale and complexity of the challenge posed by climate change and we are committed to playing our part in the transition to a more sustainable future. Our efforts to address material Environmental, Social and Governance (ESG) issues and enhancing our disclosures have earned us international recognition.

In 2019, AIA was included in the top 1 per cent of companies for ESG risk management by the rating agency Sustainalytics, which ranked the Group second out of 253 companies in the insurance industry. We were also included in the FTSE4Good Index Series for the third consecutive year. Since 2018, AIA has been part of the Task Force on Climate-related Financial Disclosures (TCFD), a global initiative that seeks to develop voluntary, consistent disclosure of climate change impacts. In 2019, we built on this by engaging with more than 1,400 companies across our investment portfolio, as well as over 30 external investment managers, as we sought to better understand how these companies manage climate change risks.

Our Group Chief Executive and President Ng Keng Hooi, will retire on 31 May 2020. On behalf of the entire Board, I would like to express my sincere thanks to Keng Hooi who has made a substantial and enduring contribution to AIA throughout our history as a listed company, both during his time as Group Chief Executive and President, as well as in his previous role as Regional Chief Executive.

I also wish to welcome our Group Chief Executive and President Designate Lee Yuan Siong to the Group. Yuan Siong has an impressive track record of leadership in our industry and is very well positioned to build on the tremendous work done by Keng Hooi during his term as Group Chief Executive and President. Yuan Siong's appointment is the result of a rigorous succession process by the Board to identify the best candidate to succeed Keng Hooi. We look forward to Yuan Siong's leadership and contribution as AIA continues to deliver on its promises throughout Asia.

As the Group approaches this transition in executive leadership, the Board remains as committed as ever to the highest standards of corporate governance. All of our non-executive directors are independent and they bring a broad spectrum of governance and executive experience to the work of the Board. Our approach to effective governance goes hand in hand with AIA's efforts to embed a culture throughout the organisation that is equal to the task of managing risk in an increasingly complex environment. In addition to our focus on sustainability, we remain highly focused and will continue to engage closely with our senior management on issues such as data privacy, cybersecurity and ethical business practices.

In the first quarter of 2020, the world faces the uncertain impact of COVID-19 and the measures taken to limit its spread. The ultimate impact on the financial results of the Group will depend on the duration and severity of the outbreak and we are closely monitoring the developing situation. As a result of travel restrictions and the reduction in face-to-face interactions, we have seen a significant disruption in new business sales in the first quarter. Our priority will always be the health and well-being of our staff and agents. Our businesses in affected areas are also working hard to support our wider communities at this difficult time.

I am confident that AIA is ideally positioned to deliver growth over the long term by continuing to serve our communities throughout Asia. Our Purpose of playing a leadership role in driving economic and social development across the region has never been more important. Thank you for supporting us as we pursue these ambitions by helping our customers live Healthier, Longer, Better Lives.

**Edmund Sze-Wing Tse**
Independent Non-executive Chairman
12 March 2020

# GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

**Mr. Ng Keng Hooi**
Group Chief Executive and President

## AIA continued to deliver growth across all our main financial metrics. This was achieved despite a challenging operating environment.

AIA has delivered a resilient performance in 2019 demonstrating the strength and quality of our diversified, high-quality portfolio of businesses as well as the growing structural needs for protection and long-term savings products across our markets.

Headline value of new business (VONB) growth of 6 per cent was the result of very strong growth in the first half of the year set against a second half significantly affected by social unrest in Hong Kong. The Group delivered overall VONB growth of 16 per cent for the full year excluding Hong Kong. Operating profit after tax (OPAT) increased by 9 per cent, underlying free surplus generation (UFSG) grew by 13 per cent and equity attributable to shareholders of AIA Group Limited (the Company) on the embedded value basis (EV Equity) grew strongly to US$63.9 billion, up 12 per cent, after the payment of shareholder dividends. As in prior years, growth rates are shown using constant exchange rates (CER) to provide a clearer picture of the year-on-year performance of the underlying business.

The board of Directors (Board) has recommended a final dividend of 93.30 Hong Kong cents per share, following AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group within the context of the immediate macroeconomic and capital markets environment. The total dividend of 126.60 Hong Kong cents per share represents an increase of 11 per cent compared with the total dividend in 2018, excluding the special dividend.

In 2019, a number of our markets experienced headwinds from falling consumer confidence and rising political and trade tensions. In particular, the reduced numbers of Mainland Chinese visitors to Hong Kong in the second half of the year affected new business sales in our largest market. Despite this near-term disruption, the long-term growth opportunities for AIA remain significant as we continue to benefit from Asia's remarkable journey towards greater prosperity alongside low levels of private insurance penetration and social welfare coverage.

The Group celebrated its Centennial year in 2019 and the contributions that generations of dedicated people at AIA have made to Asia's economic and social progress over the last 100 years. AIA has navigated vast economic and political change over the past century on our way to becoming one of the world's largest life insurers.

We are immensely proud of the contribution AIA has made to the development of local financial markets and the reach and effectiveness of life insurance in our region. We are also grateful for the long-term relationships we have developed with millions of customers and their families throughout the region. In many cases, these trusted relationships span generations.

AIA was founded in Shanghai and China remains at the heart of our growth strategy. The Chinese Government's announcement of further measures to remove foreign ownership restrictions and continue the liberalisation of the life insurance sector presents an historic opportunity for AIA. We have submitted an application for regulatory approval to convert our Shanghai branch into a subsidiary. Subject to regulatory approval, the newly incorporated subsidiary will form the foundation for our geographical expansion plans in Mainland China.

The life insurance industry has a responsibility to promote the well-being of our communities by supporting people through times of financial adversity and illness as well as by providing an efficient means of pooling savings so that they generate incomes in retirement. However, the region remains significantly underinsured in terms of life protection, health insurance, as well as in pensions and retirement savings. The opportunity to address these growing needs inspires us and demonstrates the significant potential for growth across our markets.

In the context of well-being, I am especially proud of AIA's industry leadership, as we strive to meet our brand promise to help people live Healthier, Longer, Better Lives. We are continuing our shift towards being a lifelong partner to our customers, moving beyond the traditional transaction-focused insurance model towards helping them live a more healthy lifestyle, including through AIA Vitality, our comprehensive, science-backed wellness programme. This shift is transforming our engagement with more and more customers around the region. I believe encouraging people to improve their health and wellness will be a win for AIA, a win for our customers and a win for our communities.

AIA's trusted distribution capabilities, market-leading brand and long history in Asia provide reassurance for our customers as we help safeguard their future health and financial security. Our dedicated teams remain focused on executing our clear growth strategy to sustain our competitive advantages as we continue to build on AIA's position as the leading pan-Asian life insurance company.

## 2019 PERFORMANCE HIGHLIGHTS (ON A CONSTANT EXCHANGE RATE BASIS)

Our **Hong Kong** business reported a 5 per cent decline in VONB to US$1,621 million with strong growth in the first half offset by a substantial decline in the Mainland Chinese visitor customer segment in the second half of the year. Our agency business delivered double-digit VONB growth from our Hong Kong domestic customers for the full year as our focus on the fundamentals of our Premier Agency strategy produced increased active agent numbers. VONB from partnership distribution declined in the second half from lower sales to Mainland Chinese visitors and increased competition. OPAT grew by 6 per cent to US$1,931 million.

In **Mainland China**, we delivered another very strong performance. VONB grew by 27 per cent to US$1,167 million and VONB margin remained strong at 93.5 per cent. Our differentiated Premier Agency strategy continues to deliver growth in both new recruits and active agents. In July 2019, we successfully opened our new sales and service centres in Tianjin and Shijiazhuang, Hebei. This was our first geographical expansion in Mainland China for 17 years. OPAT grew by 28 per cent and exceeded US$1 billion for the first time.

Our business in **Thailand** grew VONB by 6 per cent to US$494 million, supported by sales momentum in our Financial Adviser (FA) programme and our strategic long-term partnership with Bangkok Bank Public Company Limited (Bangkok Bank). Overall VONB margin remained strong at 67.7 per cent but reflected a higher proportion of bancassurance business compared with the prior year. OPAT increased by 3 per cent as underlying business growth and improved persistency were partly offset by lower bond yields and higher medical claims.

In **Singapore** VONB of US$352 million was stable year-on-year, with growth in regular premium sales offset by lower single premiums through our partnership distribution channels. The execution of our Premier Agency strategy saw an increase in the number of active agents, enabling us to maintain our market-leading agency distribution platform. Our strategic partnership with Citibank, N.A. (Citibank) delivered double-digit VONB growth, supported by an increase in the number of insurance specialists and higher productivity. OPAT increased by 6 per cent.

Our business in **Malaysia** reported VONB growth of 7 per cent, with our agency channel delivering double-digit VONB growth, supported by the launch of a new quality recruitment platform. While our strategic partnership with Public Bank Berhad generated strong VONB growth from in-branch distribution, this was offset by lower VONB in our direct marketing channel and our corporate solutions business. OPAT grew by 6 per cent.

**Other Markets** reported very strong VONB growth of 27 per cent to US$535 million, led by **Australia**, the **Philippines** and **Vietnam**. We have included a first-time contribution from our **Indian** joint venture, Tata AIA Life, in line with our 49 per cent shareholding. OPAT grew by 2 per cent to US$823 million as the earnings contribution from strong new business growth was partly offset by weaker operating experience in **South Korea** and an increase in operating expenses incurred in Australia in response to regulatory changes.

In November 2019, we executed a Joint Cooperation Agreement (JCA) with Commonwealth Bank of Australia (CBA) to take effective management control and extend our strategic bancassurance partnership with CBA in Australia to 25 years. In **Myanmar**, our 100% wholly-owned subsidiary began operations in November 2019.

## GROUP-WIDE OVERVIEW

### DISTRIBUTION

The consistent execution of our Premier Agency strategy delivered agency VONB growth of 11 per cent in 2019 to US$3,243 million. Excluding Hong Kong, agency achieved 16 per cent growth in VONB. AIA's proprietary training, bespoke innovative digital tools and clear career development paths are fundamental to attracting the best people and ensuring that we retain them. In 2019, AIA achieved another record in Million Dollar Round Table (MDRT) membership with an increase in registered members of 22 per cent compared with 2018. AIA has now achieved the highest number of MDRT-registered members globally for five consecutive years.

AIA's extensive network of industry-leading strategic partners across the Asia-Pacific region significantly broadens our access to potential new customers and offers tremendous growth opportunities. In 2019, VONB from partnerships reduced by 1 per cent to US$1,142 million due to the effect on our retail independent financial adviser (IFA) business in Hong Kong of the reduction in Mainland Chinese visitors in the second half of the year. Excluding Hong Kong, VONB from partnerships grew by 19 per cent.

Our bancassurance channel delivered very strong VONB growth in 2019 with excellent results from our strategic partnerships in the Philippines and Indonesia. Our regional partnership with Citibank continued to grow and remained the largest contributor to the Group's bancassurance VONB in 2019. New bancassurance partnerships launched in the last three years in Vietnam, Thailand and New Zealand provided a substantial contribution to the VONB growth of our bancassurance channel. The strong momentum in these markets demonstrates our ability to use experience from elsewhere in the Group to activate new partnerships quickly and with increasing success.

### BRAND AND MARKETING

Over its long history in the region, AIA has grown to become the largest pan-Asian life insurance company, trusted by millions of customers with the leading insurance brand in Asia. Our purpose-led promise to make a positive difference by helping people to live Healthier, Longer, Better Lives is more relevant now than ever and sits at the core of all that we do for our customers. We continued to work with a range of partners to promote healthy living, including our Global Ambassador, David Beckham, and Tottenham Hotspur Football Club (Spurs) through our Global Principal Partnership.

Our differentiated health and well-being strategic framework supports the entire customer health journey across prediction, prevention, diagnosis, treatment and recovery. AIA Vitality and our wellness programmes have focused customer engagement on the benefits of living well to combat the rapid growth of lifestyle-related diseases in Asia. We now offer comprehensive wellness programmes in 12 of our markets. Overall membership across the Group exceeded 1.7 million at the end of December 2019, an increase of 42 per cent since the end of 2018.

Our brand promise, partnerships and wellness programmes are a source of great pride for our employees and distributors. Not only do we campaign on a range of health and wellness topics in the region through a variety of education and outreach programmes, but we also create value for our customers by delivering meaningful health improvements, better treatment outcomes and much-needed financial protection.

### TECHNOLOGY AND OPERATIONS

Our approach to investing in and deploying new technologies is based on delivering material value and enhancing capabilities that improve efficiency, services, productivity and experience for our customers, staff and distributors.

In 2019, we significantly expanded our ability to support customer transactions digitally and automated many back-office processes associated with the provision of these services. More than 80 per cent of all customer interactions across all of our markets can now be performed digitally. In addition, over 90 per cent of all new cases were submitted digitally and 62 per cent were underwritten automatically.

We continue to refine our proprietary agency tools and platforms to enable greater productivity and intuitive support across key activities including sales activity management, servicing and recruitment. Our digital recruitment platforms provide content and features tailored to each market's unique recruitment programmes and customer propositions.

We have also begun a digital transformation with our strategic bancassurance partners utilising data analytics to further enhance the end-to-end customer experience, optimise leads generation and improve sales conversion rates. We aim to quickly expand and further enhance these tools as we roll them out across the Group.

As we continue to increase our use of technology, cybersecurity remains of vital importance for the Group. We continue to make significant investments in cybersecurity measures, including in-house forensic investigation capabilities and through the use of independent external advisers to safeguard our data and test and validate our defences for resilience against cyberthreats.

## ENGAGEMENT WITH PEOPLE

AIA's sustained success will continue to be the direct result of attracting and retaining the top talent and empowering future leaders. We foster a learning-based collaborative culture for our more than 23,000 employees and tens of thousands of agents, underpinned by our Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come".

In 2019, we launched our bespoke leadership curriculum designed to help our leaders across all levels of the organisation reach their full potential. The AIA Leadership Centre (ALC) continues to provide best-in-class talent development programmes to our senior leaders, top agency leaders and key partner executives. The ALC has now entered its fourth year of operation and, in 2019, it hosted more than 250 events. It was awarded an accreditation from the prestigious European Foundation for Management Development in recognition of excellence in leadership development programmes. AIA is currently the only life insurer in the world to hold this accreditation.

An inclusive workplace that actively reflects our brand promise and demonstrates high levels of engagement, is at the core of our recruitment and retention strategy. I am pleased to report that our performance in the annual Gallup Q12 Employee Engagement Survey, placed us in the top quartile of Gallup's global financial services and insurance industry benchmark for the third consecutive year. In addition, 2019 saw a record number of eligible employees participate in our long-term Employee Share Purchase Plan; a powerful demonstration of our employees' commitment to AIA.

AIA was also recognised in the Forbes Global 2000 – The World's Best Employers 2019 list, and the Company was named a constituent of the Bloomberg Gender-Equality Index for the third year in a row.

## OUTLOOK

Asian economies continued to deliver solid growth in 2019 with the exception of Hong Kong which was affected by social unrest in the second half of the year. As we move into the first quarter of 2020, a number of our markets are facing headwinds from the lower interest rate environment and the impact of COVID-19. The expectation is for a temporary but significant disruption in the near term. The speed of recovery and the extent of any long-term impact remain uncertain but will depend on the duration and severity of the outbreak and associated containment measures. Policymakers are taking actions to help reduce the financial impact on personal incomes by supporting businesses with targeted measures including tax reductions and by providing further fiscal support.

AIA is closely monitoring the developing situation. We have not seen any unusual patterns of claims to date in Mainland China and the agency recruitment pipeline remains strong as we accelerate our digital initiatives. However, we have seen a significant disruption in the Group's new business sales in the first quarter given travel restrictions and a general reluctance for people to engage in face-to-face meetings.

I am proud of the resilience and commitment of our people at this time. Our local businesses in affected areas have been supporting their communities with enhanced benefits and expedited claims procedures as well as practical support on the ground. Our thoughts remain with the families and communities who have been affected by this public health emergency.

Despite the near-term uncertainty, the strong domestic drivers of demand and major demographic trends in Asia provide positive structural support for the long-term prospects of AIA's business. The need for AIA's insurance products will continue to grow given rising incomes, low levels of private insurance penetration and limited social welfare coverage.

As I approach my retirement later in the year, I am confident that AIA is ideally positioned for future long-term growth. I also know that our success will create significant value for our customers, investors, employees and communities, as it has done for generations.

What truly sets this extraordinary company apart is the depth and quality of our employees, agents and partners, whose tireless work and unrelenting commitment are enabling us to transform how we engage with our customers. They always have been, and always will be, the cornerstone of our success and I offer them my heartfelt thanks.

I have been privileged to lead this remarkable group of people at the end of AIA's first 100 years and into the dawn of its second century, which I believe holds great potential for Asia and for the Group. I am very pleased to pass the role of Group Chief Executive and President on to Lee Yuan Siong and I am certain that AIA will go from strength to strength under his leadership.

**Ng Keng Hooi**
Group Chief Executive and President
12 March 2020

# FINANCIAL AND OPERATING REVIEW


017 Financial Review

038 Business Review

056 Risk Management

064 Regulatory and International Developments

066 Our People

**Mr. Garth Jones**
Group Chief Financial Officer

In 2019, AIA has delivered a resilient performance, despite the challenging operating environment, with continued growth in all our main financial metrics. We achieved growth in value of new business (VONB), a solid increase in International Financial Reporting Standard (IFRS) operating profit after tax (OPAT), double-digit growth in underlying free surplus generation (UFSG) and embedded value (EV).

AIA is the largest publicly listed pan-Asian life insurance group, with a presence across 18 markets in the Asia-Pacific region. We receive the vast majority of our premiums in local currencies and we closely match our local assets and liabilities to minimise the economic effects of foreign exchange movements. When reporting the Group's consolidated figures, there is a currency translation effect as we report in US dollars. In order to provide a clear picture of the year-on-year performance of the underlying businesses, we have, unless otherwise stated, provided growth rates and commentaries on our operating performance on a constant exchange rate (CER) basis.

## SUMMARY AND KEY FINANCIAL HIGHLIGHTS

In 2019, AIA continued to deliver growth in all our main financial metrics: VONB, OPAT, UFSG, EV operating profit and EV. Headline VONB growth of 6 per cent was the result of very strong growth in the first half of the year set against a second half significantly affected by social unrest in Hong Kong. Across the Group, excluding Hong Kong, VONB grew strongly at 16 per cent. We delivered a solid increase of 9 per cent in OPAT notwithstanding the unfavourable impact of lower interest rates. UFSG increased at 13 per cent, supported by the growing scale of our in-force business. Free surplus increased over the year and our solvency position has remained strong after financing organic and inorganic growth opportunities as well as the payment of an increased shareholder dividend. EV grew at 12 per cent, supported by higher EV operating profit and positive operating and investment variances. The Board has recommended a 10 per cent increase in the final dividend, following AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group within the context of the immediate macroeconomic and capital markets environment.

These results were delivered in a challenging operating environment and the continued focus on implementing our proven growth strategy has once again demonstrated our ability to deliver resilient financial performances through market cycles. We remain confident that AIA's leading businesses across the region place us in an advantaged position to capture the ongoing growth opportunities of the Asian life insurance market. We will continue to focus on delivering profitable new business growth, leveraging our competitive advantages to invest capital where we see attractive opportunities, while maintaining our financial discipline.

On 1 November 2019, AIA took effective control of The Colonial Mutual Life Assurance Society Limited (CMLA), following the entry into a contractual Joint Cooperation Agreement (JCA) between AIA Australia Limited, Commonwealth Bank of Australia (CBA) and CMLA (acquisition of CMLA).

### EMBEDDED VALUE

VONB grew by 6 per cent to US$4,154 million in 2019 as very strong growth in Mainland China and Other Markets was largely offset by a 5 per cent decline in Hong Kong. Social unrest in the second half in Hong Kong prompted a substantial decline in VONB from the Mainland Chinese visitor customer segment that broadly tracked the reduction in visitor arrivals from Mainland China as reported by the Hong Kong Tourism Board.

Agency distribution accounted for 74 per cent of the Group's total VONB. The consistent execution of our Premier Agency strategy helped generate 11 per cent VONB growth to US$3,243 million and a 5 per cent increase in the number of active agents. Partnership distribution VONB reduced by 1 per cent to US$1,142 million. Strong growth from our bancassurance channel was offset by the significant decline in new business from the Hong Kong retail independent financial adviser (IFA) channel in the second half of 2019, reflecting the reduction in visitor arrivals and increased competition.

Excluding Hong Kong, the Group's total VONB grew strongly at 16 per cent compared to 2018. Also excluding Hong Kong, VONB from the Group's agency distribution grew at 16 per cent and VONB from partnership distribution increased by 19 per cent.

Annualised new premiums (ANP) increased by 2 per cent to US$6,585 million and VONB margin increased by 3.0 pps to 62.9 per cent. The present value of new business premium (PVNBP) margin increased to 11 per cent from 10 per cent in 2018. Despite the lower interest rate environment in the second half of 2019, both VONB margin and PVNBP margin improved in 2019, 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.

EV operating profit grew by 6 per cent to US$8,685 million, limited mainly by the level of VONB growth and the expected return on EV which reflected the adverse impact of investment markets in 2018. Operating variances remained positive at US$634 million. Our operating return on EV (Operating ROEV) was 15.9 per cent compared with 16.3 per cent in 2018, primarily as a result of the combined effect of slower growth in VONB and expected return on EV during the year compared with 2018.

Equity attributable to shareholders of AIA Group Limited (the Company) on the embedded value basis (EV Equity) grew by US$7,702 million to US$63,905 million. The 12 per cent increase was mainly driven by EV operating profit of US$8,685 million, positive investment return variances of US$517 million and the positive effect of foreign exchange movements of US$670 million, partly offset by the negative effect of economic assumptions changes of US$254 million. Investment return variances reflect the positive effect of short-term capital market movements on our investment portfolio and statutory reserves compared with long-term expected returns. Goodwill and other intangible assets increased to US$1,920 million from US$1,686 million at 31 December 2018, primarily due to the acquisition of CMLA. EV Equity at 31 December 2019 is shown after the payment of shareholder dividends totalling US$1,961 million.

### IFRS EARNINGS

OPAT increased by 9 per cent to US$5,741 million with all of our reportable market segments delivering growth in 2019 despite the unfavourable effects of the lower interest rates in the second half of 2019 as well as higher medical claims and operating expenses. We continue to both grow our business and proactively manage our in-force portfolio. The expense ratio was 7.3 per cent compared with 7.1 per cent in 2018, with the increase mainly driven by higher operating expenses incurred by AIA Australia in response to various regulatory changes and the inclusion of the businesses acquired from CBA in Australia and New Zealand.

Operating margin after tax was 17.0 per cent compared with 17.5 per cent in 2018, reflecting an increased proportion of participating business in our in-force portfolio and the effect of negative investment and operating variances.

Operating return on shareholders' allocated equity (Operating ROE) remained constant at 14.4 per cent with an increase in average shareholders' allocated equity of US$3,216 million to US$39,820 million in 2019, benefiting from the positive mark-to-market movements in our equity portfolio, balancing the growth in OPAT.

Shareholders' allocated equity increased over 2019 by US$6,050 million to US$42,845 million as a result of higher net profit of US$6,648 million, including positive mark-to-market movement in our equity portfolio, a positive opening adjustment of US$482 million resulting from the initial adoption of IFRS 16 and positive foreign exchange movements of US$603 million, partly offset by the payment of shareholder dividends of US$1,961 million.

## CAPITAL AND DIVIDENDS

We delivered 13 per cent growth in UFSG to US$5,501 million in 2019 as we continued to benefit from the growing scale of our in-force business and higher returns on capital from 2018. Low interest rates had a limited impact in 2019 on UFSG as it is based on beginning of period assumptions, but this effect will flow through in the first half of 2020. Free surplus invested in writing new business reduced by 2 per cent to US$1,477 million, as the effect of increased sales was offset primarily by the impact of a tax rule change that increased the tax deductibility of commissions in Mainland China.

Free surplus increased by US$166 million to US$14,917 million at 31 December 2019 after the payment of shareholder dividends of US$1,961 million and a reduction of US$1,045 million resulting from the net effect of the acquisition of CMLA.

The solvency ratio of AIA Company Limited (AIA Co.) was 362 per cent at 31 December 2019, compared with 421 per cent at 31 December 2018. The solvency ratio of AIA Co. remained strong after the effect of the acquisition of CMLA and dividends to the Company.

All of our reportable market segments made positive capital remittances to the Group Corporate Centre in 2019. Net remittances from business units increased by US$977 million to US$3,730 million, compared with US$2,753 million in 2018, including a one-off transfer of accumulated retained earnings from Mainland China and an additional US$319 million remitted in January 2019 from Thailand due to the timing of various required regulatory approvals in 2018, as previously highlighted in our Annual Report 2018.

The Board has recommended a final dividend of 93.30 Hong Kong cents per share, reflecting the strength and resilience of our financial results and the Board's continued confidence in the future prospects of the Group. The final dividend is subject to shareholders' approval at the Company's forthcoming Annual General Meeting (AGM). The total dividend for 2019 of 126.60 Hong Kong cents per share represents an increase of 11 per cent compared with the total dividend in 2018, excluding the special dividend. The Board follows AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group within the context of the immediate macroeconomic and capital markets environment.

## NEW BUSINESS PERFORMANCE

### VONB, ANP and Margin by Segment

| | 2019 | | | 2018 | | | VONB Change | |
|---|---|---|---|---|---|---|---|---|
| US$ millions, unless otherwise stated | VONB | VONB Margin | ANP | VONB | VONB Margin | ANP | YoY CER | YoY AER |
| Hong Kong | **1,621** | **66.1%** | **2,393** | 1,712 | 62.0% | 2,697 | **(5)%** | (5)% |
| Thailand | **494** | **67.7%** | **729** | 447 | 73.1% | 611 | **6%** | 11% |
| Singapore | **352** | **65.5%** | **538** | 357 | 65.4% | 547 | **–** | (1)% |
| Malaysia | **258** | **63.1%** | **406** | 247 | 63.8% | 382 | **7%** | 4% |
| Mainland China | **1,167** | **93.5%** | **1,248** | 965 | 90.5% | 1,067 | **27%** | 21% |
| Other Markets[1] | **535** | **41.9%** | **1,271** | 435 | 35.8% | 1,206 | **27%** | 23% |
| **Subtotal** | **4,427** | **66.6%** | **6,585** | 4,163 | 63.2% | 6,510 | **8%** | 6% |
| Adjustment to reflect consolidated reserving and capital requirements | **(87)** | **n/m** | **n/m** | (56) | n/m | n/m | **n/m** | n/m |
| After-tax value of unallocated Group Office expenses | **(154)** | **n/m** | **n/m** | (152) | n/m | n/m | **n/m** | n/m |
| **Total before non-controlling interests** | **4,186** | **62.9%** | **6,585** | 3,955 | 60.0% | 6,510 | **7%** | 6% |
| Non-controlling interests[1] | **(32)** | **n/m** | **n/m** | – | n/m | n/m | **n/m** | n/m |
| **Total** | **4,154** | **62.9%** | **6,585** | 3,955 | 60.0% | 6,510 | **6%** | 5% |

Note:
(1) In 2019, ANP and VONB for Other Markets include 49 per cent of the results from Tata AIA Life Insurance Company Limited (Tata AIA Life) to reflect our shareholding. The contribution to ANP and VONB amount to US$182 million and US$38 million respectively. The total reported VONB for the Group in 2019 excludes the VONB attributable to non-controlling interests of US$32 million. For 2018, neither ANP nor VONB have been restated and they do not include any contribution from Tata AIA Life or deduct the amount attributable to non-controlling interests. As disclosed in our Annual Report 2018, the VONB attributable to non-controlling interests for 2018 is US$27 million.

VONB grew by 6 per cent to US$4,154 million in 2019 as very strong growth in Mainland China and Other Markets was largely offset by a 5 per cent decline in Hong Kong where the social unrest in the second half of 2019 drove a substantial decline in the Mainland Chinese visitor customer segment.

ANP increased by 2 per cent to US$6,585 million and VONB margin increased by 3.0 pps to 62.9 per cent. PVNBP margin increased to 11 per cent from 10 per cent in 2018. Despite the lower interest rate environment in the second half of 2019, both VONB margin and PVNBP margin improved in 2019, 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.

Agency distribution accounted for 74 per cent of the Group's total VONB. The consistent execution of our Premier Agency strategy helped generate 11 per cent VONB growth to US$3,243 million and a 5 per cent increase in the number of active agents. Partnership distribution VONB reduced by 1 per cent to US$1,142 million. Strong growth from our bancassurance channel was offset by the significant decline in new business from the Hong Kong retail IFA channel in the second half of 2019, reflecting the reduction in visitor arrivals and increased competition.

Excluding Hong Kong, the Group's total VONB grew strongly at 16 per cent compared to 2018. Also excluding Hong Kong, VONB from the Group's agency distribution grew at 16 per cent and VONB from partnership distribution increased by 19 per cent.

Hong Kong reported a 5 per cent reduction in VONB in 2019. Double-digit growth in VONB from our domestic customer segment was more than offset by a substantial decline in VONB from the Mainland Chinese visitor customer segment, which broadly tracked the reduction in visitor arrivals from Mainland China, as reported by the Hong Kong Tourism Board, in the second half of 2019. VONB margin increased by 4.1 pps to 66.1 per cent, mainly driven by enhanced profitability in our long-term savings and protection products.

Mainland China delivered very strong VONB growth of 27 per cent to US$1,167 million. Our Premier Agency strategy supported double-digit growth in active agents and further improvements in productivity. VONB margin increased by 3.1 pps to 93.5 per cent, as the positive effect of the tax rule change previously mentioned was partly offset by the impact of enhanced policyholder benefits within our protection products.

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 overall VONB growth of 6 per cent to US$494 million in 2019. VONB margin decreased to 67.7 per cent mainly as a result of a higher proportion of bancassurance business.

VONB in Singapore remained stable at US$352 million in 2019 as growth in regular premium sales was offset by lower single premium sales in our partnership distribution channel.

Malaysia achieved VONB growth of 7 per cent to US$258 million in 2019, supported by increased sales in both agency and in-branch bancassurance channels.

Other Markets reported very strong VONB growth of 27 per cent to US$535 million led by Australia, the Philippines and Vietnam.

The VONB results for the Group in 2019 are 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.

In 2019, ANP and VONB for Other Markets include 49 per cent of the results from Tata AIA Life to reflect our shareholding. The contribution to ANP and VONB amount to US$182 million and US$38 million respectively. The total reported VONB for the Group in 2019 excludes the VONB attributable to non-controlling interests of US$32 million. For 2018, neither ANP nor VONB have been restated and they do not include any contribution from Tata AIA Life or deduct the amount attributable to non-controlling interests. As disclosed in our Annual Report 2018, the VONB attributable to non-controlling interests for 2018 is US$27 million.

# EV EQUITY

## EV OPERATING PROFIT

EV operating profit grew by 6 per cent to US$8,685 million, limited mainly by the level of VONB growth and the expected return on EV which reflected the adverse impact of investment markets in 2018. Operating variances remained positive at US$634 million and cumulatively, since our initial public offering (IPO) in 2010, have added more than US$2.6 billion to EV.

Operating ROEV was 15.9 per cent compared with 16.3 per cent in 2018, primarily as a result of the combined effect of slower growth in VONB and expected return on EV during the year compared with 2018.

### EV Operating Earnings Per Share – Basic

| | 2019 | 2018 | YoY CER | YoY AER |
|---|---|---|---|---|
| **EV operating profit (US$ millions)** | **8,685** | 8,278 | **6%** | 5% |
| Weighted average number of ordinary shares (millions) | **12,042** | 12,021 | **n/a** | n/a |
| **Basic EV operating earnings per share (US cents)** | **72.12** | 68.86 | **6%** | 5% |

### EV Operating Earnings Per Share – Diluted

| | 2019 | 2018 | YoY CER | YoY AER |
|---|---|---|---|---|
| **EV operating profit (US$ millions)** | **8,685** | 8,278 | **6%** | 5% |
| Weighted average number of ordinary shares[1] (millions) | **12,071** | 12,056 | **n/a** | n/a |
| **Diluted EV operating earnings per share[1] (US cents)** | **71.95** | 68.66 | **6%** | 5% |

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

## EV MOVEMENT

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 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. Investment variances reflect the positive effect of short-term capital market movements on our investment portfolio and statutory reserves compared with long-term expected returns.

The EV at 31 December 2019 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 the purchase price of US$1,454 million and the acquired EV of US$1,207 million.

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

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

| | 2018 | | |
|---|---|---|---|
| US$ millions, unless otherwise stated | ANW | VIF | EV |
| **Opening EV** | 20,974 | 29,805 | 50,779 |
| Purchase price | (918) | – | (918) |
| Acquired EV[2] | 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 |

Notes:
(1) The acquired EV for CMLA was calculated as at 1 November 2019 net of the related reinsurance agreement.
(2) The acquired EV for AIA Sovereign Limited and its subsidiaries (Sovereign) was calculated as at 2 July 2018 net of the related reinsurance agreement.

EV Equity

| US$ millions, unless otherwise stated | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| **EV** | **61,985** | 54,517 |
| Goodwill and other intangible assets[1] | **1,920** | 1,686 |
| **EV Equity** | **63,905** | 56,203 |

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

## EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements are shown below and are consistent with the prior period.

| US$ millions, unless otherwise stated | EV as at 31 December 2019 | VONB 2019 | EV as at 31 December 2018 | VONB 2018 |
|---|---|---|---|---|
| **Central value** | **61,985** | **4,154** | 54,517 | 3,955 |
| **Impact of equity price changes** | | | | |
| 10 per cent increase in equity prices | **968** | **n/a** | 736 | n/a |
| 10 per cent decrease in equity prices | **(967)** | **n/a** | (731) | n/a |
| **Impact of interest rate changes** | | | | |
| 50 basis points increase in interest rates | **719** | **151** | 158 | 142 |
| 50 basis points decrease in interest rates | **(797)** | **(207)** | (249) | (184) |

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

## IFRS PROFIT

### OPAT[1] by Segment

| US$ millions, unless otherwise stated | 2019 | 2018 | YoY CER | YoY AER |
|---|---|---|---|---|
| Hong Kong | **1,931** | 1,814 | **6%** | 6% |
| Thailand | **1,064** | 995 | **3%** | 7% |
| Singapore | **583** | 558 | **6%** | 4% |
| Malaysia | **333** | 320 | **6%** | 4% |
| Mainland China | **1,061** | 870 | **28%** | 22% |
| Other Markets | **823** | 826 | **2%** | – |
| Group Corporate Centre | **(54)** | (85) | **n/m** | n/m |
| **Total** | **5,741** | 5,298 | **9%** | 8% |

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

OPAT increased by 9 per cent to US$5,741 million with all of our reportable market segments delivering growth in 2019 despite the unfavourable effects of the lower interest rates in the second half of 2019 as well as higher medical claims and operating expenses. We continue to both grow our business and proactively manage our in-force portfolio.

Hong Kong achieved 6 per cent growth in OPAT as underlying business growth was partially offset by lower interest rates in the second half of 2019 which reduced yields on new fixed income investments and affected reported profit generation from our in-force participating product portfolio.

Mainland China continued to deliver excellent growth of 28 per cent and OPAT exceeded US$1 billion for the first time, primarily driven by strong new business growth, our high-quality sources of earnings and sustained favourable operating experience.

Thailand reported a 3 per cent increase in OPAT 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.

Singapore delivered 6 per cent growth in OPAT, reflecting the underlying business growth, partly offset by continuing pressure on the profitability of our HealthShield portfolio.

Malaysia achieved 6 per cent growth in OPAT driven by underlying business growth, partly offset by higher medical claims driven by the greater incidence of seasonal infectious diseases in the second half of 2019.

Other Markets delivered OPAT growth of 2 per cent in 2019, as the earnings contribution from strong new business growth was offset by a deterioration of operating experience in South Korea and higher operating expenses incurred by AIA Australia in response to various regulatory changes.

Operating ROE remained constant at 14.4 per cent with an increase in average shareholders' allocated equity of US$3,216 million to US$39,820 million in 2019, benefiting from the positive mark-to-market movements in our equity portfolio, balancing the growth in OPAT.

### TWPI by Segment

| US$ millions, unless otherwise stated | 2019 | 2018 | YoY CER | YoY AER |
|---|---|---|---|---|
| Hong Kong | **13,107** | 11,444 | **15%** | 15% |
| Thailand | **4,352** | 3,895 | **7%** | 12% |
| Singapore | **2,916** | 2,738 | **8%** | 7% |
| Malaysia | **2,142** | 2,083 | **6%** | 3% |
| Mainland China | **4,804** | 4,006 | **25%** | 20% |
| Other Markets | **6,681** | 6,377 | **9%** | 5% |
| **Total** | **34,002** | 30,543 | **13%** | 11% |

TWPI increased by 13 per cent to US$34,002 million compared with 2018.

### IFRS Operating Profit Investment Return

| US$ millions, unless otherwise stated | 2019 | 2018 | YoY CER | YoY AER |
|---|---|---|---|---|
| Interest income | **6,624** | 6,125 | **9%** | 8% |
| Expected long-term investment return for equities and real estate | **2,275** | 1,951 | **17%** | 17% |
| **Total** | **8,899** | 8,076 | **11%** | 10% |

IFRS operating profit investment return increased by 11 per cent to US$8,899 million compared with 2018. The growth was primarily driven by the increased size of our investment portfolio.

### Operating Expenses

| US$ millions, unless otherwise stated | 2019 | 2018 | YoY CER | YoY AER |
|---|---|---|---|---|
| Operating expenses | **2,468** | 2,171 | **16%** | 14% |

Operating expenses grew by 16 per cent to US$2,468 million. The expense ratio was 7.3 per cent, compared with 7.1 per cent in 2018, with the increase mainly driven by higher operating expenses incurred by AIA Australia in response to various regulatory changes as well as the inclusion of the businesses acquired from CBA in Australia and New Zealand.

### Net Profit[1]

| US$ millions, unless otherwise stated | 2019 | 2018 | YoY CER | YoY AER |
|---|---|---|---|---|
| OPAT | **5,741** | 5,298 | **9%** | 8% |
| Short-term fluctuations in investment return related to equities and real estate, net of tax[2] | **937** | (2,063) | **n/m** | n/m |
| Reclassification of revaluation gain for property held for own use, net of tax[2] | **(170)** | (212) | **n/m** | n/m |
| Corporate transaction related costs, net of tax | **(85)** | (148) | **n/m** | n/m |
| Implementation costs of new accounting standards, net of tax | **(39)** | (42) | **n/m** | n/m |
| Other non-operating investment return and other items, net of tax | **264** | (236) | **n/m** | n/m |
| **Total** | **6,648** | 2,597 | **165%** | 156% |

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.

## IFRS NON-OPERATING MOVEMENT

IFRS net profit was US$6,648 million in 2019, more than double the result in 2018. Our net profit definition includes mark-to-market movements from our equity portfolio and the result in 2019 included positive short-term fluctuations from equities and real estate of US$937 million, compared with negative movements of US$2,063 million in 2018. Other non-operating items in 2019 included corporate transaction related costs of US$85 million, associated with the acquisition of CMLA and Sovereign, and the implementation costs of new accounting standards of US$39 million.

### Movement In Shareholders' Allocated Equity

| US$ millions, unless otherwise stated | 2019 | 2018 |
|---|---|---|
| **Opening shareholders' allocated equity** | **36,795** | 36,413 |
| Opening adjustment on adoption of IFRS 16 | **482** | – |
| Net profit | **6,648** | 2,597 |
| Purchase of shares held by employee share-based trusts | **(21)** | (11) |
| Dividends | **(1,961)** | (1,589) |
| Revaluation gains on property held for own use | **167** | 8 |
| Foreign currency translation adjustments | **603** | (732) |
| Other capital movements | **132** | 109 |
| **Total movement in shareholders' allocated equity** | **6,050** | 382 |
| **Closing shareholders' allocated equity** | **42,845** | 36,795 |
| Average shareholders' allocated equity | **39,820** | 36,604 |

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

Average shareholders' allocated equity increased by US$3,216 million to US$39,820 million in 2019 compared with US$36,604 million in 2018, benefiting from the positive mark-to-market movements in our equity portfolio.

Shareholders' allocated equity increased over 2019 by US$6,050 million to US$42,845 million as a result of higher net profit of US$6,648 million including positive mark-to-market movements in our equity portfolio, a positive opening adjustment of US$482 million resulting from the initial adoption of IFRS 16 and positive foreign exchange movements of US$603 million, partly offset by the payment of shareholder dividends of US$1,961 million.

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

## IFRS EARNINGS PER SHARE (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders increased by 9 per cent to 47.67 US cents in 2019.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, more than doubled to 55.21 US cents in 2019.

### IFRS EPS – Basic

| | Net Profit[1] | | OPAT[1] | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Profit (US$ millions) | **6,648** | 2,597 | **5,741** | 5,298 |
| Weighted average number of ordinary shares (millions) | **12,042** | 12,021 | **12,042** | 12,021 |
| **Basic earnings per share (US cents)** | **55.21** | 21.60 | **47.67** | 44.07 |

### IFRS EPS – Diluted

| | Net Profit[1] | | OPAT[1] | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Profit (US$ millions) | **6,648** | 2,597 | **5,741** | 5,298 |
| Weighted average number of ordinary shares[2] (millions) | **12,071** | 12,056 | **12,071** | 12,056 |
| **Diluted earnings per share[2] (US cents)** | **55.07** | 21.54 | **47.56** | 43.94 |

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

# CAPITAL

## FREE SURPLUS GENERATION

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

UFSG excludes investment return variances and other items. We delivered 13 per cent growth in UFSG to US$5,501 million in 2019 as we continued to benefit from the growing scale of our in-force business and higher returns on capital from 2018. Low interest rates had a limited impact on UFSG in 2019 as it is based on beginning of period assumptions, but this effect will flow through in the first half of 2020. Free surplus invested in writing new business reduced by 2 per cent to US$1,477 million, as the effect of increased sales was offset primarily by the impact of a tax rule change that increased the tax deductibility of commissions in Mainland China.

The overall effect of investment return variances and other items including regulatory developments was negative US$588 million. This effect comprised a negative impact of US$1,104 million from lower interest rates, partially offset by a positive impact of US$516 million from other items including foreign exchange movement and mark-to-market gains on equities.

Over the year, free surplus increased by US$166 million to US$14,917 million at 31 December 2019, after the payment of shareholder dividends of US$1,961 million and a deduction of US$1,045 million for the net effect of the acquisition of CMLA.

The following table summarises the change in free surplus:

| US$ millions, unless otherwise stated | 2019 | 2018 |
|---|---|---|
| **Opening free surplus** | **14,751** | 12,586 |
| Release of free surplus through the subsidiarisation of AIA Korea on 1 January 2018 | **–** | 1,886 |
| Effect of acquisition[1] | **(1,045)** | (497) |
| Underlying free surplus generation | **5,501** | 4,945 |
| Free surplus used to fund new business | **(1,477)** | (1,540) |
| Investment return variances and other items | **(588)** | (795) |
| Unallocated Group Office expenses | **(192)** | (170) |
| Dividends | **(1,961)** | (1,589) |
| Finance costs and other capital movements | **(72)** | (75) |
| **Closing free surplus** | **14,917** | 14,751 |

Note:
(1) After taking into account the effect of reinsurance.

## NET FUNDS TO GROUP CORPORATE CENTRE

Working capital is composed of debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. Working capital increased to US$13,471 million at 31 December 2019.

Net remittances from business units increased by US$977 million to US$3,730 million, with the increase largely contributed by Thailand and Mainland China. Thailand remittances increased to US$1,037 million in 2019 following the regulatory change approved in 2018 and an additional US$319 million remitted in January 2019 due to the timing of various required regulatory approvals in 2018, as previously highlighted in our Annual Report 2018. Remittances from Mainland China nearly doubled, reflecting the increasing scale of the business and a one-off transfer of accumulated retained earnings. As previously highlighted, there was a special remittance in 2018 from New Zealand post the acquisition of Sovereign, which explains the lower remittances from Other Markets in 2019.

Borrowings increased by US$797 million from the net proceeds of the issuances of medium-term notes of US$1,301 million less the redemption of medium-term notes of US$500 million upon maturity. The total increase in working capital is reported after the payment of shareholder dividends of US$1,961 million and a gross initial payment of US$344 million in 2019 related to the acquisition of CMLA.

The movements in working capital are summarised as follows:

| US$ millions, unless otherwise stated | 2019 | 2018 |
|---|---|---|
| **Opening working capital** | **10,296** | 9,714 |
| Group Corporate Centre operating results | **(54)** | (85) |
| Net remittance from business units | | |
| Hong Kong | **986** | 1,054 |
| Thailand | **1,037** | 149 |
| Singapore | **295** | 267 |
| Malaysia | **176** | 185 |
| Mainland China | **1,022** | 542 |
| Other Markets | **214** | 556 |
| **Net remittance to Group Corporate Centre** | **3,730** | 2,753 |
| Initial payment for acquisition of CMLA[1] | **(344)** | – |
| Payment for acquisition of Sovereign | **–** | (918) |
| Increase in borrowings | **797** | 1,001 |
| Purchase of shares held by the employee share-based trusts | **(21)** | (11) |
| Payment of dividends | **(1,961)** | (1,589) |
| Mark-to-market movements in debt securities and others | **1,028** | (569) |
| **Closing working capital** | **13,471** | 10,296 |

Note:
(1) Represents initial payment of AUD500 million as previously announced.

# IFRS BALANCE SHEET

## Consolidated Statement of Financial Position

| US$ millions, unless otherwise stated | As at 31 December 2019 | As at 31 December 2018 | Change AER |
|---|---|---|---|
| **Assets** | | | |
| Financial investments | **233,363** | 186,142 | 25% |
| Investment property | **4,834** | 4,794 | 1% |
| Cash and cash equivalents | **3,941** | 2,451 | 61% |
| Deferred acquisition and origination costs | **26,328** | 24,626 | 7% |
| Other assets | **15,666** | 11,793 | 33% |
| **Total assets** | **284,132** | 229,806 | 24% |
| **Liabilities** | | | |
| Insurance and investment contract liabilities | **201,870** | 172,649 | 17% |
| Borrowings | **5,757** | 4,954 | 16% |
| Other liabilities | **18,549** | 12,797 | 45% |
| **Less total liabilities** | **226,176** | 190,400 | 19% |
| **Equity** | | | |
| Total equity | **57,956** | 39,406 | 47% |
| Less non-controlling interests | **448** | 400 | 12% |
| **Total equity attributable to shareholders of AIA Group Limited** | **57,508** | 39,006 | 47% |
| Shareholders' allocated equity | **42,845** | 36,795 | 16% |

### Movement in Shareholders' Equity

| US$ millions, unless otherwise stated | 2019 | 2018 |
|---|---|---|
| **Opening shareholders' equity** | **39,006** | 43,176 |
| Opening adjustment on adoption of IFRS 16 | **482** | – |
| Net profit | **6,648** | 2,597 |
| Fair value gains/(losses) on assets | **12,452** | (4,552) |
| Purchase of shares held by employee share-based trusts | **(21)** | (11) |
| Dividends | **(1,961)** | (1,589) |
| Revaluation gains on property held for own use | **167** | 8 |
| Foreign currency translation adjustments | **603** | (732) |
| Other capital movements | **132** | 109 |
| **Total movement in shareholders' equity** | **18,502** | (4,170) |
| **Closing shareholders' equity** | **57,508** | 39,006 |

### Total Investments

| US$ millions, unless otherwise stated | As at 31 December 2019 | Percentage of total | As at 31 December 2018 | Percentage of total |
|---|---|---|---|---|
| Total policyholder and shareholder | **212,742** | **87%** | 171,337 | 88% |
| Total unit-linked contracts and consolidated investment funds | **31,456** | **13%** | 23,938 | 12% |
| **Total investments** | **244,198** | **100%** | 195,275 | 100% |

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

### Unit-Linked Contracts and Consolidated Investment Funds

| US$ millions, unless otherwise stated | As at 31 December 2019 | Percentage of total | As at 31 December 2018 | Percentage of total |
|---|---|---|---|---|
| **Unit-linked contracts and consolidated investment funds** | | | | |
| Debt securities | **5,866** | **19%** | 4,765 | 20% |
| Loans and deposits | **703** | **2%** | 81 | – |
| Equities | **24,101** | **77%** | 18,418 | 77% |
| Cash and cash equivalents | **752** | **2%** | 672 | 3% |
| Derivatives | **34** | **–** | 2 | – |
| **Total unit-linked contracts and consolidated investment funds** | **31,456** | **100%** | 23,938 | 100% |

## Policyholder and Shareholder Investments

| US$ millions, unless otherwise stated | As at 31 December 2019 | Percentage of total | As at 31 December 2018 | Percentage of total |
|---|---|---|---|---|
| **Participating funds and Other participating business with distinct portfolios** | | | | |
| Government bonds | **7,751** | **4%** | 6,645 | 4% |
| Other government and government agency bonds | **9,974** | **5%** | 7,476 | 4% |
| Corporate bonds and structured securities | **40,842** | **19%** | 30,183 | 18% |
| Loans and deposits | **2,523** | **1%** | 2,179 | 1% |
| **Subtotal – Fixed income investments** | **61,090** | **29%** | 46,483 | 27% |
| Equities | **18,739** | **8%** | 13,892 | 8% |
| Investment property and property held for own use | **1,065** | **1%** | 888 | 1% |
| Cash and cash equivalents | **481** | **–** | 395 | – |
| Derivatives | **231** | **–** | 148 | – |
| **Subtotal Participating funds and Other participating business with distinct portfolios** | **81,606** | **38%** | 61,806 | 36% |
| **Other policyholder and shareholder** | | | | |
| Government bonds | **43,345** | **21%** | 35,821 | 21% |
| Other government and government agency bonds | **16,727** | **8%** | 13,496 | 8% |
| Corporate bonds and structured securities | **47,479** | **22%** | 41,835 | 24% |
| Loans and deposits | **6,860** | **3%** | 5,132 | 3% |
| **Subtotal – Fixed income investments** | **114,411** | **54%** | 96,284 | 56% |
| Equities | **7,482** | **4%** | 5,789 | 3% |
| Investment property and property held for own use | **5,829** | **3%** | 5,794 | 4% |
| Cash and cash equivalents | **2,708** | **1%** | 1,384 | 1% |
| Derivatives | **706** | **–** | 280 | – |
| **Subtotal other policyholder and shareholder** | **131,136** | **62%** | 109,531 | 64% |
| **Total policyholder and shareholder** | **212,742** | **100%** | 171,337 | 100% |

## ASSETS

Participating business is written in a segregated statutory fund with regulations governing the division of surplus between policyholders and shareholders. "Other participating business with distinct portfolios" is supported by segregated investment assets and explicit provisions for future surplus distribution. However, the division of surplus between policyholders and shareholders is not defined in regulations. Our investment disclosures were enhanced in 2018 to reflect the nature and greater size of this business by grouping its assets together with participating business.

Total assets increased by US$54,326 million to US$284,132 million at 31 December 2019, compared with US$229,806 million at 31 December 2018.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US$48,923 million to US$244,198 million at 31 December 2019, compared with US$195,275 million at 31 December 2018.

Of the total US$244,198 million investments at 31 December 2019, US$212,742 million were held in respect of policyholders and shareholders and the remaining US$31,456 million were backing unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US$175,501 million at 31 December 2019 compared with US$142,767 million at 31 December 2018. 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 2018.

Government bonds, other government and government agency bonds represented 44 per cent of fixed income investments at 31 December 2019 and 31 December 2018. Corporate bonds and structured securities accounted for 50 per cent of fixed income investments at 31 December 2019 and 31 December 2018.

Equity securities held in respect of policyholders and shareholders totalled US$26,221 million at 31 December 2019, compared with US$19,681 million at 31 December 2018. The US$6,540 million increase in carrying value was mainly attributable to new purchases and positive mark-to-market movements. Within this figure, equity securities of US$18,739 million were held in participating funds and other participating business with distinct portfolios.

Cash and cash equivalents increased by US$1,490 million to US$3,941 million at 31 December 2019 compared to US$2,451 million at 31 December 2018. The increase largely reflected positive net cash inflows from our operating business, net proceeds of the issuances of medium-term notes totalling US$1,301 million during the year, partly offset by the redemption of medium-term notes of US$500 million upon maturity and the payment of shareholder dividends of US$1,961 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US$6,894 million at 31 December 2019 compared with US$6,682 million at 31 December 2018.

Deferred acquisition and origination costs increased to US$26,328 million at 31 December 2019 compared with US$24,626 million at 31 December 2018, largely reflecting new business growth.

Other assets increased to US$15,666 million at 31 December 2019 compared with US$11,793 million at 31 December 2018, reflecting an increase in property, plant and equipment, which was driven by the adoption of IFRS 16, reinsurance recoveries, goodwill from the acquisition of CMLA and other receivables.

**LIABILITIES**

Total liabilities increased to US$226,176 million at 31 December 2019 from US$190,400 million at 31 December 2018.

Insurance and investment contract liabilities grew to US$201,870 million at 31 December 2019 compared with US$172,649 million at 31 December 2018, reflecting the underlying growth of the in-force portfolio, positive mark-to-market movements on equities backing unit-linked and participating policies and positive foreign exchange movement.

Borrowings increased to US$5,757 million at 31 December 2019, due to the net proceeds from the issuances of medium-term notes totalling US$1,301 million during the year less the redemption of medium-term notes of US$500 million upon maturity. Leverage ratio, which is defined as borrowings expressed as a percentage of total borrowings and equity, was 9.0 per cent, compared with 11.2 per cent at 31 December 2018.

Other liabilities were US$18,549 million at 31 December 2019, compared with US$12,797 million at 31 December 2018, reflecting the consideration payable for the acquisition of CMLA, an increase in lease liabilities from the adoption of IFRS 16, deferred tax liabilities and investment-related payables.

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

## REGULATORY CAPITAL

Our Group supervisor is the Hong Kong Insurance Authority (HKIA). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer.

At 31 December 2019, the total available capital for AIA Co., our main regulated entity, was US$11,856 million as measured under the Hong Kong Insurance Ordinance (HKIO) basis, resulting in a solvency ratio of 362 per cent of regulatory minimum capital compared with 421 per cent at 31 December 2018. The solvency ratio of AIA Co. remained strong after the effect of the acquisition of CMLA and dividends to the Company.

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

| US$ millions, unless otherwise stated | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Total available capital | **11,856** | 9,208 |
| Regulatory minimum capital (100%) | **3,272** | 2,189 |
| Solvency ratio (%) | **362%** | 421% |

The Group's individual branches and subsidiaries are also subject to supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 31 December 2019.

## GLOBAL MEDIUM-TERM NOTE (GMTN) AND SECURITIES PROGRAMME

In March 2019, we increased our GMTN and Securities programme from US$6 billion to US$8 billion.

Under the programme, on 16 January 2019, the Company issued unlisted Hong Kong dollar-denominated fixed rate medium-term notes, which consisted of HK$1,300 million of 3.5-year notes at an annual rate of 2.95 per cent and HK$1,100 million of 12-year notes at an annual rate of 3.68 per cent. In aggregate, the US dollar-equivalent issued is approximately US$307 million. On 9 April 2019, the Company issued US dollar-denominated fixed rate medium-term notes that are listed on The Stock Exchange of Hong Kong Limited. The offering comprised US$1,000 million of 10-year notes at an annual rate of 3.6 per cent.

The Company redeemed senior unsecured fixed rate notes with a nominal amount of US$500 million in March 2019. At 31 December 2019, the aggregate carrying amount of the debt issued under the GMTN and Securities programme was US$5,757 million.

## CREDIT RATINGS

At 31 December 2019, AIA Co. had financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from Standard & Poor's.

At 31 December 2019, the Company 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. Standard & Poor's revised the outlook on the Company from stable to positive on 7 August 2019.

## DIVIDENDS

The Board has recommended a final dividend of 93.30 Hong Kong cents per share, reflecting the strength and resilience of our financial results and the Board's continued confidence in the future prospects of the Group. The final dividend is subject to shareholders' approval at the Company's forthcoming AGM. The total dividend for 2019 of 126.60 Hong Kong cents per share represents an increase of 11 per cent compared with the total dividend in 2018, excluding the special dividend. The Board follows AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group within the context of the immediate macroeconomic and capital markets environment.

## UPDATE ON THE ACQUISITION OF CBA'S LIFE INSURANCE BUSINESSES IN AUSTRALIA AND NEW ZEALAND

Following the acquisition of AIA New Zealand Limited (formerly known as Sovereign Assurance Company) in July 2018, we achieved another major milestone on 1 November 2019 when the Group, CBA and CMLA entered into a JCA. This agreement provides an alternative completion structure for the original planned acquisition and allows the Group to exercise an appropriate level of direct management control and oversight over CMLA and certain affiliated companies, excluding CMLA's stake in BoCommLife Insurance Company Limited in Mainland China. The acquisition of CMLA presents the Group with an extensive customer reach in Australia, including a 25-year strategic bancassurance partnership with CBA.

We continue to progress the integration of the acquired business in Australia and have made particularly good progress in New Zealand. Expected pre-tax integration costs post completion of the purchase of Sovereign and enactment of the JCA have increased, and are estimated to be US$240 million, driven by additional complexity of the integration. The transaction is now not expected to be accretive to our earnings in the first year following completion, although our expectation of annualised pre-tax cost synergies has increased from US$60 million to US$80 million per annum within two years of the commencement of the JCA. We continue to believe that the transaction will significantly expand AIA's access to potential new customers and deliver profitable growth.

The 2019 financial results for the Group included the full year results of AIA New Zealand Limited and two-month results of CMLA since November 2019.

# BUSINESS REVIEW

## DISTRIBUTION

### AGENCY

Our proprietary tied agency remains AIA's primary distribution channel and a core growth engine for the Group. The quality and scale of our agency force are key competitive advantages for AIA that enable us to reach and serve millions of customers across the markets in which we operate by meeting their diverse needs with our comprehensive suite of products and services.

Consistent execution of our Premier Agency strategy supported total agency VONB growth of 11 per cent in 2019 to US$3,243 million, representing 74 per cent of the Group's total VONB. ANP grew by 4 per cent to US$4,305 million and VONB margin increased to 75.3 per cent.

Quality recruitment is a critical pillar of AIA's Premier Agency strategy. We aim to recruit high-calibre talent and provide our agents with bespoke training and clear career development pathways. These quality recruitment programmes are central to our agency transformation initiatives, particularly in Thailand, Malaysia, Vietnam, Indonesia and the Philippines where we have launched new programmes over the last three years. Quality recruits in these markets have on average nearly twice the activity ratio of our standard new recruits and are significantly more productive.

AIA's commitment to building a high-quality, professional agency force resulted in 5 per cent growth in the number of active agents for the Group overall (including Tata AIA Life).

An important strategic priority for AIA is to further enhance the professionalism and quality of our market-leading proprietary agency force through the use of technology. We continue to invest in digital technology that provides simple and effective support for our agents and agency leaders across all of their key activities including sales, servicing and recruitment. Across the Group, we apply a comprehensive digital roadmap for our agency applications and management tools that uses a human-centric design approach to ensure the best possible user experience.

For example, we are currently rolling out new digital recruitment platforms across the Group with content and features tailored to each market's unique programmes and customer propositions. These platforms are now live in Hong Kong, Malaysia and Mainland China, and will be expanded to other markets in the near future. We also rolled out an innovative interactive Financial Health Check tool in Hong Kong that provides agents with a detailed customer needs and insurance gap analysis, and continued driving the adoption of Master Planner in Mainland China, which enables a systematic and structured approach to sales activity management for agency leaders. We have also continued to embed new propensity models into our leads generation platforms that enable our agents to target and meet specific customer needs. Over 95 per cent of total policies submitted by agency distribution in 2019 were submitted through our interactive Point of Sales (iPoS) platform.

In 2019, AIA achieved another excellent result in Million Dollar Round Table (MDRT) membership with over 12,000 registered members across the Group, which represents an increase of 22 per cent compared with 2018. AIA has now become the multinational company with the largest number of MDRT-registered members globally for five consecutive years.

## PARTNERSHIPS

AIA's partnership distribution is complementary to our proprietary agency. Our extensive network of industry-leading strategic partners across the Asia-Pacific region significantly broadens our access to potential new customers and offers tremendous growth opportunities for the Group.

Overall partnership VONB in 2019 fell by 1 per cent to US$1,142 million and accounted for 26 per cent of the Group's total VONB. ANP decreased by 1 per cent to US$2,280 million and VONB margin remained broadly consistent with 2018 at 50.1 per cent. The lower VONB in 2019 was primarily the result of a large drop in VONB from the Hong Kong retail IFA channel as sales to the Mainland Chinese visitor customer segment through this channel fell significantly in the second half of 2019, as previously mentioned in our Third Quarter 2019 New Business Highlights. Excluding Hong Kong, VONB for the Group's overall partnership distribution increased by 19 per cent in 2019.

Our bancassurance channel delivered very strong VONB growth in 2019 with excellent results from our strategic partnerships with Bank of the Philippine Islands (BPI) in the Philippines and Bank of Central Asia (BCA) in Indonesia. Our regional partnership with Citibank, N.A. (Citibank) was affected by lower VONB in Hong Kong, but continued to deliver positive growth overall and remained the largest contributor to the Group's bancassurance VONB in 2019. New bank partnerships launched in the last three years, including Bangkok Bank Public Company Limited (Bangkok Bank) in Thailand, ASB Bank Limited (ASB) in New Zealand and Vietnam Prosperity Joint-Stock Commercial Bank (VPBank) in Vietnam, provided a substantial contribution to the VONB growth of our bancassurance channel in 2019. The strong momentum of these newer partnerships demonstrates our ability to build on past experience and activate new partnerships with greater success across the Group.

VONB from our intermediated channels, including IFAs, brokers, private banks and specialist advisers declined in 2019, mainly due to the large reduction in Hong Kong's IFA channel. Our Singapore broker business also recorded a decrease in VONB as we continued to maintain strict pricing discipline for single premium business in the high net worth segment amid intensifying competition.

As mentioned in the Interim Report 2019, in our direct marketing channel across the region, we are shifting away from traditional telemarketing sales models towards a more digitally-enabled business model. Consequently, VONB from this channel reduced in 2019 as we continue to make progress on this transition.

A key strategic priority for partnership distribution is to execute a digital transformation of our business model through deeper systems integration with our strategic bancassurance partners and utilising data analytics technology to further enhance the customer experience, optimise leads generation and improve sales conversion rates. As part of this Group-wide initiative, we have launched new digital support platforms to several of our major partnerships in the second half of 2019, initially focusing on supporting in-branch sales staff to better target customers with customised insurance propositions. Early results have been encouraging and we aim to further expand and enhance these tools across the Group.

Notes:

**Thoughout the Distribution section:**
VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.

# MARKETING

Since AIA first started as a small insurance agency over a century ago, we have grown to become the largest pan-Asian life insurance company, trusted by millions and with the number one life insurance brand in Asia.

## LIFELONG CUSTOMER PARTNER

We continue the shift towards being a lifelong partner to our customers, moving beyond the traditional transaction-focused insurance model. Our differentiated health and well-being strategic framework spans prediction, prevention, diagnosis, treatment and recovery. This framework transforms engagement with our customers, delivers meaningful health improvements, improves treatment outcomes and increases repeat sales.

AIA Vitality is changing customer perceptions of the need for life and health insurance, and our distributors engage with customers to help them understand the benefits of living well to prevent illness. We launched AIA Vitality in New Zealand in August 2019 and we now have comprehensive wellness programmes in 12 markets. Overall membership of our wellness programmes across the Group exceeded 1.7 million at the end of December 2019, an increase of 42 per cent since the end of 2018.

In 2019, we recorded over 800,000 workouts per day and received 6.6 million health assessments. In addition, we recorded a total of 18.4 million weekly challenges achieved by AIA Vitality members. The Group now offers more than 100 products integrated with AIA Vitality across our markets.

The increased scale of our wellness programmes across the region reflects our commitment to helping deliver a healthier society. Over 2019, our health improvement studies, based on the health assessments provided by AIA Vitality members, showed that 21 per cent of these members improved their body mass index (BMI) results and 39 per cent moved to a healthy range in cholesterol levels.

In Mainland China, we launched two single-disease products that leverage our strategic partnership with WeDoctor to cover breast cancer and leukaemia. Both products encompass the entire customer journey of prediction, prevention, diagnosis, treatment and recovery. Through our partnership with WeDoctor, we offer policyholders consultations, specialist referrals and access to expert second opinions. Our customers can also gain access to psychological counselling and post-treatment support services.

## CUSTOMER ENGAGEMENT

Our ambition is to deliver a distinctive, personalised and meaningful experience for our customers. Our customer tracking studies in three of our key markets, namely Hong Kong, Mainland China and Thailand, give us rich insights into both the key drivers of customer engagement and business impacts. Two key results from these studies are the positive impact of customer advocacy and the importance of regular engagement with agents. Customers in these markets who recommend AIA to others have a repurchase propensity around double that of other customers. Repurchase rates for customers in these markets with regular contact from their agents are at least three times of the rates for those with infrequent contact.

In 2019, we developed a digital Financial Health Check tool to help our agents engage better with customers and provide them with financial advice that is both more automated and consistent. The new tool was launched in Hong Kong in July and will be rolled out to Thailand, Malaysia, Mainland China and Singapore in 2020. We also launched an online data-driven campaign focused on Hong Kong's new tax-deductible products. This campaign won 11 industry awards for marketing excellence and was a key contributor in AIA Hong Kong being awarded "Marketer of The Year 2019" by Marketing Magazine.

## HEALTHIER, LONGER, BETTER LIVES

Healthier, Longer, Better Lives, our purpose-led brand promise, underpins all of our marketing activities and captures our drive to help customers improve their lifestyles. Helping our millions of customers know and improve their health is good for those customers, good for the society and good for our shareholders.

We are deeply committed to helping combat the dramatic rise of lifestyle-related diseases and, in 2019, we continued to work with a range of partners to promote healthy living, including our Global Ambassador, David Beckham, and Tottenham Hotspur Football Club (Spurs) through our Global Principal Partnership.

We continue to take a leadership stance on important health and wellness topics in our region. In September, we unveiled a comprehensive programme designed to raise awareness of sleep sufficiency with a focus on the benefits provided by just one more hour of sleep. The programme provides tips, tools and rewards to encourage people in Asia to change their behaviour and get enough sleep.

During the year, we launched the next phase of our "What's Your Why?" campaign across the region. Led by David Beckham, the campaign focuses on people's motivation for living a healthier life and has attracted more than 56 million views, positively impacting AIA's brand recall and consideration. In 2019, David visited Hong Kong, Vietnam, Mainland China and the Philippines, amplifying AIA's brand presence and participating in events that reflect AIA's commitment to Healthier, Longer, Better Lives. To date, he has engaged directly with over 35,000 AIA customers, agents, partners, employees and community members across the markets where we operate.

Our ongoing partnership with Spurs is considered invaluable in enhancing the power of the AIA brand and engaging with our customers as well as our distributors. In July, we were proud to announce the extension of our relationship with Spurs through to the end of the 2026/27 season, which will see our partnership span well over a decade. We now have three Spurs coaches stationed in Asia on a permanent basis, and they trained and inspired more than 26,000 children, parents and staff in 2019.

01

02

03

01
We now have comprehensive wellness programmes in 12 markets with overall membership of more than 1.7 million.

02
During the year, we launched the next phase of our "What's Your Why?" campaign led by David Beckham across the region.

03
In July, we extended our partnership with Spurs through to the end of the 2026/27 season.

## TECHNOLOGY AND OPERATIONS

The continuing transformation of our technology systems and business processes is a key enabler of the Group's strategic priorities. Our focus in 2019 was on digitalisation, automation and innovation to deliver enhanced capabilities and services that increase efficiency, productivity and an improved customer experience.

### INCREASING EFFICIENCY AND CUSTOMER SATISFACTION THROUGH DIGITALISATION

Digital customer service has become an important factor in achieving greater customer satisfaction. We have significantly increased the number of transactions and communications that customers are able to undertake digitally, as well as automating back-office processes associated with the provision of these services.

Across all of our markets, more than 80 per cent of all customer interactions can now be performed digitally. In 2019, over 30 per cent of our 37 million customer interactions were fully automated and completed with no manual processes. More than 90 per cent of all new business across the Group was digitally submitted and 62 per cent of all cases were underwritten automatically.

Through increased digitalisation and automation, our back-office processes have become significantly more efficient leading to improved service turnaround times. Since the beginning of 2018, we have achieved a 44 per cent increase in transactions per operations employee across the Group. Examples of digitalisation success include the AIA Xiao You chatbot in Mainland China, which now handles 95 per cent of the local incoming agent enquiries, and the Go-Green initiative in Singapore, where 65 per cent of all policy communication is now delivered electronically.

In addition to our work on digitalisation of customer-facing operations, we also continue to drive internal operating efficiencies with a focus on leveraging cloud technology. For example, in 2019 we implemented new cloud platforms to support and enhance our processes in both human resources and risk management. As part of our hybrid multi-cloud strategy, all new platforms across our major markets are implemented using cloud technology as a priority.

### DRIVING PRODUCTIVITY AND SERVICE EXCELLENCE

We are applying design thinking, agile principles and disruptive technologies to deliver tangible business outcomes across our distribution channels and service functions.

We have followed a comprehensive digital strategy in our agency distribution to help deliver an enhanced experience for our agents. In Hong Kong, we redesigned processes using human-centred design, consolidated digital touchpoints and established a single customer view in our digital agent application, AIA Smart. Since its launch in April 2019, agents using AIA Smart have seen a significant improvement in their productivity.

In partnership distribution, we have embarked on a multi-year programme to transform distribution with our multiple bank partners across the Group. Our modular, cloud-based, end-to-end digital platform uses advanced analytics to identify potential customers, generate leads and improve sales conversion. The platform provides omni-channel capabilities including online purchase by customers. In 2019, we deployed our leads-management module in the Philippines with BPI and our digitally-led sales platform in Singapore with Citibank.

In 2019, we launched an enhanced digital customer experience for AIA Vitality in Thailand, Hong Kong, Singapore and New Zealand, which helps drive customer engagement. We also launched a virtual data science lab to accelerate insights from the customer data generated from AIA Vitality.

Our business units in Hong Kong and Singapore have consolidated customer digital touchpoints across insurance, health and wellness to deliver an integrated, cohesive user experience. For example, AIA Hong Kong launched a one-stop mobile application for customers, AIA Connect. It is a customer-centric mobile platform allowing our customers to manage all of their individual policies in one place, including employee benefits, pension, health and wellness, and AIA Vitality. This application is designed to make services easily accessible and convenient, enabling customers to find a doctor and medical services and to submit claims electronically. It leverages new technology and innovation with a built-in chatbot to handle the majority of service enquiries. Currently, more than 15 per cent of all service requests are submitted via AIA Connect, contributing to a 20 per cent reduction in overall paper submission. The chatbot covers up to 80 per cent of the top 20 incoming enquiries and initial claims assessment lead time has reduced by 70 per cent.

### PROMOTING INNOVATION AND ENHANCING CUSTOMER EXPERIENCE

We continue to enhance our digital health propositions within our health and well-being strategic framework. Key achievements in 2019 included broadening the services provided by our partnership with WeDoctor in Mainland China, delivering telemedicine and e-pharmacy services with Whitecoat in Singapore, improving digital claims management in Thailand and rolling out personal medical case management with Medix in Indonesia, Malaysia and Thailand.

Both customer experience and back-office operational efficiency are benefiting from our continuing investment in innovative technologies such as blockchain. We have completed a pilot in Singapore that demonstrated how we can apply blockchain technology to transform our engagement with agents through gamification and blockchain-powered rewards. The pilot uses a highly-secure and scalable platform with digital tokens as real-time rewards and is designed to increase customer engagement to ultimately improve repurchase and retention rates.

In 2019, we conducted underwriting automation proof of concepts in Hong Kong, Mainland China and the Philippines, which helps to increase auto-underwriting rates while reducing cost and modifying our underwriting approach. Further pilots are underway, and we expect to roll them out to other markets in 2020.

### ENHANCING SECURITY OF DATA

As we continue to increase our use of digital services across the Group, we also continue to invest in a variety of cybersecurity measures to safeguard our data. We use independent external consultants to test and validate our defences against cyberthreats. During the year, we conducted a cyber resilience test, which saw our systems successfully repel simulated cyberattacks and we completed the readiness assessment of our Information Security Management System (ISMS) based on ISO 27001. We have also built new in-house forensic investigation capabilities.

# HONG KONG

## FINANCIAL HIGHLIGHTS

AIA Hong Kong reported a 5 per cent reduction in VONB. This reduction reflected a decline in sales from Mainland Chinese visitors in the second half of 2019, broadly tracking the fall in the number of visitor arrivals as previously highlighted. Our domestic customer segment in Hong Kong continued to deliver a strong performance with double-digit VONB growth for the year. Overall ANP decreased by 11 per cent while VONB margin increased by 4.1 pps to 66.1 per cent, driven by enhanced profitability in our long-term savings and protection products. We continue to maintain our focus on writing high-quality, profitable new business with almost 90 per cent of total ANP from policies having a premium payment term of at least five years. TWPI grew by 15 per cent to US$13,107 million as persistency for our in-force policies remained high throughout the year. OPAT growth was only 6 per cent, despite strong TWPI growth, as markedly lower interest rates in the second half of the year reduced yields on new fixed income investments and affected profit generation from our in-force participating product portfolio.

## BUSINESS HIGHLIGHTS

Our agency business achieved positive VONB growth for the year, including double-digit 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 continue to focus on supporting our agents with innovative and powerful digital tools. During the year, we launched an interactive Financial Health Check tool 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. 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 2019, due to lower sales from the Mainland Chinese visitor customer segment and increased competition in the retail IFA channel as previously highlighted. 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 continued to support positive VONB growth for the domestic customer segment.

AIA Hong Kong is dedicated to meeting the protection and long-term savings needs of all our customers and to help them live Healthier, Longer, Better Lives. In 2019, our Hong Kong business delivered double-digit 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 government's new Voluntary Health Insurance Scheme. This focus on protection was also supported by AIA Vitality, which saw more than 25 per cent growth in VONB from products integrated with the programme in 2019.

## HONG KONG

| VONB | | | |
|---|---|---|---|
| 2019 | 2018 | | |
| 1,621 | 1,712 | | |
| YoY (CER) | YoY (AER) | | |
| (5)% | (5)% | | |

| VONB MARGIN | | | |
|---|---|---|---|
| 2019 | 2018 | | |
| 66.1% | 62.0% | | |
| YoY (CER) | YoY (AER) | | |
| 4.1pps | 4.1pps | | |

| ANP | | | |
|---|---|---|---|
| 2019 | 2018 | | |
| 2,393 | 2,697 | | |
| YoY (CER) | YoY (AER) | | |
| (11)% | (11)% | | |

| TWPI | | | |
|---|---|---|---|
| 2019 | 2018 | | |
| 13,107 | 11,444 | | |
| YoY (CER) | YoY (AER) | | |
| 15% | 15% | | |

| OPAT | | | |
|---|---|---|---|
| 2019 | 2018 | | |
| 1,931 | 1,814 | | |
| YoY (CER) | YoY (AER) | | |
| 6% | 6% | | |

US$ MILLIONS, UNLESS OTHERWISE STATED

# MAINLAND CHINA

## FINANCIAL HIGHLIGHTS

AIA China delivered another very strong performance in 2019 with VONB up 27 per cent to US$1,167 million. ANP grew by 22 per cent to US$1,248 million and VONB margin remained strong at 93.5 per cent as the impact of enhanced policyholder benefits within our protection products was offset by the positive effect of a tax rule change that increased the tax deductibility of commissions. OPAT increased by 28 per cent to US$1,061 million and exceeded US$1 billion for the first time as strong new business growth, our high-quality sources of earnings and sustained favourable operating experience continues to underpin our strong track record of earnings growth in Mainland China.

## BUSINESS HIGHLIGHTS

The continuing execution of our differentiated Premier Agency strategy in Mainland China supported another strong performance in 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 double-digit growth in the number of active agents and increased agent productivity.

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. During 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.

## MAINLAND CHINA

| VONB | | VONB MARGIN | | ANP | |
|---|---|---|---|---|---|
| 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| 1,167 | 965 | 93.5% | 90.5% | 1,248 | 1,067 |
| YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) |
| 27% | 21% | 3.1pps | 3.0pps | 22% | 17% |

| TWPI | | OPAT | |
|---|---|---|---|
| 2019 | 2018 | 2019 | 2018 |
| 4,804 | 4,006 | 1,061 | 870 |
| YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) |
| 25% | 20% | 28% | 22% |

US$ MILLIONS, UNLESS OTHERWISE STATED

# THAILAND

## FINANCIAL HIGHLIGHTS

AIA Thailand delivered 6 per cent VONB growth to US$494 million, supported by strong sales momentum in both our Financial Adviser (FA) agency programme and our exclusive partnership with Bangkok Bank. ANP increased by 14 per cent, while VONB margin decreased to 67.7 per cent, reflecting a higher proportion of bancassurance business. Regular premium business accounted for more than 95 per cent of ANP as we remained focused on protection and long-term savings products. OPAT increased by 3 per cent to US$1,064 million 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.

## BUSINESS HIGHLIGHTS

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 per cent of total agents and contributed more than 30 per cent 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. Strong 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 very strong VONB growth 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 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 a strong double-digit increase in ANP for critical illness products in 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, we added new e-payment options for premium collection, which drove a more than 60 per cent increase in the proportion of new business premiums collected digitally and was a key driver of our improved persistency experience.

## THAILAND

| VONB | | VONB MARGIN | | ANP | |
|---|---|---|---|---|---|
| 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| 494 | 447 | 67.7% | 73.1% | 729 | 611 |
| YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) |
| 6% | 11% | (5.5)pps | (5.4)pps | 14% | 19% |

| TWPI | | OPAT | |
|---|---|---|---|
| 2019 | 2018 | 2019 | 2018 |
| 4,352 | 3,895 | 1,064 | 995 |
| YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) |
| 7% | 12% | 3% | 7% |

US$ MILLIONS, UNLESS OTHERWISE STATED

# SINGAPORE

## FINANCIAL HIGHLIGHTS

AIA Singapore reported VONB of US$352 million. ANP was down slightly compared with 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 per cent in 2019. OPAT increased by 6 per cent to US$583 million with underlying premium growth partly offset by continuing pressure on the profitability of our HealthShield portfolio.

## BUSINESS HIGHLIGHTS

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, we delivered an increase in the number of active agents and this supported modest VONB growth from our agency.

Our strategic bancassurance partnership with Citibank delivered double-digit VONB growth, supported by an increase in both the number and productivity of insurance specialists in the mass affluent and retail customer segments. 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.

In 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 innovative 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.

In 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 per cent of customer service requests are now submitted and responded to digitally.

## SINGAPORE

| VONB | | VONB MARGIN | | ANP | |
|---|---|---|---|---|---|
| 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| 352 | 357 | 65.5% | 65.4% | 538 | 547 |
| YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) |
| — | (1)% | 0.1pps | 0.1pps | — | (2)% |

| TWPI | | OPAT | |
|---|---|---|---|
| 2019 | 2018 | 2019 | 2018 |
| 2,916 | 2,738 | 583 | 558 |
| YoY (CER) | YoY (AER) | YoY (CER) | YoY (AER) |
| 8% | 7% | 6% | 4% |

US$ MILLIONS, UNLESS OTHERWISE STATED

# MALAYSIA

## FINANCIAL HIGHLIGHTS

AIA Malaysia reported 7 per cent growth in VONB to US$258 million in 2019. ANP increased by 9 per cent to US$406 million, while VONB margin decreased slightly to 63.1 per cent as a positive product mix shift towards individual protection products was offset by regulatory changes to unit-linked products in the second half of 2019. Overall VONB growth was also supported by double-digit growth in our Takaful business, mainly driven by strong credit life sales from the bancassurance channel. OPAT increased by 6 per cent to US$333 million 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.

## BUSINESS HIGHLIGHTS

Our agency delivered double-digit VONB growth in 2019, driven by the positive impact of a new quality recruitment platform launched in the first half of the year. Recruits from this programme accounted for half of AIA Malaysia's total new agent recruits in 2019 and they are more than twice as active compared to our standard new agents, supporting excellent 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 double-digit VONB growth 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 double-digit decline, partly as a result of a sharp 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. In 2019, we included a first-in-market mental health benefit in our award-winning innovative 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 more than 25 per cent of eligible customers to upgrade their plans since the offer was launched. We continued to enhance our AIA Vitality programme and the number of members increased by over 40 per cent in 2019.

## MALAYSIA

| VONB | | | |
|---|---|---|---|
| 2019 | 2018 | YoY (CER) | YoY (AER) |
| 258 | 247 | 7% | 4% |

| VONB MARGIN | | | |
|---|---|---|---|
| 2019 | 2018 | YoY (CER) | YoY (AER) |
| 63.1% | 63.8% | (0.7)pps | (0.7)pps |

| ANP | | | |
|---|---|---|---|
| 2019 | 2018 | YoY (CER) | YoY (AER) |
| 406 | 382 | 9% | 6% |

| TWPI | | | |
|---|---|---|---|
| 2019 | 2018 | YoY (CER) | YoY (AER) |
| 2,142 | 2,083 | 6% | 3% |

| OPAT | | | |
|---|---|---|---|
| 2019 | 2018 | YoY (CER) | YoY (AER) |
| 333 | 320 | 6% | 4% |

US$ MILLIONS, UNLESS OTHERWISE STATED

# OTHER MARKETS

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

The VONB and ANP results for 2019 include a contribution from our 49 per cent shareholding of Tata AIA Life. The IFRS results for Tata AIA Life continue to be accounted for using the equity method. For the avoidance of doubt, our results in 2018 have not been restated for this change and VONB and ANP from Tata AIA Life are not included in the 2018 comparative figures shown in this section.

## FINANCIAL HIGHLIGHTS

Other Markets reported very strong VONB growth of 27 per cent to US$535 million led by Australia, the Philippines and Vietnam. VONB growth for the segment was 18 per cent excluding the contribution from Tata AIA Life's results. ANP grew by 9 per cent to US$1,271 million and VONB margin increased to 41.9 per cent. OPAT grew by 2 per cent to US$823 million as the earnings contribution from strong new business growth was partially offset by a deterioration in operating experience in South Korea and higher operating expenses incurred by AIA Australia in response to various regulatory changes.

## BUSINESS HIGHLIGHTS

**Australia:** AIA's business in the Australia segment overall delivered strong double-digit 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 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.

On 1 November 2019, we executed a JCA with CBA in Australia that enabled AIA to exercise an appropriate 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 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. In 2019, we more than doubled the number of active agents.

**Indonesia:** VONB for our business in Indonesia declined in 2019 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 2019 with excellent VONB growth from our strategic partnership with BCA as new recruitment and activity management initiatives helped drive very strong 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 good 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 excellent VONB growth in both our agency and bancassurance channels. 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 very strong VONB growth, supported by double-digit 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 in 2019, despite positive growth in ANP, as margins fell in the direct marketing channel following a regulatory mandated re-pricing exercise in the second quarter. OPAT also reduced due to a deterioration in claims and persistency experience in our in-force portfolio. 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 in 2019 as we faced difficult market conditions following a series of terrorist attacks in the first half of the year that dampened the macroeconomic outlook and negatively impacted consumer confidence.

**Taiwan (China):** AIA Taiwan delivered very strong VONB growth in 2019, primarily driven by strong bancassurance sales momentum. We continue 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 excellent VONB growth in 2019. In agency, we delivered strong VONB growth by increasing productivity through a continuing focus on our Premier Agency strategy. Our bancassurance channel more than doubled VONB as we increased the number of active insurance specialists in our strategic partnership with VPBank and with our other domestic bank partners.

**India:** Tata AIA Life's multi-channel strategy means that both our agency and partnership distribution channels contribute substantially to total VONB. Overall, the business delivered excellent VONB growth from these channels. 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. In 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.

## OTHER MARKETS

| | 2019 | 2018 | YoY (CER) | YoY (AER) |
|---|---|---|---|---|
| VONB | 535 | 435 | 27% | 23% |
| VONB MARGIN | 41.9% | 35.8% | 6.1pps | 6.1pps |
| ANP | 1,271 | 1,206 | 9% | 5% |
| TWPI | 6,681 | 6,377 | 9% | 5% |
| OPAT | 823 | 826 | 2% | — |

US$ MILLIONS, UNLESS OTHERWISE STATED

# RISK MANAGEMENT

## OVERVIEW

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

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

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

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

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

# RISK GOVERNANCE

## THREE LINES OF DEFENCE

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

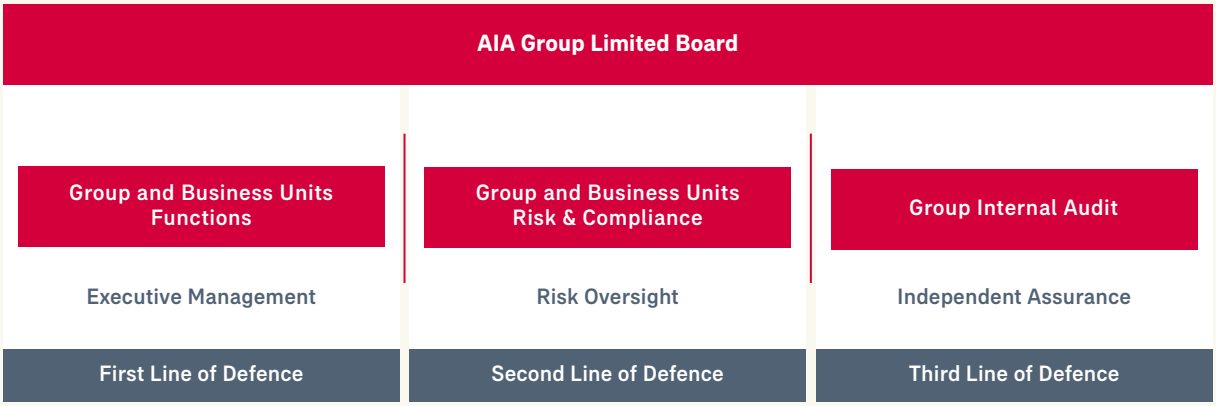
The First Line is made up of the business decision-takers who are the Risk Owners and are responsible for ensuring that effective and appropriate processes are in place at all times to effectively identify, assess and manage risk in a manner consistent with the RMF. In particular, the amount of risk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

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

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

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

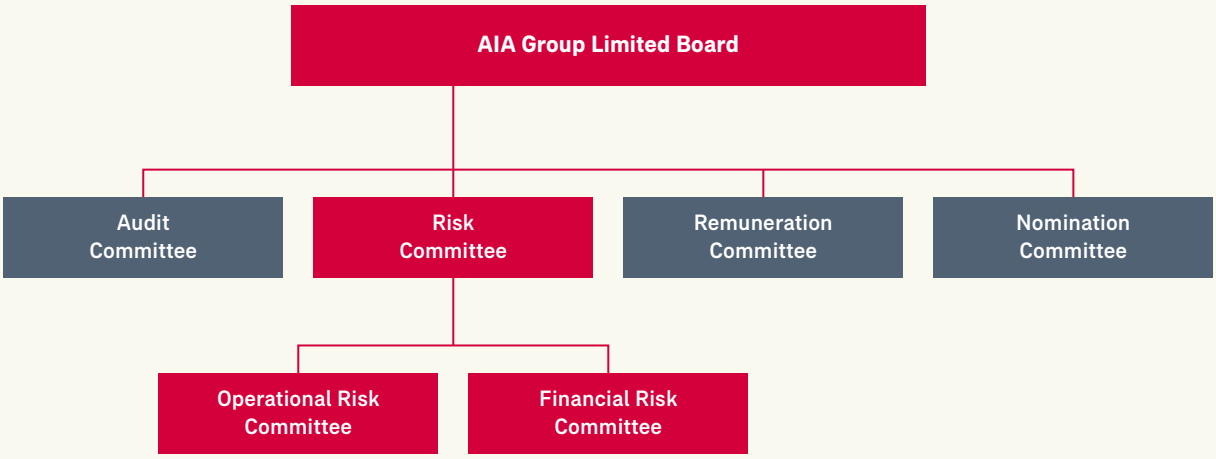
The Three Lines of Defence converge at the Board, which retains overall responsibility for the Group's RMF.



## RISK COMMITTEE STRUCTURE

The Group's Risk Committee structure is designed to:

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




### The Board

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

### Risk Committee

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

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

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

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

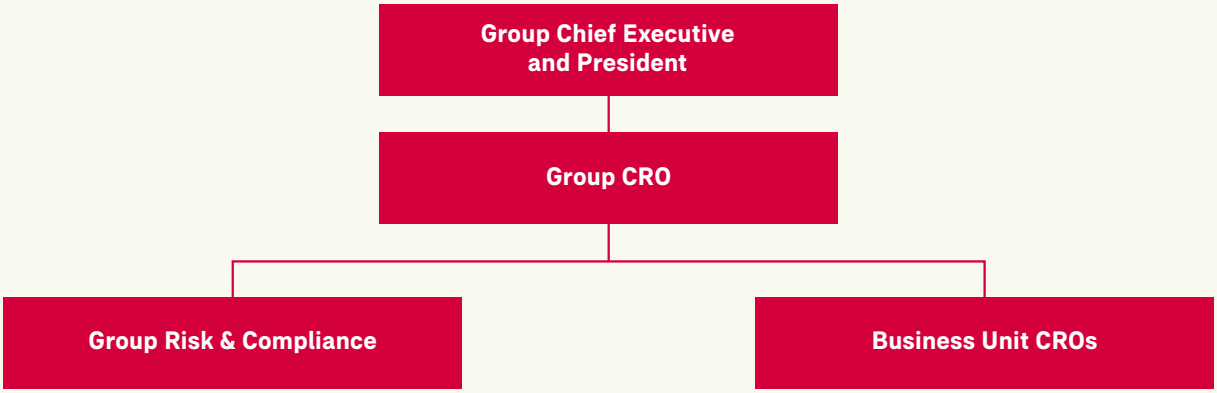
## RISK CULTURE

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

### ACCOUNTABILITY

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

The Risk & Compliance organisational structure is shown below:



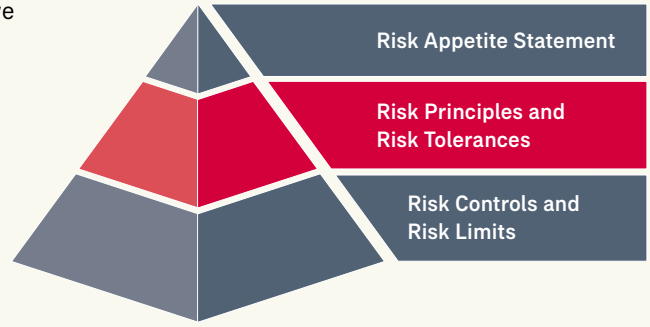

### REMUNERATION

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

## RISK STRATEGY

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

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




### RISK APPETITE STATEMENT

The Group has adopted the following RAS:

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

### RISK PRINCIPLES AND RISK TOLERANCES

The RAS is supported by five Risk Principles:

| Risk Principles | |
|---|---|
| Regulatory Capital | *"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.

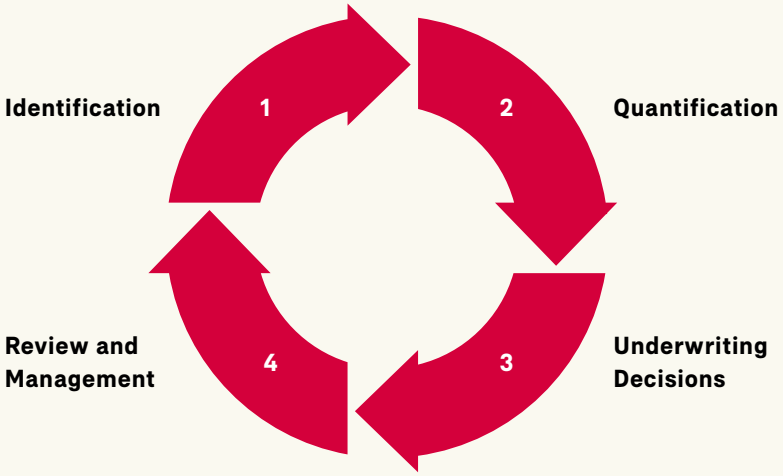
| Principal Risks | Operating Risks | | Financial Risks | | Liability Risks |
|---|---|---|---|---|---|
| | Operational Risk | Business Risk | Structural Risk | Investment Risk | Insurance Risk |
| Underlying Risks | Conduct Risk | Strategic Risk | Property Risk* | | Mortality Risk |
| | Execution, Delivery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

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

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

## RISK UNDERWRITING

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




### IDENTIFICATION

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

### QUANTIFICATION

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

### UNDERWRITING DECISIONS

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

### REVIEW AND MANAGEMENT

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

## RISK CONTROL

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

## RISK DISCLOSURE

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

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

## EXECUTION OF THE RMF

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

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

# REGULATORY AND INTERNATIONAL DEVELOPMENTS

The life insurance regulatory landscape continues to evolve. At a global level, the International Association of Insurance Supervisors (IAIS) adopted a global framework for the supervision of Internationally Active Insurance Groups (IAIGs) at its annual general meeting on 14 November 2019. AIA expects to be designated an IAIG in due course. The global framework includes:

- a common framework for the supervision of IAIGs (ComFrame) which builds and expands upon the high-level standards and guidance currently set out in the IAIS Insurance Core Principles;
- the development of an insurance capital standard (ICS) over a five-year monitoring period; and
- the adoption of a holistic framework for assessment of systemic risk (the Holistic Framework).

The development and implementation of the ICS will be conducted in two phases:

- Under the first phase, beginning in 2020, a "Reference ICS" will be assessed during a five-year Monitoring Period for reporting privately to group-wide supervisors.
- It is proposed that the second phase, beginning in 2025, will include implementation of the ICS as part of prescribed group capital requirements.

National regulators across AIA's span of operations are in the midst of a variety of initiatives intended to align their respective regulatory frameworks with the broad principles recommended by the IAIS in the Insurance Core Principles and ComFrame. AIA is an active participant in the industry dialogue on a host of issues including:

- Hong Kong's Group-wide Supervision (GWS) framework: The GWS framework is expected to be finalised and enacted in legislation during 2020. It is expected that the GWS solvency framework will be based on a "Summation Approach", whereby AIA's published group-level available and required capital will be calculated based on a summing up of the available and required capital according to the regulatory requirements for the relevant supervised entity, with the HKIA having the ability to vary a group's capital requirements where it believes this is necessary and justified after following a defined due process.
- Hong Kong risk-based capital regime: A multi-year consultation process is being run by the HKIA to develop a risk-based capital regime for Hong Kong insurers which will replace the current Solvency 1 regime. AIA continues to be closely and constructively engaged with the HKIA on this development, and is participating in quantitative impact studies. Based on the most recent information provided, our current expectation is that the regime will be effective from 1 January 2024.
- Singapore risk-based capital regime: The Monetary Authority of Singapore has finalised a revised risk-based capital regime for insurers. The revised regime will be effective from 31 March 2020 and is not expected to have a material impact on the Group.
- Thailand risk-based capital regime: The Office of Insurance Commission plans to implement a revised risk-based capital regime for insurers in phases. Phase 1 of the revised regime became effective on 31 December 2019 and does not have a material impact on the Group.

- Equivalence Assessment Framework: The HKIA and the China Banking and Insurance Regulatory Commission (CBIRC) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime on 16 May 2017. As a transitional arrangement, AIA is reporting the capital position of its China branches under the HKIO based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.
- Relaxation of Foreign Ownership Limits for Life Insurers in Mainland China: Further to its initial announcement in 2017 to relax the foreign ownership limits in the financial services sector, the Mainland Chinese Government has, as of 6 December 2019, officially lifted these ownership restrictions effective 1 January 2020 to allow for 100 percent foreign ownership of licenced life insurance companies in China. Subsequent to the announcement, AIA Company Limited submitted an application to the CBIRC seeking approval to convert its existing Shanghai Branch to a 100 percent wholly-owned subsidiary, with which it intends to manage and operate its life insurance business in China. As at 12 March 2020 the application is pending approval from the CBIRC.

## ACCOUNTING STANDARDS

The Group continues to prepare for the implementation of the IFRS 17, Insurance Contracts issued by the International Accounting Standards Board (IASB) in May 2017. IFRS 17 includes some fundamental differences to current accounting in insurance contract measurement, profit recognition, financial statement presentation and disclosures. The IASB published an Exposure Draft on 26 June 2019 which proposed targeted amendments to the requirements in IFRS 17. The proposed amendments include deferring the effective date of IFRS 17 by one year, to 1 January 2022, and extending the temporary exemption from applying IFRS 9 for insurers using IFRS standards to 1 January 2022. The final standard is expected to be published in mid-2020.

AIA Group has also recently implemented IFRS 15, Revenue from Contracts with Customers, and IFRS 16, Leases:

- IFRS 15 establishes revenue recognition principles for contracts with customers and enhances disclosure requirements. Adoption of the standard has had no material financial impact to the Group's consolidated financial statements but requires additional disclosures.
- IFRS 16, Leases, 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 1 January 2018.

# OUR PEOPLE

## AIA has always been a business built on its people.

At AIA, equipping our employees for success is vital to serving our customers and enabling our communities to live Healthier, Longer, Better Lives.

Our business is supported by over 23,000[1] employees and tens of thousands of agents. Guided by our Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come", we focus on fostering a culture that promotes recruiting, developing and retaining high performing employees.

## DEVELOPING OUR PEOPLE

Development of our employees is a key strategic priority. We foster a learning culture that supports the development of our people's key capabilities. We believe that this will both help them succeed in their current roles and provide a platform for meaningful, long-term careers with AIA. We practise a holistic approach to learning and development, whereby knowledge and skills are accumulated from on-the-job experiences, collaborative projects, classroom and digital learning, supported by activities such as mentoring and coaching.

In 2019, after reviewing our existing enterprise-wide learning and development framework, we introduced a refreshed Group-wide approach. Our updated framework is designed to support our employees at every stage of their career, drive a step change in our approach to learning and development and support the business by developing talent with valuable and relevant skills.

In 2019, we also took a major step in building on our approach to leadership development. We introduced a new leadership development programme for our most senior leaders known as "SPARK". This new programme will be a cornerstone of our leadership development strategy and will shape other new programmes that will be cascaded in 2020 and beyond.

We also recently updated the framework for defining the desired behaviours for people at every level of our organisation by articulating and communicating our Leadership Essentials, intended to further embed and foster our culture and shape long-term individual employee development.

In support of our talent development strategies, we continue to provide best-in-class programmes at the AIA Leadership Centre (ALC), our world-class learning facility in Bangkok, Thailand. With a clear focus on AIA's strategic and governance priorities, the ALC continues to be a differentiator in the development of our people by delivering bespoke development programmes to our senior leaders, top agency leaders and key partner executives. The ALC has now entered its fourth year of operation. In 2019 it hosted more than 250 events and delivered more than 25 customised learning events.

Committed to having a strong talent pipeline, our comprehensive annual Group-wide organisation people review process continues to identify different talent segments to enable leaders to plan for the succession of key roles. The success of our approach to talent development and our Group-wide succession planning can be found in the many examples of internal promotions into key leadership roles throughout the Group in 2019, including at the most senior levels of the organisation.

Note:
(1) Excludes interns and agents of the Group, and employees of Tata AIA Life.

01

01
The ALC entered its fourth year of operation in 2019 and was awarded the "Corporate Learning Improvement Process" accreditation by European Foundation for Management Development in recognition of our excellence in talent development.

02
AIA Vietnam was recognised as a "Great Place to Work" by the Great Place to Work Institute.

03
AIA Thailand was recognised as "Best Employer" through the Kincentric Best Employers programme.

02

03

## RECOGNISING AND REWARDING OUR PEOPLE

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

Our core rewards programmes are tied to our performance development dialogue programme, which is designed to enable people managers to assess the performance and behaviours of their staff and recommend development activities to help meet defined career objectives. The performance development dialogue focuses both on what employees have accomplished and, just as importantly, how individuals achieve their goals.

Our benefits and workforce well-being programmes work together to help our employees and their families live Healthier, Longer, Better Lives. For example, we continue to provide flexible benefits in various business units to provide our people with more choices. This year we piloted a new workforce well-being programme to all Group Office employees, which focused on physical, mental and financial well-being. We continue to support our employees through programmes such as AIA Vitality memberships, team challenges and health check-ups.

We are also proud to provide our employees with the opportunity to become AIA shareholders through our Employee Share Purchase Plan (ESPP). In 2019, the percentage of eligible employees, and number of participants that enrolled into the plan, grew to the highest levels since the plan was adopted.

## ENGAGING OUR PEOPLE

Continuing to build on our collaborative and inclusive workplace, which prioritises employee engagement, remains a top priority for AIA.

Each year for the past nine years we have conducted the Gallup Q12 survey to help us monitor levels of employee engagement across our business units and functions. The survey provides meaningful input to allow for the development of strategies to address areas requiring improvement, with the goal of building on our strong levels of engagement.

In 2019, 97 per cent of our people responded to the survey and the Group's employee engagement scores placed us in the top quartile of Gallup's global financial services and insurance industry benchmark for the third consecutive year.

## EMPLOYER RECOGNITION

In 2019 we were recognised as an employer of choice and received many prestigious local, regional and global awards. Among these:

- AIA Group was recognised in the Forbes "Global 2000 – World's Best Employers 2019" list.
- For the third year in a row, the Company was named a constituent of the "Bloomberg Gender-Equality Index". The Company was also included in the index for 2020.
- In recognition of our excellence in leadership development programmes the ALC was awarded the "Corporate Learning Improvement Process" accreditation by European Foundation for Management Development. AIA is currently the only life insurer in the world to hold this accreditation.
- AIA China, AIA Thailand and Tata AIA Life each received the "Best Employer" award with the Group also receiving the regional "Best Employer" Asia Pacific award through the Kincentric Best Employers programme (formerly known as Aon Best Employers Programme).
- Philam Life, AIA Taiwan and AIA Thailand were recognised by HR Asia as "Best Companies to Work For in Asia".
- AIA Thailand was awarded a "Top Employer Thailand" by the Top Employers Institute.
- AIA Vietnam was recognised as a "Great Place to Work" by the Great Place to Work Institute.
- AIA Sri Lanka was recognised by the Great Place to Work Institute as one of the "Best Workplaces" in Sri Lanka and as one of the "Best Workplaces for Women" in Sri Lanka.
- AIA Malaysia was the insurance sector winner in "Malaysia's 100 Leading Graduate Employers" by GTI Media.
- AIA Singapore was the insurance and risk management sector winner in "Singapore's 100 Leading Graduate Employers" by GTI Media.

## MODERNISING THE WAY WE WORK

In 2018, we embarked on a long-term strategic initiative to deliver greater business insights and operational efficiencies through a new human resources information system and global process design. Throughout 2019 we have worked closely with our business units[(2)] and by the start of 2020 they will have transitioned to our new system and global processes. Through this initiative we will be able to provide a better and more personalised experience for our employees and empower our people managers.

Note:
(2) Excluding AIA Myanmar and Tata AIA Life.

# CORPORATE GOVERNANCE

071 Statement of Directors' Responsibilities
072 Board of Directors
080 Executive Committee
085 Report of the Directors
095 Corporate Governance Report
108 Remuneration Report

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

The Directors are responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Report of the Directors and the Corporate Governance Report on pages 85 to 107 of this Annual Report.

The Directors confirm that to the best of their knowledge:

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

# BOARD OF DIRECTORS

Mr. John Barrie Harrison

Mr. Mohamed Azman Yahya

Dr. Narongchai Akrasanee

Mr. Jack Chak-Kwong So

Mr. Edmund Sze-Wing Tse

Mr. Ng Keng Hooi

Mr. Chung-Kong Chow

Ms. Swee-Lian Teo

Professor Lawrence Juen-Yee Lau

Mr. Cesar Velasquez Purisima

Mr. George Yong-Boon Yeo

## INDEPENDENT NON-EXECUTIVE CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

### Mr. Edmund Sze-Wing Tse

Aged 82, is the Independent Non-executive Chairman and an Independent Non-executive Director of the Company. He was appointed Non-executive Director of the Company on 27 September 2010 and elected Non-executive Chairman on 1 January 2011. He was re-designated as the Independent Non-executive Chairman and an Independent Non-executive Director of the Company on 23 March 2017. Mr. Tse is also the Chairman of the Nomination Committee and a member of the Remuneration Committee and the Risk Committee of the Company. He is a director of AIA Foundation. Mr. Tse's appointments during almost 59 years with the Group and its predecessor, AIG Group, include serving as Honorary Chairman of AIA Co. from July 2009 to December 2010, Chairman and Chief Executive Officer from 2000 to June 2009 and President and Chief Executive Officer from 1983 to 2000. He also served as Chairman of The Philippine American Life and General Insurance (PHILAM LIFE) Company from 2005 to 2015. Mr. Tse is a non-executive director of PCCW Limited (listed on the Hong Kong Stock Exchange) and a director of Bridge Holdings Company 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 PineBridge Investments Limited from 2012 to 2014 and a non-executive director of PICC Property and Casualty Company Limited (listed on the Hong Kong Stock Exchange) from 2004 to July 2014. In recognition of his outstanding contributions to the development of Hong Kong's insurance industry, Mr. Tse was awarded the Gold Bauhinia Star by the HKSAR Government in 2001. Mr. Tse received an honorary fellowship and an honorary degree of Doctor of Social Sciences from The University of Hong Kong in 1998 and 2002, respectively. He also received an honorary degree of Doctor of Business Administration from Lingnan University in 2018. In 2003, he was elected to the prestigious Insurance Hall of Fame and in 2017, Mr. Tse was awarded the first ever Lifetime Achievement Award at the Pacific Insurance Conference in recognition of his outstanding contribution to the insurance industry.

## EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE AND PRESIDENT

### Mr. Ng Keng Hooi

Aged 65, is an Executive Director and the Group Chief Executive and President of the Company, having been appointed on 1 June 2017. Mr. Ng is also a member of the Risk Committee of the Company. He joined the Group in October 2010 and has over 39 years of experience in Asian life insurance having spent his entire career in the sector. Prior to his current role, he was Group Chief Executive and President Designate from March 2017 and was a Regional Chief Executive for the Group since his initial appointment in 2010. During that time, he was responsible for a number of the Company's businesses, including those operating in Mainland China, Thailand, Indonesia, Singapore, Brunei and Taiwan as well as for the Group's Agency Distribution channel. He is a director of various companies within the Group including acting as Chairman and Chief Executive Officer for both AIA Co. and AIA International. Prior to joining the Group, he was Group Chief Executive Officer and Director of Great Eastern Holdings Limited from December 2008 to 2010. Mr. Ng worked for Prudential plc from 1989 to 2008, serving as a Managing Director of Insurance of Prudential Corporation Asia Limited from 2005 to 2008, responsible for its operations in Malaysia, Singapore, Indonesia and the Philippines. Mr. Ng began his career in life insurance at AIA Malaysia in 1980. He has been a member of the Hong Kong Academy of Finance since 2019 and a Fellow of the Society of Actuaries (U.S.) since 1985. He received his Bachelor of Science degree in Mechanical Engineering from Lafayette College (Pennsylvania, USA) in 1979.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Jack Chak-Kwong So

Aged 75, is an Independent Non-executive Director of the Company. He was appointed a Non-executive Director of the Company on 28 September 2010 and re-designated as an Independent Non-executive Director of the Company on 26 September 2012. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. From August 2007 to September 2010, Mr. So served as an independent non-executive director of AIA Co. He is currently an independent non-executive director of China Resources Power Holdings Co. Ltd. (listed on the Hong Kong Stock Exchange) and the Chairman of Airport Authority Hong Kong. He is also an independent senior advisor to Credit Suisse, Greater China and a non-official member of the Chief Executive's Council of Advisers on Innovation and Strategic Development. Mr. So was Chairman of the Consultative Committee on Economic and Trade Co-operation between Hong Kong and Mainland China from October 2013 to December 2015. Mr. So was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the HKSAR Government in 2011 and 2017, respectively. Mr. So served as an executive director of the Hong Kong Trade Development Council from 1985 to 1992 and served as its Chairman from 2007 to 2015. He was an independent non-executive director of Cathay Pacific Airways Limited (listed on the Hong Kong Stock Exchange) from 2002 to 2015, a non-executive director of The Hongkong and Shanghai Banking Corporation Limited from 2000 to 2007, the Chairman of the Hong Kong Film Development Council from 2007 to 2013 and a member of the Chinese People's Political Consultative Conference from 2008 to 2018.

### Mr. Chung-Kong Chow

Aged 69, is an Independent Non-executive Director of the Company, having been appointed on 28 September 2010. He is also the Chairman of the Risk Committee and a member of the Nomination Committee of the Company. Mr. Chow was appointed a non-official member of the Executive Council of the HKSAR on 1 July 2012 and was further appointed for a new term of office from 1 July 2017. Mr. Chow was also appointed as the Chairman of the Advisory Committee on Admission of Quality Migrants and Professionals of the HKSAR from 1 July 2016, a director of the Community Chest of Hong Kong from 19 June 2017, a member of the Financial Leaders Forum set up by the HKSAR Government from 18 August 2017, a non-official member of the Human Resources Planning Commission of the HKSAR Government from 1 April 2018, a member of the InnoHK Steering Committee from 4 February 2019 and the Chairman of the Urban Renewal Authority Board from 1 May 2019. He has also been a Steward of The Hong Kong Jockey Club since March 2011. Mr. Chow was knighted in the United Kingdom for his contribution to industry in 2000 and was awarded the Gold Bauhinia Star by the HKSAR Government in 2015. Mr. Chow was 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 63, is an Independent Non-executive Director of the Company, having been appointed on 1 July 2011. He is also the Chairman of the Audit Committee and a member of the Nomination Committee and the Risk Committee of the Company. Mr. Harrison is an independent non-executive director of Cathay Pacific Airways Limited (listed on the Hong Kong Stock Exchange). He is also an independent non-executive director of BW Group Limited and has been Vice Chairman of BW LPG Limited since 2013. Mr. Harrison 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. 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 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. From 2012 to May 2015, he was also a member of the Asian Advisory Committee of AustralianSuper Pty Ltd. 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 65, is an Independent Non-executive Director of the Company, having been appointed on 2 November 2012. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Yeo is a senior advisor of Kerry Group Limited and Kerry Logistics Network Limited. Mr. Yeo is an independent director of Pinduoduo Inc. (listed on the Nasdaq Global Select Market) and New Yangon Development Company Limited. He has been a member of the International Advisory Committee of Mitsubishi Corporation since June 2014 and a member of Global Advisory Board of Mitsubishi UFJ Financial Group, Inc. since July 2019. He is a member of the International Advisory Board of the Berggruen Institute on Governance. In March 2018, he became a senior advisor to Brunswick Group LLP for its Geopolitical Initiative. He became a member of the Vatican Council for the Economy in February 2014. 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. 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.

### Mr. Mohamed Azman Yahya (alias: Mohamed Azman bin Yahya)

Aged 56, is an Independent Non-executive Director of the Company, having been appointed on 24 February 2014. He is also a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Yahya is the Executive Chairman of Symphony Life Berhad and the Independent Non-executive Chairman of Ranhill Holdings Berhad, both listed on the Main Market of Bursa Malaysia Securities Berhad (Bursa Malaysia). Mr. Yahya is a director and Chairman of various companies, including Symphony House Sdn Bhd (formerly known as Symphony House Berhad) and Sepang International Circuit Sdn Bhd. He started his career at KPMG in London and thereafter worked in a variety of roles in investment banking, ultimately being named chief executive of Amanah Merchant Bank. In 1998, he was tasked by the Malaysian Government to set-up and head Danaharta, the national asset management company. He was also the Chairman of the Corporate Debt Restructuring Committee, set up by Bank Negara Malaysia to mediate and assist in debt restructuring programmes of viable companies. Mr. Yahya was a director of Khazanah Nasional Berhad, the Malaysian government investment arm, from 2004 to 2018, a director of Ekuiti Nasional Berhad, a government linked private equity fund management company, from 2009 to 2019, and an independent non-executive director of Sime Darby Berhad from 2017 to 2019. Mr. Yahya was the Non-executive Chairman of Ranhill Holdings Berhad before his re-designation as Independent Non-executive Chairman with effective from 2 February 2019. Mr. Yahya received his BSc Economics (First Class) from the London School of Economics and Political Science in 1985 and is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and a fellow of the Institute of Bankers Malaysia.

### Professor Lawrence Juen-Yee Lau

Aged 75, is an Independent Non-executive Director of the Company, having been appointed on 18 September 2014. He is also a member of the Nomination Committee and the Risk Committee of the Company. Professor Lau currently serves as an independent non-executive director of CNOOC Limited and Semiconductor Manufacturing International Corporation (both listed on the Hong Kong Stock Exchange and the New York Stock Exchange). He is also an independent non-executive director of Hysan Development Company Limited (listed on the Hong Kong Stock Exchange) and Far EasTone Telecommunications Company Limited (listed on the Taiwan Stock Exchange). He has been serving as the Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong (CUHK) since 2007 and the Chairman of the Council of Shenzhen Finance Institute of CUHK, Shenzhen since 12 January 2017. He currently serves as a member of the Currency Board Sub-committee of the Exchange Fund Advisory Committee of the HKSAR. He was formerly a member of the Exchange Fund Advisory Committee of the HKSAR, Chairman of its Governance Sub-committee and a member of its Investment Sub-committee until 2019. 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; as well as the C.V. Starr distinguished fellow of China Development Research Foundation, Beijing. He was awarded the Gold Bauhinia Star by the HKSAR Government in 2011. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of CUHK. He was appointed Chairman of CIC International (Hong Kong) Co., Limited, a wholly-owned subsidiary of China Investment Corporation, in September 2010 and retired from the position in September 2014. He was a member of the 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Sub-committee of Economics from 2013 to 2018. 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 60, is an Independent Non-executive Director of the Company, having been appointed on 14 August 2015. She is also a member of the Nomination Committee and the Risk Committee of the Company. Ms. Teo currently serves as a non-executive and independent director and a member of the corporate governance and nominations committee and executive resource and compensation committee and chairs the risk committee of Singapore Telecommunications Limited (listed on the Singapore Exchange). She is also the Chairman of the board and non-executive independent director of CapitaLand Mall 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. Ms. Teo has over 27 years of experience with 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 74, is an Independent Non-executive Director of the Company, having been appointed on 15 January 2016. He is also a member of the Audit Committee and the Nomination Committee of the Company and the Chairman of advisory board of AIA Thailand. Dr. Narongchai was previously an Independent Non-executive Director of the Company from 21 November 2012 to 31 August 2014. He is the former Minister of Energy and Minister of Commerce for the Kingdom of Thailand, and served as a Senator. Dr. Narongchai served as Chairman of the Export-Import Bank of Thailand from December 2005 to June 2010, a Director of the Office of the Insurance Commission of Thailand from October 2007 to August 2012, a Director of the National Economic and Social Development Board from July 2009 to July 2013 and a member of the Monetary Policy Committee of the Bank of Thailand from November 2011 to September 2014. He is currently the Chairman of the Steering Committee and Vice-Chairman of the Council of Mekong Institute, the Chairman of the Thailand National Committee for the Pacific Economic Cooperation Council and the Chairman of the Khon Kaen University Council in Thailand. Dr. Narongchai also acts as the Chairman and an independent director of three entities listed on the Stock Exchange of Thailand, namely MFC Asset Management Public Company Limited, Ananda Development Public Company Limited and Thai-German Products Public Company Limited. He is the Chairman and an independent director of The Brooker Group Public Company Limited, which is listed on the Stock Exchange of Thailand's Market for Alternative Investment. Dr. Narongchai is also the Chairman of the Seranee Group of companies. He previously served as an independent director of each of Malee Sampran Public Company Limited and ABICO Holdings Public Company Limited and as the Vice-Chairman and an independent director of Thai-German Products Public Company Limited, all of which are listed on the Stock Exchange of Thailand. Dr. Narongchai received his Bachelor's degree in Economics with Honours from the University of Western Australia and a M.A. and Ph.D. in Economics from Johns Hopkins University.

### Mr. Cesar Velasquez Purisima

Aged 59, is an Independent Non-executive Director of the Company, having been appointed on 1 September 2017. He is also a member of the Nomination Committee of the Company. Mr. Purisima currently serves as an independent director of Ayala Land, Inc. and Universal Robina Corporation (both 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

Biswa Misra Stuart A. Spencer Mark Konyn Cara Ang Jacky Chan William Lisle

Ng Keng Hooi Garth Jones Tan Hak Leh Mitchell New Mark Saunders Jayne Plunkett

### Mr. Ng Keng Hooi

Mr. Ng's biography is set out above.

### Mr. Garth Jones

Aged 57, is the Group Chief Financial Officer responsible for leading the Group in all aspects of capital and financial management, as well as managing relationships with key external stakeholders, including independent auditors and actuaries, rating agencies and international accounting and regulatory bodies. He is a director of various companies within the Group, including AIA Co. and AIA International. He joined the Group in April 2011. Prior to joining the Group, Mr. Jones was the Executive Vice President of China Pacific Life Insurance Co., Ltd., the life insurance arm of China Pacific Insurance (Group) Co., Ltd. He also held a number of senior management positions during 12 years with Prudential Corporation Asia Limited, including Chief Financial Officer of the Asian life insurance operations. Prior to joining Prudential, Mr. Jones led the development of Swiss Re's Asia life business. Mr. Jones is a Fellow of the Institute and Faculty of Actuaries. On 1 June 2016, he was appointed a member of the industry advisory committee on long term business, which advises the HKIA. Mr. Jones is also a member of the IFRS Advisory Council of the IASB.

### Mr. William Lisle

Aged 54, is the Regional Chief Executive responsible for the Group's businesses operating in Thailand, Australia and New Zealand, India, Sri Lanka and Vietnam as well as Group Partnership Distribution. Mr. Lisle was Chief Executive Officer of AIA's operation in Malaysia from December 2012 to May 2015, including leading the large-scale and successful integration of ING Malaysia after its acquisition by the Group in 2012. He is a director of various companies within the Group, including AIA Co., AIA Australia Limited and AIA New Zealand Limited. He is also a director of Tata AIA Life Insurance Company Limited, a joint venture between the Group and Tata Sons Limited in India. Mr. Lisle joined the Group in January 2011 as Group Chief Distribution Officer. Prior to joining the Group, Mr. Lisle was the Managing Director, South Asia for Aviva from May 2009 until 2010. Prior to joining Aviva, Mr. Lisle held a number of senior positions at Prudential Corporation Asia Limited, including Chief Executive Officer in Malaysia from 2008 to 2009, Chief Executive Officer in Korea from 2005 to 2008, Chief Agency Officer for ICICI Prudential from 2002 to 2004 and Director of Agency Development, South Asia in 2001.

### Mr. Jacky Chan

Aged 56, is the Regional Chief Executive responsible for the Group's businesses operating in Hong Kong SAR and Macau SAR, the Philippines, Korea and Taiwan as well as Group Agency Distribution and Group Corporate Solutions. 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 32 years. Prior to becoming a Regional Chief Executive, Mr. Chan was Chief Executive Officer of AIA Hong Kong and Macau since 2009. Previously, he held several senior positions including the Country Head of AIA China, Executive Vice President – Distribution & Marketing of Nan Shan Life Insurance of Taiwan and Senior Vice President & Head of Life Profit Centre of AIA - Asia (ex-Japan & Korea). Mr. Chan holds a Bachelor of Science Degree from The University of Hong Kong. He is a Fellow of the Society of Actuaries (FSA), a member of American Academy of Actuaries (MAAA) and a Fellow of the Canadian Institute of Actuaries (CIA).

### Mr. Tan Hak Leh

Aged 54, is the Regional Chief Executive responsible for the Group's businesses operating in Singapore and Brunei, Malaysia, Cambodia, Myanmar and Indonesia. 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 New

Aged 56, 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 is a director of various companies within the Group including AIA International, AIA Singapore Private Limited 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, 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 Saunders

Aged 56, is the Group Chief Strategy and Corporate Development Officer responsible for strategy and corporate transactions for the Group. He is also responsible for the Group's Healthcare business. 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 also held responsibility for the Group's 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 58, 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. Cara Ang

Aged 51, 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 Misra

Aged 42, is the Group Chief Technology and Operations Officer responsible for providing leadership to the Group's technology, operations and innovation areas and leading all Group Office technology resources. 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 A. Spencer

Aged 54, is the Group Chief Marketing Officer of AIA, responsible for the Group's marketing initiatives, customer propositions and AIA Vitality. 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 the interim CEO, Asia Pacific. Prior to that he was Chief Executive Officer, General Insurance, Asia Pacific for Zurich Insurance from 2013 to 2016. Mr. Spencer was with the American International Group from 1996 to 2009, during which time he held a number of senior positions including leading their Accident & Health General Insurance operations in Latin America and the Caribbean and President – Accident and Health Worldwide. Mr. Spencer was also the Global Head and COO, Worldwide Life, Accident & Health, for Chubb Insurance. Mr. Spencer is an alumnus of the Harvard Business School, The Fletcher School of Law and Diplomacy and Brandeis University.

### Ms. Jayne Plunkett

Aged 50, is the Group Chief Risk Officer responsible for the Group's risk and compliance functions. 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.

The Board is pleased to present this report and the audited consolidated financial statements of the Company for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

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

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

## RESULTS

The results of the Group for the year ended 31 December 2019 and the state of the Group's affairs at that date are set out in the financial statements on pages 132 to 268 of this Annual Report.

## BUSINESS REVIEW

The review of the business of the Group for the year ended 31 December 2019, including a description of its principal risks and uncertainties and an indication of likely future developments as required by Schedule 5 to the Hong Kong Companies Ordinance, is contained in the Group Chief Executive and President's Report (pages 9 to 14), Financial Review (pages 17 to 37), Business Review (pages 38 to 55), Risk Management (pages 56 to 63) and Our People (pages 66 to 69) sections under Financial and Operating Review, and note 43 and note 45 to the financial statements. These discussions form part of this report.

AIA takes a proactive approach to understanding the impacts posed to our business by the environment, while also mitigating our own environmental footprint. The Group has voiced our support for the Paris Agreement by becoming a signatory to the Task Force on Climate-related Financial Disclosures (TCFD). We continue to take initiatives to understand the risks posed to our insurance and investment operations from climate change, and reported against the TCFD recommendations for the first time in the Group's ESG Report 2019.

We monitor our own operational impact, and in 2019, developed a set of Group Environmental Procedures outlining initiatives to reduce our environmental footprint. The Group also established an emissions reduction target, aiming to reduce our operational footprint by 25% per employee by 2030, compared to 2017 levels.

AIA also continues to monitor environmental regulation and opportunities in the area of green finance, and engages with companies in our Group investment portfolio on ESG issues, with particular focus on the management of climate change risks.

Customer privacy is of paramount importance to the Group. We continue to upgrade and invest in physical, administrative and technical measures to protect personal and business data. This includes programmes to educate and raise awareness among our people regarding sound and proper cybersecurity and data protection practices.

People are at the heart of our business, and this means ensuring that we adhere to the high standards of quality and customer service expected by our customers. Helping our customers improve their health requires that we better understand their needs. To that end, we conduct research to understand the needs of various customer segments in order to customise our products and services.

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

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

The Group is licensed to conduct insurance business and subject to extensive local regulatory oversight in each of the geographical markets in which its branches and subsidiaries operate. While the extent of regulation varies from jurisdiction to jurisdiction, it typically includes laws and regulations regarding corporate governance, solvency/capital adequacy, market conduct, investment management, financial reporting and distribution. The Group dedicates substantial resources and appropriate personnel to support compliance with relevant laws and regulations. AIA also monitors during the year ended 31 December 2019 the Group's compliance with all material laws and regulations applicable to it including the solvency and capital adequacy requirements applied by its regulators, details of which are contained in note 37 to the financial statements.

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

Details of significant events affecting the Group that have occurred since 31 December 2019 are set out in note 45 to the financial statements.

## DIVIDENDS

An interim dividend of 33.30 Hong Kong cents per share for the six-month period ended 30 June 2019 (for the seven-month period ended 30 June 2018: 29.20 Hong Kong cents per share) was paid on 26 September 2019. The Board has recommended an increase of 10 per cent in the payment of a final dividend to 93.30 Hong Kong cents per share for the year ended 31 December 2019 (for the thirteen-month period ended 31 December 2018: 84.80 Hong Kong cents per share), consistent with AIA's established prudent, sustainable and progressive dividend policy. During the thirteen-month period ended 31 December 2018, the Company paid a special dividend of 9.50 Hong Kong cents per share for the additional month in the accounting period due to the change of the Company's financial year-end date from 30 November 2018 to 31 December 2018.

Under the trust deed of the Company's Restricted Share Unit Scheme (RSU Scheme), shares of the Company are held by the trustee in either of two trust funds. These shares are held against the future entitlements of scheme participants. Provided the shares of the Company are held by the trustee and no beneficial interest in those shares has been vested in any beneficiary, the trustee shall waive any right to dividend payments or other distributions in respect of those shares (unless the Company determines otherwise).

As of 26 September 2019 (being the payment date of the interim dividend), the trustee held 37,232,476 shares. The amount of interim dividend payments waived was approximately US$2 million. Pursuant to the trust deed, the trustee will waive the right to final dividend payment if it is declared.

Subject to shareholders' approval at the annual general meeting (AGM), the final dividend will be payable on Friday, 19 June 2020 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 4 June 2020, being the record date for determining the entitlement to the final dividend.

## DIRECTORS

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

| |
|---|
| **Independent Non-executive Chairman and Independent Non-executive Director** |
| Mr. Edmund Sze-Wing Tse |
| **Executive Director** |
| Mr. Ng Keng Hooi (Group Chief Executive and President) |
| **Independent Non-executive Directors** |
| Mr. Jack Chak-Kwong So |
| Mr. Chung-Kong Chow |
| Mr. John Barrie Harrison |
| Mr. George Yong-Boon Yeo |
| Mr. Mohamed Azman Yahya |
| Professor Lawrence Juen-Yee Lau |
| Ms. Swee-Lian Teo |
| Dr. Narongchai Akrasanee |
| Mr. Cesar Velasquez Purisima |

In accordance with Article 100 of the Company's Articles of Association, Mr. Edmund Sze-Wing Tse, Mr. Jack Chak-Kwong So and Mr. Mohamed Azman Yahya will retire from office by rotation and, being eligible, offer themselves for re-election at the AGM.

## CHANGES IN DIRECTORS' INFORMATION

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

| Name of Director | Change |
|---|---|
| Professor Lawrence Juen-Yee Lau | • Ceased to be a member of the Exchange Fund Advisory Committee of the Hong Kong Special Administrative Region, Chairman of its Governance Sub-committee and a member of its Investment Sub-committee with effect from 30 September 2019<br>• Ceased to be a member of Hong Kong Trade Development Council (HKTDC) Belt and Road Committee in October 2019<br>• Appointed as a member of HKTDC Belt and Road & Greater Bay Area Committee in October 2019 |

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

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the year under review and up to the date of this report are available on the Company's website at www.aia.com under the sub-section headed "Board of Directors" of "Corporate Governance" in the section headed "Investor Relations".

## PERMITTED INDEMNITY PROVISION

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

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

As at 31 December 2019, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (SFO)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (Model Code) set out in Appendix 10 to the Listing Rules, are as follows:

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

| Name of Directors | Number of shares or underlying shares Long Position (L) | Class | Percentage of the total number of shares in issue[1] | Capacity |
|---|---|---|---|---|
| Mr. Ng Keng Hooi | 9,418,276(L)[2]<br>61,200(L)[3] | Ordinary | 0.07<br><0.01 | Beneficial owner<br>Interest of spouse[4] |
| Mr. Edmund Sze-Wing Tse | 3,360,400(L)[3]<br>200,000(L)[3] | Ordinary | 0.02<br><0.01 | Beneficial owner<br>Interest of controlled corporation[5] |
| Mr. Chung-Kong Chow | 86,000(L)[3] | Ordinary | < 0.01 | Beneficial owner |
| Mr. Jack Chak-Kwong So | 130,000(L)[3] | Ordinary | < 0.01 | Interest of controlled corporation[6] |
| Mr. John Barrie Harrison | 80,000(L)[3] | Ordinary | < 0.01 | Interests held jointly with another person[7] |
| 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[8] |

Notes:

(1) Based on 12,088,876,781 ordinary shares in issue as at 31 December 2019.

(2) The interests included 2,667,773 shares of the Company, 5,424,788 share options under the Share Option Scheme (SO Scheme), 1,323,849 restricted share units under the RSU Scheme and 1,866 matching restricted stock purchase units (RSPUs) under the Employee Share Purchase Plan (ESPP).

(3) The interests were shares of the Company.

(4) The 61,200 shares were held by Ms. Leong Seet Lan, the spouse of Mr. Ng Keng Hooi, as beneficial owner.

(5) 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.

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

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

(8) The 160,000 shares were held by Ms. Ayesha Abbas Macpherson, the spouse of Professor Lawrence Juen-Yee Lau, as beneficial owner.

Save as disclosed above, as at 31 December 2019, neither the Directors nor the Chief Executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, the following persons, other than the Directors or the Chief Executive of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name of Shareholder | Number of shares or underlying shares (Note 1) Long Position(L) Short Position(S) Lending Pool(P) | Class | Percentage of the total number of shares in issue (Note 2) | Capacity |
|---|---|---|---|---|
| The Bank of New York Mellon Corporation | 1,070,555,441(L)<br>285,444,816(S)<br>747,192,065(P) | Ordinary | 8.85<br>2.36<br>6.18 | Note 3 |
| The Capital Group Companies, Inc. | 965,413,629(L) | Ordinary | 7.98 | Interest of controlled corporations |
| JPMorgan Chase & Co. | 778,373,473(L)<br>44,352,751(S)<br>378,076,019(P) | Ordinary | 6.43<br>0.36<br>3.12 | Note 4 |
| Citigroup Inc. | 761,482,458(L)<br>6,493,786(S)<br>749,969,393(P) | Ordinary | 6.29<br>0.05<br>6.20 | Note 5 |
| BlackRock, Inc. | 629,705,868(L)<br>2,007,714(S) | Ordinary | 5.20<br>0.01 | Interest of controlled corporations |

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

| Name of Shareholder | Long Position | | | | Short Position | | | |
|---|---|---|---|---|---|---|---|---|
| | Physically settled listed derivatives | Cash settled listed derivatives | Physically settled unlisted derivatives | Cash settled unlisted derivatives | Physically settled listed derivatives | Cash settled listed derivatives | Physically settled unlisted derivatives | Cash settled unlisted derivatives |
| The Bank of New York Mellon Corporation | – | – | – | – | – | – | 285,444,816 | – |
| The Capital Group Companies, Inc. | – | – | 4,015,176 | – | – | – | – | – |
| JPMorgan Chase & Co. | 13,483,000 | 3,912,200 | 858,260 | 19,673,473 | 4,331,000 | 7,114,000 | 4,875,033 | 3,943,713 |
| Citigroup Inc. | 3,142,045 | – | 755,865 | 1,071,550 | 1,380,000 | – | 1,193,135 | 97,200 |
| BlackRock, Inc. | – | – | – | 182,000 | – | – | – | 818,114 |

(2) Based on 12,088,876,781 shares in issue as at 31 December 2019.

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

| Capacity | Number of shares or underlying shares (Long Position) | Number of shares or underlying shares (Short Position) |
|---|---|---|
| Interest of controlled corporations | 1,070,555,441 | 285,444,816 |

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

| Capacity | Number of shares or underlying shares (Long Position) | Number of shares or underlying shares (Short Position) |
|---|---|---|
| Interest of controlled corporations | 49,698,435 | 44,352,751 |
| Investment manager | 347,644,591 | – |
| Person having a security interest in shares | 1,872,885 | – |
| Trustee | 1,081,543 | – |
| Approved lending agent | 378,076,019 | – |

(5) Citigroup Inc. 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 | 11,513,065 | 6,493,786 |
| Approved lending agent | 749,969,393 | – |

Save as disclosed above, as at 31 December 2019, no person, other than the Directors or the Chief Executive of the Company, whose interests are set out in the section entitled "Directors' and the Chief Executive's Interests and Short Positions in Shares and Underlying Shares", had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under his service contract, Mr. Ng Keng Hooi, an Executive Director and the Group Chief Executive and President, is entitled to an annual discretionary earned incentive award, which includes payment in the form of shares of the Company. Details of Mr. Ng Keng Hooi's incentive awards are set out in the Remuneration Report.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party, and in which any Director of the Company or his/her connected entity has a material interest, directly or indirectly, subsisted as at 31 December 2019 or at any time during the year under review.

## RESERVES

As at 31 December 2019, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was US$7,079 million (31 December 2018: US$6,488 million).

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2019 amounted to US$4 million (for the thirteen-month period ended 31 December 2018: US$6 million).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the percentage of the aggregate purchases attributable to the Group's five largest suppliers was less than 30 per cent of the Group's total value of purchases and the percentage of the aggregate sales attributable to the Group's five largest customers was less than 30 per cent of the Group's total value of sales.

## SHARES ISSUED

Details of the shares issued during the year ended 31 December 2019 are set out in note 35 to the financial statements.

## DEBENTURES ISSUED

Details of the debentures issued during the year ended 31 December 2019 are set out in note 30 to the financial statements.

## EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2019, the Company did not enter into any equity-linked agreements and there did not subsist any equity-linked agreement entered into by the Company as at 31 December 2019, save for the restricted share units, outstanding share options and restricted stock purchase units awarded to employees under the RSU Scheme, the SO Scheme and the ESPP, respectively, and the restricted stock subscription units awarded to agents under the Agency Share Purchase Plan (ASPP), each described below and in the Remuneration Report and note 40 to the financial statements.

### RESTRICTED SHARE UNIT SCHEME

During the year ended 31 December 2019, 10,672,622 restricted share units were awarded by the Company under the RSU Scheme adopted by the Company on 28 September 2010 (as amended). Details of the scheme are set out in the Remuneration Report and note 40 to the financial statements.

### SHARE OPTION SCHEME

During the year ended 31 December 2019, 4,412,153 share options were awarded by the Company under the SO Scheme adopted by the Company on 28 September 2010 (as amended). 10,552,614 share options were exercised during the year under review and the Company issued 10,552,614 new shares accordingly. The proceeds received amounted to approximately US$55 million. A summary of the terms of the SO Scheme is set out in the Remuneration Report and further details of the SO Scheme are set out in the Remuneration Report and note 40 to the financial statements.

The SO Scheme will expire on 27 September 2020 and an ordinary resolution will be proposed at the forthcoming annual general meeting to approve the adoption of a new share option scheme and the termination of the SO Scheme. Upon the termination of the SO Scheme, no further share options can be granted thereunder, but it shall remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior to its termination which remain outstanding, and the exercise of such share options shall be subject to and in accordance with the terms on which they were granted, the provisions of the SO Scheme and the Listing Rules.

### EMPLOYEE SHARE PURCHASE PLAN

During the year ended 31 December 2019, 1,331,071 restricted stock purchase units were awarded by the Company and 1,076,322 matching restricted stock purchase units were vested under the ESPP adopted by the Company on 25 July 2011 (as amended). No new shares have been issued pursuant to the ESPP since its adoption. Details of the plan are set out in the Remuneration Report and note 40 to the financial statements.

### AGENCY SHARE PURCHASE PLAN

The Company adopted the ASPP on 23 February 2012 (ASPP Adoption Date). Under the ASPP, certain agents and agency leaders of the Group are selected to participate in the plan. Those agents selected for participation may elect to purchase the Company's shares and, after having been in the plan for a period of three years, receive one matching share for each two shares purchased through the award of matching restricted stock subscription units (RSSUs). Each eligible agent's participation level is capped at a maximum purchase in any plan year of US$15,000 (or local equivalent). Upon vesting of the matching RSSUs, those agents who remain as agents of the Group will receive one matching share for each RSSU which he or she holds. The aggregate number of new shares which can be issued by the Company under the ASPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ASPP Adoption Date. Since the ASPP Adoption Date and up to 31 December 2019, a cumulative total of 5,433,433 new shares were issued under the ASPP, representing approximately 0.045 per cent of the shares in issue as at the ASPP Adoption Date.

During the year ended 31 December 2019, 1,250,598 matching RSSUs were awarded, 1,260,386 matching RSSUs were vested, and 1,260,386 new shares (Awarded Shares) were issued for RSSUs vested pursuant to the ASPP. The Awarded Shares were issued at the subscription price of US$1.00 each to Computershare Hong Kong Trustees Limited (being the plan trustee) to hold the same on trust for certain eligible agents upon vesting of their matching RSSUs. The closing price of the Company's shares on 29 April 2019 (being the business day immediately following the date on which the aforesaid matching RSSUs were vested, which was a non-trading day) was HK$80.30. The proceeds received amounted to approximately US$1.26 million which were used to fund the administration expenses of the ASPP and as general working capital of the Company.

## NON-EXEMPT CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group had not entered into any connected transactions which are not exempt from the annual reporting requirement under Chapter 14A of the Listing Rules.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group during the year ended 31 December 2019 in the ordinary course of business are set out in note 42 to the financial statements. Such related party transactions are all exempt connected transactions under Chapter 14A of the Listing Rules.

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

Save for the purchase of 3,127,664 shares of the Company under the RSU Scheme and the ESPP at a total consideration of approximately US$31 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019. These purchases were made by the trustees of the relevant scheme/plan on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant scheme/plan and therefore have not been cancelled. Please refer to note 40 to the financial statements for details.

## PUBLIC FLOAT

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

## AUDITOR

PricewaterhouseCoopers was re-appointed auditor of the Company in 2019.

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

By Order of the Board

**Edmund Sze-Wing Tse**
Independent Non-executive Chairman
12 March 2020

## CORE PRINCIPLES

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

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

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

Throughout the year ended 31 December 2019, with the exception of Code Provision F.1.3, the Company had applied the principles and complied with all applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Code Provision F.1.3 provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Group Company Secretary reports to the Group General Counsel, who is ultimately accountable for the company secretarial function of the Company and who in turn reports directly to the Group Chief Executive.

## BOARD OF DIRECTORS

### ROLES AND RESPONSIBILITIES

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

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

The Board has also adopted and/or updated various policies as recommended by the Audit Committee and the Risk Committee for better corporate governance.

During the year under review, the Board reviewed the Company's compliance with the Corporate Governance Code, including the necessary disclosures in its reports to shareholders.

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

(a) the development and review of the Company's policies and practices on corporate governance;

(b) the review and monitoring of the training and continuous professional development of Directors and senior management;

(c) the review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements;

(d) the development, review and monitoring of the Code of Conduct applicable to all officers and employees of the Group; and

(e) the review of the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy (Dealing Policy) on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All of the Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and the Dealing Policy throughout the year ended 31 December 2019.

## BOARD EVALUATION

The Board undertakes regularly a formal evaluation of its own performance and that of its committees and individual Directors to ensure the Board and its committees continue to perform effectively. The evaluation is conducted either by way of internal assessment or through independent external consultants. A tailored questionnaire is used to collect views and comments from Board members. Findings are reviewed and considered by the Board to formulate appropriate follow-up actions.

## BOARD COMPOSITION

As of 31 December 2019 and up to the date of this Corporate Governance Report, the Board consists of eleven members, comprising one Executive Director and ten Independent Non-executive Directors. All Directors are expressly identified by reference to such categories in all corporate communications that disclose their names. The composition of the Board is well balanced with each Director having sound board level experience and expertise relevant to the business operations and development of the Group. The Board is comprised of members with extensive business, financial, government, regulatory and policy experience from a variety of backgrounds. There is diversity of nationality, ethnicity, educational background, functional expertise, gender, age and experience.

Biographies of the Directors are set out on pages 74 to 79 of this Annual Report.

## BOARD INDEPENDENCE

Over 90 per cent (ten out of eleven) of the Board are Independent Non-executive Directors. Save as disclosed below in respect of Mr. Tse, each of the Independent Non-executive Directors of the Company meets the independence guidelines set out in Rule 3.13 of the Listing Rules and has provided to the Company the requisite annual confirmation as to his or her independence. Mr. Tse, save for being currently a director of AIA Foundation (a subsidiary of the Company) and previously a Non-executive Director of the Company from 27 September 2010 to 22 March 2017 until his re-designation as an Independent Non-executive Director, has met the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company has satisfied itself that Mr. Tse is independent pursuant to Rule 3.13 of the Listing Rules on the basis that since his appointment as a Non-executive Director of the Company on 27 September 2010, Mr. Tse has not held any executive or management role or function in the Company or any of its subsidiaries, and at no time during that period has he been employed by the Company or any of its subsidiaries. He has not taken part in the day-to-day management of the Company or its subsidiaries beyond his attendance at and participation in board and committee meetings of the Group.

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

## BOARD PROCESS

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

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

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

The attendance of individual Directors, either in person or through electronic means of communication, at the Board meetings, committees' meetings and the 2019 annual general meeting of the Company (2019 AGM) held during the year under review are as follows:

| | No. of Meetings Attended / No. of Meetings Held | | | | | |
|---|---|---|---|---|---|---|
| Name of Director | Board | Audit Committee | Nomination Committee | Remuneration Committee | Risk Committee | 2019 AGM |
| **Independent Non-executive Chairman and Independent Non-executive Director** | | | | | | |
| Mr. Edmund Sze-Wing Tse | 5/5 | – | 2/2 | 7/7 | 4/4 | 1/1 |
| **Executive Director, Group Chief Executive and President** | | | | | | |
| Mr. Ng Keng Hooi | 5/5 | – | – | – | 4/4 | 1/1 |
| **Independent Non-executive Directors** | | | | | | |
| Mr. Jack Chak-Kwong So | 5/5 | 4/4 | 2/2 | 7/7 | – | 1/1 |
| Mr. Chung-Kong Chow | 5/5 | – | 2/2 | – | 4/4 | 1/1 |
| Mr. John Barrie Harrison | 5/5 | 4/4 | 2/2 | – | 4/4 | 1/1 |
| Mr. George Yong-Boon Yeo | 5/5 | 4/4 | 2/2 | 6/7 | – | 1/1 |
| Mr. Mohamed Azman Yahya | 5/5 | – | 2/2 | 7/7 | – | 1/1 |
| Professor Lawrence Juen-Yee Lau | 5/5 | – | 2/2 | – | 4/4 | 1/1 |
| Ms. Swee-Lian Teo | 5/5 | – | 2/2 | – | 4/4 | 1/1 |
| Dr. Narongchai Akrasanee | 5/5 | 4/4 | 2/2 | – | – | 1/1 |
| Mr. Cesar Velasquez Purisima | 5/5 | – | 2/2 | – | – | 1/1 |

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

## CHAIRMAN AND GROUP CHIEF EXECUTIVE

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

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

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

The roles and responsibilities of the Board, the Chairman of the Board and the Group Chief Executive are set out in the Board Charter of the Company, which is available on the Company's website at www.aia.com.

## APPOINTMENT OF DIRECTORS

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

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

## INDUCTION AND ONGOING DEVELOPMENT

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

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

During the year under review, the Company organised a Board Strategy Day and provided a number of briefings to the Directors to update them on the implementation of the Group's strategies to capture future business opportunities and the latest developments in the Group's principal businesses and major products. In December 2019, the Board visited Beijing, PRC, where Directors had an in-depth review of the Group's local operations. The visit also provided an opportunity for the Directors to gain new insights into the insurance sector in PRC and its prospects for continued growth.

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

| | Types of Training | |
|---|---|---|
| Name of Director | Reading or attending briefings / seminars / conferences relevant to regulatory and governance updates | Attending corporate events / Board visits / executive briefings relevant to the Group's business |
| **Independent Non-executive Chairman and Independent Non-executive Director** | | |
| Mr. Edmund Sze-Wing Tse | √ | √ |
| **Executive Director, Group Chief Executive and President** | | |
| Mr. Ng Keng Hooi | √ | √ |
| **Independent Non-executive Directors** | | |
| Mr. Jack Chak-Kwong So | √ | √ |
| Mr. Chung-Kong Chow | √ | √ |
| Mr. John Barrie Harrison | √ | √ |
| Mr. George Yong-Boon Yeo | √ | √ |
| Mr. Mohamed Azman Yahya | √ | √ |
| Professor Lawrence Juen-Yee Lau | √ | √ |
| Ms. Swee-Lian Teo | √ | √ |
| Dr. Narongchai Akrasanee | √ | √ |
| Mr. Cesar Velasquez Purisima | √ | √ |

## COMMITTEES OF THE BOARD

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

### AUDIT COMMITTEE

The Audit Committee consists of four 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 and Dr. Narongchai. The Audit Committee is delegated with the authority from the Board to oversee the Group's financial reporting system, the internal control systems and the relationship with the external auditor of the Company, and to review the Group's financial information.

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

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

The Audit Committee held four meetings during the year ended 31 December 2019. The attendance records of the Audit Committee members are set out on page 98 of this Annual Report.

## NOMINATION COMMITTEE

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

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

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

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

- In assessing the suitability of a candidate proposed for appointment, election or re-election as a Director, the Nomination Committee shall consider the candidate on the basis of the selection criteria set out in the Directors' Nomination Policy, which includes, amongst other things, whether his/her skills, knowledge, experience and background can complement and enhance those of the existing Board members with due regards to the benefits of diversity perspectives set out in the Board Diversity Policy; his/her character, reputation, integrity and standard of competence; and the ability to devote sufficient time to discharge his/her duties as a Director. For candidates proposed for nomination as an Independent Non-executive Director, the satisfaction of the independence requirement under Rule 3.13 of the Listing Rules is also required.
- For appointment or election of a new Director, the Nomination Committee shall take the lead in identifying candidates suitably qualified to become a Director. It may consider referrals from existing Directors, and use open advertising or the services of external advisers to facilitate the search based on the selection criteria set out in the Directors' Nomination Policy. Shareholders may also propose a person for election as a Director of the Company at a general meeting, relevant procedures of which are set out on the website of the Company. The Nomination Committee shall evaluate the suitability of a candidate through interviews, background checks, third party reference checks, and/or any process as it deems necessary and appropriate.
- For re-election of a retiring Director, the Nomination Committee will review the overall past contributions of the retiring Director to the Company, and determine whether he/she continues to meet the selection criteria set out in the Directors' Nomination Policy.

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

Furthermore, the Board Diversity Policy, which was adopted by the Board in 2013 and describes the Company's approach to ensuring adequate diversity, is summarised below:

- Consideration and selection of candidates for appointment to the Board will be based on merit which shall include a review of any candidate's integrity, experience, educational background, industry or related experience and more general experience;
- Within that overriding emphasis on merit, the Nomination Committee shall seek to address Board vacancies by actively considering candidates that bring a diversity of background and opinion from amongst those candidates with the appropriate background and industry or related expertise and experience. The Nomination Committee's considerations shall include achieving an appropriate level of diversity having regard to factors such as race, gender, age, nationality, cultural and educational background;
- The Nomination Committee will (a) in reviewing the Board composition, consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience, knowledge and character on the Board; and (b) as part of the performance evaluation of the Board, consider the balance of skills, experience, knowledge and independence of the Board; and
- As part of the Nomination Committee's annual review of the structure, size and composition of the Board, the Nomination Committee will expressly consider and include commentary to the Board on the subject of the Board's diversity.

The Nomination Committee held two meetings during the year ended 31 December 2019. The attendance records of the Nomination Committee members are set out on page 98 of this Annual Report.

## REMUNERATION COMMITTEE

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

The Remuneration Committee held seven meetings during the year ended 31 December 2019. The attendance records of the Remuneration Committee members are set out on page 98 of this Annual Report. Details of the role of the Remuneration Committee, and the key activities performed by the Remuneration Committee during the year under review have been set out in the Remuneration Report, which forms part of this Corporate Governance Report.

## RISK COMMITTEE

The Risk Committee consists of six members, five of whom are Independent Non-executive Directors, including Mr. Chow, who serves as chairman of the Risk Committee, Mr. Harrison, Professor Lau, Ms. Teo, Mr. Tse and Mr. Ng, 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 during the year under review included providing advice to the Board on the risk profile and risk management strategy of the Group; considering and reviewing disclosures in interim and annual reports, risk management-related policies and guidelines, statutory solvency positions, risk appetite and metrics; overseeing the risk management and compliance framework; reviewing the risk management and internal control systems; endorsing the Company's risk governance structure; and reviewing major risks. Details of how the Risk Committee reviews the effectiveness of the risk management and internal control systems are set out in the Risk Management and Internal Control section of this report.

The Risk Committee held four meetings during the year ended 31 December 2019. The attendance records of the Risk Committee members are set out on page 98 of this Annual Report.

## EXTERNAL AUDITOR

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

The Audit Committee also reviews the non-audit services provided by the external auditor and its remuneration on a regular basis. For the year ended 31 December 2019, the total estimated remuneration payable by the Group to PricewaterhouseCoopers was US$26.0 million (for the thirteen-month period ended 31 December 2018: US$23.0 million), an analysis of which is set out below:

| US$ millions | 2019 | 2018 |
|---|---|---|
| Audit services | **18.9** | 16.7 |
| Non-audit services, including: | | |
| Audit-related services | **5.1** | 2.0 |
| Tax services | **1.4** | 1.7 |
| Other services | **0.6** | 2.6 |
| **Total** | **26.0** | 23.0 |

In addition to those fees disclosed above, audit fees of US$0.7 million for the year ended 31 December 2019 (for the thirteen-month period ended 31 December 2018: US$0.8 million) were payable to PricewaterhouseCoopers by funds for which the Group is the investment adviser, manager or administrator.

## ACCOUNTABILITY AND AUDIT

### FINANCIAL REPORTING

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

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

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

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

Management has confirmed to the Board that the Group's risk management and internal control systems are adequate and effective. Based on the review result and management's confirmation, the Board considered the Group's risk management and internal control systems to be adequate and effective for the year ended 31 December 2019.

**INSIDE INFORMATION**

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

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

## COMPANY SECRETARY

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

Ms. Nicole Pao succeeded Mr. Mitchell David New as Company Secretary of the Company with effect from 17 May 2019. Ms. Pao continues to report to Mr. New. Mr. New continues to act as Group General Counsel, a member of the Group Executive Committee, as well as a director of various entities within the Group. During the year under review, Ms. Pao had undertaken at least 15 hours of relevant continuing professional education.

## ENGAGEMENT WITH SHAREHOLDERS

The Board recognises the importance of maintaining an ongoing dialogue with the Company's shareholders and does so through general meetings, press releases, announcements and corporate communications such as the annual report, interim report and circulars. The Board is committed to the timely disclosure of information. The latest information regarding the Group's activities, announcements, results presentations, webcasts and corporate communications is made available on the Company's website at www.aia.com in a timely manner. The financial calendar highlighting the key dates for shareholders is set out on page 299 of this Annual Report.

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

The Board has adopted a Shareholders' Communication Policy and such policy will be reviewed on a regular basis to ensure its effectiveness. The Board welcomes views, questions and concerns from shareholders and other stakeholders. Shareholders and other stakeholders may send their enquiries and concerns to the Board. The contact details are set out on page 300 of this Annual Report.

## 2019 ANNUAL GENERAL MEETING

The most recent general meeting of the Company was the 2019 AGM which was held at the Grand Ballroom, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 17 May 2019. The Chairman and all other members of the Board at that time, together with the Group's senior management and external auditor, attended the 2019 AGM. The poll voting results are available on the websites of both the Company and the Hong Kong Exchanges and Clearing Limited. The matters resolved at the 2019 AGM are summarised below:

- Receipt of the audited consolidated financial statements of the Company, the Report of the Directors and the Independent Auditor's Report for the thirteen-month period ended 31 December 2018;
- Declaration of a special dividend of 9.50 Hong Kong cents per share for the thirteen-month period ended 31 December 2018;
- Declaration of a final dividend of 84.80 Hong Kong cents per share for the thirteen-month period ended 31 December 2018;
- Re-election, by separate ordinary resolutions, of Ms. Teo, Dr. Akrasanee and Mr. Yeo as Independent Non-executive Directors of the Company;
- Re-appointment of PricewaterhouseCoopers as auditor of the Company until the conclusion of the next annual general meeting and authorising the Board to fix its remuneration;
- General mandate to Directors to cause the Company to issue additional shares of the Company, not exceeding 10 per cent of the aggregate number of shares of the Company in issue on the date of the 2019 AGM, and the discount for any shares to be issued not exceeding 10 per cent to the benchmarked price;
- General mandate to Directors to cause the Company to buy back shares of the Company, not exceeding 10 per cent of the aggregate number of shares of the Company in issue on the date of the 2019 AGM;
- General mandate to Directors to cause the Company to issue shares of the Company under the RSU Scheme, not exceeding 2.5 per cent of the number of shares of the Company in issue on the date of the listing of the Company's shares on the Hong Kong Stock Exchange;
- Adjustment of the limit of the annual sum of the Directors' fees to US$2,500,000; and
- Amendment of Articles of Association of the Company.

The forthcoming annual general meeting of the Company will be held on Friday, 29 May 2020. Further details will be set out in the circular to be sent to the shareholders of the Company on or before 27 April 2020.

## SHAREHOLDERS' RIGHTS

### GENERAL MEETING

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

### MOVING A RESOLUTION AT AN ANNUAL GENERAL MEETING

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

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

(b) at least 50 shareholders of the Company who have a right to vote on the resolution at the annual general meeting to which the request relates.

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

### PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

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

## CONSTITUTIONAL DOCUMENTS

Shareholders of the Company approved amendment to the Articles of Association of the Company at the 2019 AGM. Details of the amendments were set out in the 2019 AGM notice and the accompanied circular to the shareholders of the Company dated 12 April 2019. The Company's Articles of Association (in both English and Chinese) is available on the websites of both the Company and the Hong Kong Exchanges and Clearing Limited.

By Order of the Board

Nicole Pao
Company Secretary
12 March 2020

# REMUNERATION REPORT

## STATEMENT OF THE CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of the Remuneration Committee, I am pleased to present the Report on Remuneration for Directors and Key Management Personnel for the period ended 31 December 2019.

In 2019, the Remuneration Committee continued its work of ensuring that the remuneration arrangements for our senior executives and employees support the Group's strategic priorities and allow us to attract, motivate, and retain high calibre talent.

Similar to prior years, the Remuneration Committee undertook a rigorous process in reviewing the Group's executive remuneration, taking into account our regulatory environment, AIA's risk management framework, market practice and the interests of our shareholders.

During 2019, the Remuneration Committee continued to monitor the regulatory landscape in Hong Kong under the Insurance Authority, as well as developments in AIA's other markets such as Australia and Korea. The Committee will continue to work with its independent advisor to monitor and respond to emerging regulations throughout the region that may impact the remuneration of AIA's senior executives and key management personnel.

As part of the review of the Group's remuneration policy during the year, the Remuneration Committee reviewed the four equity-linked schemes as they are due to expire. The four equity-linked schemes are: the Restricted Share Unit Scheme, the Share Option Scheme, the Employee Share Purchase Plan and the Agency Share Purchase Plan. This assessment was intended to ensure that the plans remain in line with the regulatory environment, support shareholders' best interests, remain consistent with market best practice, and will continue to allow us to attract and engage critical talents including our employees and best performing agents.

In addition to the policy review and scheme assessments, the Remuneration Committee reviewed and subsequently approved the remuneration package to be provided to Mr. Lee Yuan Siong as the incoming Group Chief Executive and President.

The remuneration structure for senior executives remains unchanged in 2019 and will continue to apply in 2020. As in prior years, a significant proportion of total remuneration awarded in 2019 is subject to multi-year performance-based vesting conditions which ensure that our executives' interests are closely aligned with those of shareholders over the long term.

Overall, the Remuneration Committee believes that the Group's current remuneration arrangements are effective and has communicated its deliberations and activities to the Risk Committee in 2019.

**Jack Chak-Kwong So**
Chairman, Remuneration Committee
12 March 2020

# REMUNERATION GOVERNANCE

## ROLE OF THE REMUNERATION COMMITTEE

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

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

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

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

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

## MEMBERS AND MEETINGS

As of 31 December 2019, the Remuneration Committee consisted of four Independent Non-executive Directors, being Mr. Jack Chak-Kwong So, who is the Chairman of the Remuneration Committee, Mr. George Yong-Boon Yeo, Mr. Mohamed Azman Yahya and Mr. Edmund Sze-Wing Tse.

The Remuneration Committee held seven meetings during the year ended 31 December 2019. The attendance records of the Remuneration Committee members are set out on page 98 of this Annual Report.

## ACTIVITIES OF THE REMUNERATION COMMITTEE

The Remuneration Committee performed the following major activities in 2019.

| Area | Summary of activities |
|---|---|
| **Remuneration decisions for the Group Chief Executive and President and Key Management Personnel** | • Reviewed and approved the 2019 remuneration packages of the Group Chief Executive and President and Key Management Personnel at the start of the year<br>• Recommended the 2019 long-term incentive grant for the Group Chief Executive and President for approval by the Independent Non-executive Directors of the Board<br>• Reviewed and approved the remuneration package for the incoming Group Chief Executive and President<br>• Reviewed the executive benchmarking results ahead of the 2019/20 annual review cycle |
| **Design and operation of the Group's incentive schemes** | • Reviewed and approved the 2018 short-term incentive plan pay-outs and the vesting of the 2016 performance-based Restricted Share Units (RSUs) for the Group Chief Executive and President, Key Management Personnel, and all other plan participants<br>• Reviewed and approved grants under the long-term incentive plan, including setting the performance measures and targets for all performance-based RSU grants for the 2019 to 2021 performance cycle<br>• Reviewed and approved the performance measures and targets for the 2020 short-term and long-term incentive plans<br>• Reviewed the four equity schemes for alignment with regulatory requirements, market best practices, and shareholders' interests in preparation for the renewal of the Company's long-term incentive plans, Employee Share Purchase Plan and Agency Share Purchase Plan |
| **Remuneration governance and disclosure** | • Reviewed and approved the 2018 Remuneration Report<br>• Provided the Risk Committee with a summary of considerations undertaken by the Remuneration Committee in ensuring that the Group's remuneration and benefits arrangements align with stakeholders' interests and avoid excessive risk-taking<br>• Reviewed the regulatory and corporate governance environment impacting executive remuneration in Hong Kong, Asia Pacific and other markets<br>• Reviewed the emerging remuneration trends for AIA's international insurance peer companies and for Asia Pacific and other regions |

# OUR EXECUTIVE REMUNERATION POLICY

## OBJECTIVES OF OUR REMUNERATION POLICY

The Company's executive remuneration policy is based on the principle of providing an equitable, motivating and competitive remuneration package to foster a strong performance-oriented culture within an appropriate risk management framework.

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

## COMPONENTS OF OUR EXECUTIVE REMUNERATION POLICY

The table below summarises the Company's remuneration approach regarding the elements of the remuneration structure applied to the Group Chief Executive and President and the Key Management Personnel for the year ended 31 December 2019 and will continue to apply in 2020.

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

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

## INCENTIVE AND SHARE-BASED PLANS

### SHORT-TERM INCENTIVE PLAN

**2019 Short-term Incentive Plan**

2019 short-term incentive plan target and maximum opportunities were determined by the Remuneration Committee and communicated to the Group Chief Executive and President and Key Management Personnel at the beginning of the financial period ended 31 December 2019.

**2019 Performance Measures and Awards**

For 2019, the performance measures used in the short-term incentive plan were as follows:

**Group 2019 Short-term Incentive Measures**

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

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

The total value of short-term incentive awards that will be paid to Mr. Ng Keng Hooi (Group Chief Executive and President) and the Key Management Personnel for the year ended 31 December 2019 is US$10,446,600.

The short-term incentive amounts for the year ended 31 December 2019 are included in note 41 to the financial statements as "Bonuses" for Mr. Ng Keng Hooi, and as part of the "Salaries and other short-term employee benefits" for the Key Management Personnel.

## LONG-TERM INCENTIVE PLAN

The RSU Scheme and the SO Scheme were both adopted by the Company on 28 September 2010 and are effective for a period of 10 years from the date of adoption, summaries of which are provided later in this section and in note 40 to the financial statements. These schemes are designed to motivate and reward participants who have not only made an important contribution to AIA's success, but are expected to play a significant role in the future.

Grants made under these schemes are discretionary and are determined on an annual basis with reference to an individual's overall variable remuneration, total remuneration package competitiveness, role and responsibilities, as well as performance and potential.

The schemes operate through the grant of performance-based RSUs and share options to deliver a balanced mix of incentives and ownership. The grants made are subject to eligibility criteria and generally vest after a three-year period.

As applicable to other remuneration payments, long-term incentive vesting is subject to the Remuneration Committee's approval and these schemes are reviewed regularly to ensure their design, process, structure and governance work together to balance risk and incentives.

The SO Scheme will expire on 27 September 2020 and an ordinary resolution will be proposed at the forthcoming annual general meeting to approve the adoption of a new share option scheme and the termination of the SO Scheme. Upon the termination of the SO Scheme, no further share options can be granted thereunder, but it shall remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior to its termination, and the exercise of such share options shall be subject to and in accordance with the terms on which they were granted, the provisions of the SO Scheme and the Listing Rules.

## RESTRICTED SHARE UNIT SCHEME

The objectives of the RSU Scheme are to retain participants, align their interests with those of the Company's shareholders and reward the creation of sustainable value through the grant of Company's shares to participants when rigorous performance conditions have been achieved.

Under the RSU Scheme, the Company may grant RSUs to employees, directors (excluding independent non-executive directors) and officers of the Company or any of its subsidiaries.

During the year ended 31 December 2019, the Company granted 10,672,622 RSUs under the RSU Scheme. Since the adoption of the RSU Scheme on 28 September 2010 and up to 31 December 2019, a cumulative total of 88,218,214 RSUs vested under the RSU Scheme, representing approximately 0.73 per cent of the shares in issue as at the Company's listing date. No new shares have been issued under the RSU Scheme since its adoption.

### 2019 RSU Performance Measures

Consistent with prior years, vesting of the performance-based RSU grants during 2019 will be contingent on the extent of achievement of three-year performance targets for the following three performance measures:

### Performance Measures for 2019 Performance-based RSUs

| Value of New Business (VONB) | Equity Attributable to Shareholders of the Company on the Embedded Value Basis (EV Equity) | Relative Total Shareholder Return (TSR) |
|---|---|---|
| 1/3 WEIGHTING | 1/3 WEIGHTING | 1/3 WEIGHTING |
| VONB is an estimate of the economic value of one year's sales as published by the Company [1] | EV Equity is the total of embedded value, goodwill and other intangible assets as published by the Company. Embedded value is an estimate of the economic value of in-force life insurance business, including the net worth on the Group's balance sheet but excluding any economic value attributable to future new business [1] | TSR is the compound annual return from the ownership of a share over a period of time measured by calculating the change in the share price and the gross value of dividends received (and reinvested) during that period. AIA's TSR is compared with the TSR of the peer companies [2] over the performance period |

Notes:
(1) VONB and EV Equity performance considered in determining incentive awards will be based on Group VONB and Group EV Equity results as published by the Company.

(2) TSR peer companies for the 2019 performance-based RSUs include 19 life and health or multi-line insurance companies identified within the Dow Jones Insurance Titans 30 index (DJTINN) at the start of the performance period.

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

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

The 2019 RSU grant performance measures will be assessed over a three-year period starting 1 January 2019 and running through 31 December 2021.

**Vesting of RSU Grants in 2019**

In February 2019, after assessing the performance of the Company against the pre-determined performance targets for the VONB, EV Equity and relative TSR measures (with each measure having an equal weighting) over the three-year period from 1 December 2015 to 30 November 2018, the Remuneration Committee approved the vesting of the 2016 performance-based RSU grants at 98.44 per cent of the maximum level. The 2016 performance-based RSU grants vested on 18 March 2019.

The final vesting results for the 2017 performance-based RSU grants to vest in March 2020 will be disclosed in the Remuneration Report in the Company's Annual Report 2020.

**2020 RSU Grants**

The Remuneration Committee will grant performance-based RSUs to selected participants after the Company's year-end financial results announcement. Details of the grant will be disclosed in the Company's Annual Report 2020.

Consistent with prior years, VONB, EV Equity and relative TSR targets will continue to be used to assess the performance outcomes of the RSU grants that will be granted in 2020. The three performance measures will continue to be equally weighted and will be assessed over a three-year period starting 1 January 2020.

Similar to the 2019 performance-based RSUs, for relative TSR assessment only those DJTINN companies that are considered life and health or multi-line insurance companies will be selected as peers (19 companies).

## RSU Movements During the Year Ended 31 December 2019

The table below summarises the movements in RSU grants during the year ended 31 December 2019.

| Group Chief Executive and President, Key Management Personnel and other eligible employees and participants [1] | Date of grant (day / month / year) [2] | Vesting date(s) (day / month / year) [3] | RSUs outstanding as at 1 January 2019 | RSUs granted during the year ended 31 December 2019 | RSUs vested during the year ended 31 December 2019 | RSUs cancelled / lapsed / reclassified during the year ended 31 December 2019 [8] | RSUs outstanding as at 31 December 2019 [9] |
|---|---|---|---|---|---|---|---|
| Group Chief Executive and President<br>Mr. Ng Keng Hooi | 9/3/2016 | 9/3/2019 [4] | 320,071 | – | (315,078) | (4,993) | – |
| | 10/3/2017 | 10/3/2020 [4] | 267,659 | – | – | – | 267,659 |
| | 31/7/2017 | 1/6/2020 [4] | 213,164 | – | – | – | 213,164 |
| | 15/3/2018 | 15/3/2021 [4] | 439,258 | – | – | – | 439,258 |
| | 27/3/2019 | 27/3/2022 [4] | – | 403,768 | – | – | 403,768 |
| Key Management Personnel (excluding Group Chief Executive and President) | 9/3/2016 | 9/3/2019 [4] | 1,297,805 | – | (1,277,564) | (20,241) | – |
| | 1/8/2016 | 1/8/2019 [4] | 41,249 | – | (40,606) | (643) | – |
| | 10/3/2017 | 10/3/2020 [4] | 1,137,349 | – | – | 19,311 | 1,156,660 |
| | 31/7/2017 | 1/6/2020 [4] | 311,947 | – | – | – | 311,947 |
| | 15/3/2018 | 15/3/2021 [4] | 1,070,214 | – | – | 20,042 | 1,090,256 |
| | 12/9/2018 | 12/9/2021 [4] | 61,010 | – | – | – | 61,010 |
| | 27/3/2019 | 27/3/2022 [4] | – | 954,462 | – | 15,782 | 970,244 |
| | 15/5/2019 | 1/5/2022 [4] | – | 27,182 | – | – | 27,182 |
| | 30/12/2019 | 30/12/2022 [5] | – | 445,308 | – | – | 445,308 |
| Other eligible employees and participants [1] | 9/3/2016 | 9/3/2019 [4] | 12,002,223 | – | (11,720,949) | (281,274) | – |
| | 1/8/2016 | 1/8/2019 [4] | 34,621 | – | (34,081) | (540) | – |
| | 17/10/2016 | 1/8/2019 [6] | 101,217 | – | (101,217) | – | – |
| | 17/10/2016 | See Note [7] | 20,938 | – | (20,938) | – | – |
| | 10/3/2017 | 10/3/2020 [4] | 10,895,899 | – | (13,443) | (650,059) | 10,232,397 |
| | 31/7/2017 | 1/6/2020 [4] | 28,519 | – | – | – | 28,519 |
| | 15/3/2018 | 15/3/2021 [4] | 9,327,079 | – | (13,216) | (686,892) | 8,626,971 |
| | 29/6/2018 | 15/3/2021 [4] | 108,956 | – | – | – | 108,956 |
| | 12/9/2018 | 15/3/2021 [4] | 122,146 | – | – | (122,146) | – |
| | 27/3/2019 | 27/3/2022 [4] | – | 8,825,422 | – | (491,220) | 8,334,202 |
| | 15/5/2019 | 1/5/2022 [4] | – | 16,480 | – | – | 16,480 |

Notes:

(1) Includes RSUs outstanding as at 1 January 2019 for the retired Group Chief Executive and President, Mr. Mark Edward Tucker.

(2) The measurement dates (i.e., the dates used to determine the value of the grants for accounting purposes) for grants made during the year ended 30 November 2016 were determined to be 9 March 2016, 1 August 2016 and 17 October 2016. The measurement dates for grants made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement dates for grants made during the thirteen months ended 31 December 2018 were determined to be 15 March 2018, 29 June 2018 and 12 September 2018. The measurement dates for grants made during the financial year ended 31 December 2019 were determined to be 27 March 2019, 15 May 2019 and 30 December 2019. These measurement dates were determined in accordance with IFRS 2.

(3) The date of vesting is subject to applicable dealing restrictions.

(4) The vesting of these RSUs is subject to the achievement of performance measures shown on pages 116 and 117 of this Report.

(5) The vesting of these RSUs is service-based only (meaning there are no further performance conditions attached except for continued employment). All RSUs will vest on 30 December 2022.

(6) The vesting of these RSUs was service-based only (meaning there were no further conditions attached except for continued employment). All RSUs vested on 1 August 2019.

(7) The vesting of these RSUs was service-based only (meaning there are no further conditions attached except for continued employment). One-third of the RSUs vested on 1 August 2017, one-third vested on 1 August 2018 and one-third vested on 1 August 2019.

(8) These RSUs lapsed or were reclassified during the financial year ended 31 December 2019. The reclassification of RSUs was a result of one executive who was previously categorised as "Other eligible employees and participants" becoming "Key Management Personnel" during this period. There were no cancelled RSUs during the financial year ended 31 December 2019.

(9) Includes RSUs outstanding as at 31 December 2019 that, in accordance with the RSU Scheme rules, will lapse on or before the respective vesting date.

## SHARE OPTION SCHEME

The objective of the SO Scheme is to align the interests of plan participants with those of the Company's shareholders by allowing participants to share in the value created for our shareholders.

Under the SO Scheme, the Company may grant share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. No amount is payable by participants on the acceptance of a share option.

During the year ended 31 December 2019, the Company granted 4,412,153 share options under the SO Scheme to the Group Chief Executive and President and certain employees and officers of the Company and a number of its subsidiaries.

The formula for determining the exercise price of such share options is, as set out in the SO scheme rules, at least the highest of (i) the closing price of the shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of a share. Since the adoption of the SO Scheme on 28 September 2010 and up to 31 December 2019, a cumulative total of 39,443,347 new shares were issued under the SO Scheme, representing approximately 0.33 per cent of the shares in issue as at the Company's listing date.

The total number of shares available for issue for all outstanding share options and share options that can be granted under the scheme in future is 261,656,653 shares, representing approximately 2.17 per cent of the number of shares in issue as at the date of this report. Unless shareholders' approval is obtained in accordance with the relevant procedural requirements under the Listing Rules, the maximum number of shares under option that may be granted to any participant in any 12-month period up to and including a proposed date of grant is 0.25 per cent (0.1 per cent for a substantial shareholder of the Company) of the number of shares in issue as of the proposed date of grant.

Since the adoption of the plan, no share options have been granted to substantial shareholders or in excess of the individual limit.

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

There are no performance conditions attached to the vesting of share options. Each share option entitles the eligible participant to subscribe for one ordinary share. Benefits are realised only to the extent that the share price exceeds the exercise price.

### 2019 Share Option Grants

The share options granted in 2019 will vest in 2022, assuming all service requirements are met. Details of the valuation of the share options are set out in note 40 to the financial statements.

### Vesting of Share Option Grants in 2019

All share options granted in 2016 vested on 9 March 2019 in accordance with the SO Scheme rules and became exercisable on 18 March 2019, being the first trading date after the Hong Kong regulatory blackout period.

### 2020 Share Option Grants

The Remuneration Committee will grant share options to selected participants after the Company's year-end financial results announcement. Details of these grants will be disclosed in the Company's Annual Report 2020.

### Share Option Movements During the Year Ended 31 December 2019

The table below summarises the movements in share option granted during the year ended 31 December 2019.

| Group Chief Executive and President, Key Management Personnel and other eligible employees and participants [1] | Date of grant (day / month / year) [2] | Period during which share options are exercisable (day / month / year) | Share options outstanding as at 1 January 2019 | Share options granted during the year ended 31 December 2019 | Share options vested during the year ended 31 December 2019 | Share options cancelled / lapsed / reclassified during the year ended 31 December 2019 [17] | Share options exercised during the year ended 31 December 2019 | Exercise price (HK$) | Share options outstanding as at 31 December 2019 [18] | Weighted average closing price of shares immediately before the dates on which share options were exercised (HK$) |
|---|---|---|---|---|---|---|---|---|---|---|
| Group Chief Executive and President Mr. Ng Keng Hooi | 5/3/2014 | 5/3/2017 - 4/3/2024 [3] | 602,486 | – | – | – | – | 37.56 | 602,486 | n/a |
| | 12/3/2015 | 12/3/2018 - 11/3/2025 [4] | 541,692 | – | – | – | – | 47.73 | 541,692 | n/a |
| | 9/3/2016 | 9/3/2019 - 8/3/2026 [5] | 851,026 | – | 851,026 | – | – | 41.90 | 851,026 | n/a |
| | 10/3/2017 | 10/3/2020 - 9/3/2027 [6] | 732,574 | – | – | – | – | 50.30 | 732,574 | n/a |
| | 31/7/2017 | 1/6/2020 - 30/7/2027 [7] | 476,786 | – | – | – | – | 61.55 | 476,786 | n/a |
| | 15/3/2018 | 15/3/2021 - 14/3/2028 [8] | 1,105,066 | – | – | – | – | 67.15 | 1,105,066 | n/a |
| | 27/3/2019 | 27/3/2022 - 26/3/2029 [9] | – | 1,115,158 | – | | – | 76.38 | 1,115,158 | n/a |
| Key Management Personnel (excluding Group Chief Executive and President) | 1/6/2011 | 1/4/2014 - 31/5/2021 [10] | 427,279 | – | – | 75,576 | (402,855) | 27.35 | 100,000 | 77.78 |
| | 1/6/2011 | 1/4/2014 - 31/5/2021 [11] | 440,918 | – | – | – | (440,918) | 27.35 | – | 77.03 |
| | 15/3/2012 | 15/3/2015 - 14/3/2022 [12] | 519,012 | – | – | 71,303 | (45,978) | 28.40 | 544,337 | 78.50 |
| | 11/3/2013 | 11/3/2016 - 10/3/2023 [13] | 563,167 | – | – | 76,937 | (47,093) | 34.35 | 593,011 | 78.50 |
| | 5/3/2014 | 5/3/2017 - 4/3/2024 [3] | 663,790 | – | – | 67,963 | (204,169) | 37.56 | 527,584 | 79.09 |
| | 14/4/2014 | 14/4/2017 - 13/4/2024 [14] | 332,282 | – | – | – | (332,282) | 39.45 | – | 78.30 |
| | 12/3/2015 | 12/3/2018 - 11/3/2025 [4] | 983,844 | – | – | 60,016 | (570,601) | 47.73 | 473,259 | 78.60 |
| | 9/3/2016 | 9/3/2019 - 8/3/2026 [5] | 2,769,436 | – | 2,769,436 | 254,789 | (1,610,625) | 41.90 | 1,413,600 | 80.55 |
| | 10/3/2017 | 10/3/2020 - 9/3/2027 [6] | 2,413,333 | – | – | 17,619 | – | 50.30 | 2,430,952 | n/a |
| | 31/7/2017 | 1/6/2020 - 30/7/2027 [7] | 697,732 | – | – | – | – | 61.55 | 697,732 | n/a |
| | 15/3/2018 | 15/3/2021 - 14/3/2028 [8] | 2,692,372 | – | – | (65,046) | – | 67.15 | 2,627,326 | n/a |
| | 12/9/2018 | 12/9/2021 - 11/9/2028 [15] | 161,951 | – | – | – | – | 63.64 | 161,951 | n/a |
| | 27/3/2019 | 27/3/2022 - 26/3/2029 [9] | – | 2,636,088 | – | (60,577) | – | 76.38 | 2,575,511 | n/a |
| | 15/5/2019 | 1/5/2022 - 14/5/2029 [16] | – | 72,856 | – | – | – | 78.70 | 72,856 | n/a |
| Other eligible employees and participants (including the Retired Group Chief Executive and President) [1] | 1/6/2011 | 1/4/2014 - 31/5/2021 [10] | 668,366 | – | – | (75,576) | – | 27.35 | 592,790 | n/a |
| | 1/6/2011 | 1/4/2014 - 31/5/2021 [11] | 431,097 | – | – | – | (106,820) | 27.35 | 324,277 | 80.00 |
| | 15/3/2012 | 15/3/2015 - 14/3/2022 [12] | 677,692 | – | – | (71,303) | (32,219) | 28.40 | 574,170 | 80.00 |
| | 11/3/2013 | 11/3/2016 - 10/3/2023 [13] | 623,256 | – | – | (76,937) | (107,783) | 34.35 | 438,536 | 76.24 |
| | 5/3/2014 | 5/3/2017 - 4/3/2024 [3] | 2,837,839 | – | – | (67,963) | (2,211,131) | 37.56 | 558,745 | 78.96 |
| | 12/3/2015 | 12/3/2018 - 11/3/2025 [4] | 2,536,394 | – | – | (60,016) | (1,974,898) | 47.73 | 501,480 | 78.97 |
| | 9/3/2016 | 9/3/2019 - 8/3/2026 [5] | 3,202,674 | – | 3,202,674 | (254,789) | (2,465,242) | 41.90 | 482,643 | 78.72 |
| | 10/3/2017 | 10/3/2020 - 9/3/2027 [6] | 1,833,644 | – | – | (126,211) | – | 50.30 | 1,707,433 | n/a |
| | 15/3/2018 | 15/3/2021- 14/3/2028 [8] | 618,236 | – | – | (128,882) | – | 67.15 | 489,354 | n/a |
| | 27/3/2019 | 27/3/2022 - 26/3/2029 [9] | – | 578,686 | – | (102,344) | – | 76.38 | 476,342 | n/a |
| | 15/5/2019 | 1/5/2022 - 14/5/2029 [16] | – | 9,365 | – | – | – | 78.70 | 9,365 | n/a |

Notes:

(1) Includes share options outstanding as at 1 January 2019 for the retired Group Chief Executive and President, Mr. Mark Edward Tucker.

(2) The measurement date (i.e., the date used to determine the value of the awards for accounting purposes) for grants made during the year ended 30 November 2011 was determined to be 15 June 2011. The measurement date for grants made during the year ended 30 November 2012 was determined to be 15 March 2012. The measurement date for grants made during the year ended 30 November 2013 was determined to be 11 March 2013. The measurement dates for grants made during the year ended 30 November 2014 were determined to be 5 March 2014 and 14 April 2014. The measurement date for grants made during the year ended 30 November 2015 was determined to be 12 March 2015. The measurement date for grants made during the year ended 30 November 2016 was determined to be 9 March 2016. The measurement dates for grants made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement dates for grants made during the thirteen months ended 31 December 2018 were determined to be 15 March 2018 and 12 September 2018. The measurement dates for grants made during the financial year ended 31 December 2019 were determined to be 27 March 2019 and 15 May 2019. These measurement dates were determined in accordance with IFRS 2.

(3) The vesting of share options is service-based only. All share options vested on 5 March 2017.

(4) The vesting of share options is service-based only. All share options vested on 12 March 2018.

(5) The vesting of share options is service-based only. All share options vested on 9 March 2019.

(6) The vesting of share options is service-based only. All share options have vested on 10 March 2020.

(7) The vesting of share options is service-based only. All share options will vest on 1 June 2020.

(8) The vesting of share options is service-based only. All share options will vest on 15 March 2021.

(9) The closing price of the Company's shares immediately before the date on which share options were granted was HK$75.65. The vesting of share options is service-based only. All share options will vest on 27 March 2022.

(10) The vesting of share options is service-based only. All share options vested on 1 April 2014.

(11) The vesting of share options is service-based only. One-third of share options vested on 1 April 2014, one-third vested on 1 April 2015, and one third vested on 1 April 2016.

(12) The vesting of share options is service-based only. All share options vested on 15 March 2015.

(13) The vesting of share options is service-based only. All share options vested on 11 March 2016.

(14) The vesting of share options is service-based only. All share options vested on 14 April 2017.

(15) The vesting of share options is service-based only. All share options will vest on 12 September 2021.

(16) The closing price of the Company's shares immediately before the date on which share options were granted was HK$75.70. The vesting of share options is service-based only. All share options will vest on 1 May 2022.

(17) These share options lapsed or were reclassified during the financial year ended 31 December 2019. The reclassification of share options was a result of an executive who was previously categorised as "Other eligible employees and participants" becoming "Key Management Personnel" during this period. There were no cancelled share options during the financial year ended 31 December 2019.

(18) Includes share options outstanding as at 31 December 2019 that, in accordance with the SO Scheme rules, will lapse on or before the end of the respective periods during which the share options are exercisable.

## EMPLOYEE SHARE PURCHASE PLAN

The Company adopted the ESPP on 25 July 2011 (ESPP Adoption Date). The ESPP is designed to facilitate and encourage AIA share ownership by employees and provide a long-term retention mechanism.

Under the ESPP, eligible employees of the Group may elect to purchase the Company's shares and, after having been in the plan for three years, receive one restricted matching share for every two shares purchased through the grant of matching restricted stock purchase units (RSPUs). In 2019, each eligible employee's participation level was capped at a maximum purchase in any plan year of 8 per cent of the respective base salary or HK$9,750 (or local equivalent) per calendar month, whichever was lower.

Upon vesting of the matching RSPUs, those employees who are still in employment with the Group will receive one matching share for each RSPU which he or she holds. The matching shares can either be purchased on market by the trustee of the ESPP or provided to recipients through the issuance by the Company of new shares. The aggregate number of shares which can be issued by the Company under the ESPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ESPP Adoption Date. No new shares have been issued under the ESPP since its adoption. For further information on the ESPP, please refer to note 40 to the financial statements.

During the year ended 31 December 2019, 1,331,071 matching RSPUs were granted, 1,076,322 matching RSPUs vested and no new shares were issued for the RSPUs pursuant to the ESPP. Since the ESPP Adoption Date and up to 31 December 2019, a cumulative total of 4,555,626 matching RSPUs vested under the ESPP, representing approximately 0.038 per cent of the shares in issue as at the ESPP Adoption Date.

## DIRECTORS AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

### EXECUTIVE DIRECTOR

Mr. Ng Keng Hooi received remuneration exclusively for his role as Group Chief Executive and President and received no separate fees for his role as a Board Director or for acting as a director of any subsidiary companies.

The table below provides details of annual target level of remuneration, excluding benefits and allowances for the Group Chief Executive and President.

| | Annual Target Pay Opportunity [1] | |
|---|---|---|
| US$ thousands | 2019<br>Mr. Ng Keng Hooi | 2018<br>Mr. Ng Keng Hooi |
| Base Salary [2] | **1,080** | 1,030 |
| Target short-term incentive | **1,980** | 1,800 |
| Target long-term incentive | **3,960** | 3,600 |
| **Total Annual Target Pay Opportunity** | **7,020** | 6,430 |

Notes:
(1) The target remuneration levels shown in the table above exclude benefits and allowances. Mr. Ng Keng Hooi also received an annual housing allowance of HK$3,000,000.

(2) Mr. Ng Keng Hooi's base salary is paid in Hong Kong Dollars. The 2019 figure represents the annualised amount from 1 March 2019 (being the 2019 annual review salary effective date). Values indicated in the table above have been converted to U.S. dollars using exchange rates as of the end of each year.

Details of the actual remuneration costs incurred by the Company during the year ended 31 December 2019 in relation to the Group Chief Executive and President are included in note 41 to the financial statements.

### NON-EXECUTIVE DIRECTORS

Remuneration for the Independent Non-executive Directors was paid during the year ended 31 December 2019 and included fees for their services provided to the Board Committees. All remuneration of the Independent Non-executive Directors was on a flat annual fee basis, with no variable component linked to either corporate or individual performance.

Details of the Non-executive Directors' remuneration cost incurred by the Company during the year ended 31 December 2019 are included in note 41 to the financial statements.

### Board Chairman

As previously approved by the Board, the Board Chairman Basic Fees, inclusive of Board Membership fee, was US$542,000 per annum for the year ending 31 December 2019 and US$600,000 per annum effective 1 January 2020.

**Non-executive Directors**

Board Membership fees for the Non-executive Directors were US$168,000 per annum effective 1 January 2019 which is similar to market rates provided by our global insurance peers.

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

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

## KEY MANAGEMENT PERSONNEL

The total remuneration cost charged to the consolidated income statement for the Key Management Personnel during year ended 31 December 2019 was US$42,226,223.

Details of remuneration provided during the year ended 31 December 2019 are included in note 41 to the financial statements.

During the year ended 31 December 2019, the Remuneration Committee reviewed and approved the remuneration package for the incoming Group Chief Executive and President, Mr. Lee Yuan Siong. Mr. Lee will succeed Mr. Ng Keng Hooi as Group Chief Executive and President of the Company with effect from 1 June 2020. The term of Mr. Lee's service contract will be for three years starting in Q1 2020 and the Company has an option to renew with him for a further three years.

The remuneration for Mr. Lee for 2020 will comprise an annual base salary of HK$8,466,000, target short-term incentives of US$1,980,000 and target long-term incentive of US$3,960,000, making a total target annual remuneration of US$7,025,341. Mr. Lee will also be awarded compensation with a total value of US$28,151,124 for unvested long-term incentives and deferred payments that he forfeited on leaving his prior employment, details of which have been set out in the Company's announcement dated 22 November 2019. Mr. Lee's remuneration was set by the Remuneration Committee with reference to Mr. Lee's duties and responsibilities within the Group and the prevailing market conditions.

# FINANCIAL STATEMENTS


125 Independent Auditor's Report

132 Consolidated Income Statement

133 Consolidated Statement of Comprehensive Income

134 Consolidated Statement of Financial Position

136 Consolidated Statement of Changes in Equity

138 Consolidated Statement of Cash Flows

140 Notes to the Consolidated Financial Statements and Significant Accounting Policies

1. Corporate information
2. Significant accounting policies
3. Critical accounting estimates and judgements
4. Exchange rates
5. Change in Group composition
6. Premiums and fee income
7. Operating profit after tax
8. Total weighted premium income and annualised new premiums
9. Segment information
10. Revenue
11. Expenses
12. Income tax
13. Earnings per share
14. Dividends
15. Intangible assets
16. Investments in associates and joint venture
17. Property, plant and equipment
18. Investment property
19. Reinsurance assets
20. Deferred acquisition and origination costs
21. Financial investments
22. Derivative financial instruments
23. Fair value measurement
24. Other assets
25. Impairment of financial assets
26. Cash and cash equivalents
27. Insurance contract liabilities
28. Investment contract liabilities
29. Effect of changes in assumptions and estimates
30. Borrowings
31. Obligations under repurchase and securities lending agreements
32. Offsetting of financial assets and financial liabilities
33. Provisions
34. Other liabilities
35. Share capital and reserves
36. Non-controlling interests
37. Group capital structure
38. Risk management
39. Employee benefits
40. Share-based compensation
41. Remuneration of directors and key management personnel
42. Related party transactions
43. Commitments and contingencies
44. Subsidiaries
45. Events after the reporting period
46. Statement of financial position of the Company
47. Statement of changes in equity of the Company
48. Supplementary financial information on a calendar year basis

269 Independent Auditor's Report on the Supplementary Embedded Value Information

273 Supplementary Embedded Value Information

pwc

羅兵咸永道

**TO THE SHAREHOLDERS OF AIA GROUP LIMITED**
*(incorporated in Hong Kong with limited liability)*

## Opinion

*What we have audited*

The consolidated financial statements of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 132 to 268, 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.

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

pwc

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.<br><br>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.<br><br>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:<br><br>• 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.<br><br>• 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:<br><br>  • Obtaining an understanding of, and testing, the controls in place to determine the assumptions;<br><br>  • Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience; |

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

pwc

羅兵咸永道

## 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.<br><br>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.<br><br>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.<br><br>• 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.<br><br>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.<br><br>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:<br><br>• 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. |

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

pwc

羅兵咸永道

## 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.<br><br>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.

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

pwc 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.

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

pwc

羅兵咸永道

**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.

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

pwc

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.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong

12 March 2020

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

# CONSOLIDATED INCOME STATEMENT

| US$m | Notes | Year ended 31 December 2019 | Thirteen months ended 31 December 2018 |
|---|---|---|---|
| **REVENUE** | | | |
| Premiums and fee income | 6 | **34,777** | 33,881 |
| Premiums ceded to reinsurers | | **(2,166)** | (1,968) |
| Net premiums and fee income | | **32,611** | 31,913 |
| Investment return | 10 | **14,350** | 4,077 |
| Other operating revenue | 10 | **281** | 307 |
| **Total revenue** | | **47,242** | 36,297 |
| **EXPENSES** | | | |
| Insurance and investment contract benefits | | **33,400** | 26,383 |
| Insurance and investment contract benefits ceded | | **(1,940)** | (1,787) |
| **Net insurance and investment contract benefits** | | **31,460** | 24,596 |
| Commission and other acquisition expenses | | **4,283** | 4,136 |
| Operating expenses | | **2,468** | 2,366 |
| Finance costs | | **283** | 228 |
| Other expenses | | **845** | 801 |
| **Total expenses** | 11 | **39,339** | 32,127 |
| **Profit before share of losses from associates and joint ventures** | | **7,903** | 4,170 |
| Share of losses from associates and joint ventures | | **(8)** | – |
| **Profit before tax** | | **7,895** | 4,170 |
| Income tax (expense)/credit attributable to policyholders' returns | | **(179)** | 51 |
| **Profit before tax attributable to shareholders' profits** | | **7,716** | 4,221 |
| Tax expense | 12 | **(1,208)** | (944) |
| Tax attributable to policyholders' returns | | **179** | (51) |
| Tax expense attributable to shareholders' profits | | **(1,029)** | (995) |
| **Net profit** | | **6,687** | 3,226 |
| *Net profit attributable to:* | | | |
| **Shareholders of AIA Group Limited** | | **6,648** | 3,163 |
| Non-controlling interests | | **39** | 63 |
| **EARNINGS PER SHARE (US$)** | | | |
| 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 |

| 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 |

Approved and authorised for issue by the Board of Directors on 12 March 2020.

**Ng Keng Hooi**
*Director*

**Edmund Sze-Wing Tse**
*Director*

# 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 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 |

| 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) |

| 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] | 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<br><br>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<br>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)<br>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<br>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)

| | 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 | | | | | | | | |
| **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)

| | 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 | | | | | | | | |
| **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<br>• Expenses<br>• Mortality<br>• 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<br>• Expenses<br>• Mortality<br>• Surrenders<br>• 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<br>• Morbidity<br>• Lapses<br>• 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<br>• Morbidity<br>• Lapses<br>• 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<br>• Lapses<br>• Expenses<br>• 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<br>• Crediting rates<br>• Lapses<br>• Expenses<br>• 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<br>• Guarantees | • Net neutral except for the insurer's share of participating investment performance<br>• Guarantees | • Investment performance subject to smoothing through dividend declarations | • Impact of persistency on future dividends<br>• Mortality |
| | Other participating business | • Net neutral except for the insurer's share of participating investment performance<br>• Guarantees | • Net neutral except for the insurer's share of participating investment performance<br>• Guarantees | • Investment performance subject to smoothing through dividend declarations | • Impact of persistency on future dividends<br>• Mortality<br>• Morbidity |
| Traditional non-participating life assurance | | • Guarantees<br>• Asset-liability mismatch risk | • Investment performance<br>• Asset-liability mismatch risk<br>• Credit risk | • Not applicable | • Mortality<br>• Persistency<br>• Morbidity |
| Accident and health | | • Asset-liability mismatch risk | • Investment performance<br>• Credit risk<br>• Asset-liability mismatch risk | • Not applicable | • Morbidity<br>• Persistency |
| Pension | | • Net neutral<br>• Asset-liability mismatch risk | • Net neutral<br>• Asset-liability mismatch risk | • Performance-related investment management fees | • Persistency |
| Unit-linked | | • Net neutral | • Net neutral | • Performance-related investment management fees | • Persistency<br>• Mortality |
| Universal life | | • Guarantees<br>• Asset-liability mismatch risk | • Investment performance<br>• Credit risk<br>• Asset-liability mismatch risk | • Spread between earned rate and crediting rate to policyholders | • Mortality<br>• Persistency<br>• 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 | | As at 31 December 2018 | |
|---|---|---|---|---|---|---|---|
| | | | | Group's interest % | NCI's interest % | Group's interest % | NCI's interest % |
| AIA Company Limited[1] | Hong Kong | Insurance | 2,596,049,861 ordinary shares of US$7,407,084,182 issued share capital | **100%** | **–** | 100% | – |
| AIA International Limited | Bermuda | Insurance | 3,000,000 ordinary shares of US$1.20 each | **100%** | **–** | 100% | – |
| AIA Australia Limited | Australia | Insurance | 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).

Approved and authorised for issue by the Board of Directors on 12 March 2020.

**Ng Keng Hooi**
*Director*

**Edmund Sze-Wing Tse**
*Director*

## 47. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

| US$m | Share capital | Employee share-based trusts | Other reserves | Retained earnings | Amounts reflected in other comprehensive income | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 1 January 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<br>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<br>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 |

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 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 273 to 298, 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.

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

pwc

羅兵咸永道

**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.

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

pwc

羅兵咸永道

**Responsibilities of Directors and Those Charged with Governance for the EV Information**

The Directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information and for such internal control as the Directors determine is necessary to enable the preparation of the EV Information that is free from material misstatement, whether due to fraud or error.

In preparing the EV Information, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters 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.

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

pwc

羅兵咸永道

**Auditor's Responsibilities for the Audit of the EV Information** (continued)

- Evaluate the appropriateness of the EV basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the EV Information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the EV Information of the entities or business activities within the Group to express an opinion on the EV Information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lars Christian Jordy Nielsen.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong

12 March 2020

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

## 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).

## FINANCIAL CALENDAR

| | |
|---|---|
| Announcement of 2019 Annual Results for the year ended 31 December 2019 | 12 March 2020 |
| Book Close Period for the AGM | 26 May 2020 to 29 May 2020 (both days inclusive) |
| Date of the AGM | 29 May 2020 |
| Announcement of 2020 Interim Results | 20 August 2020 |

## ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. (Hong Kong time) on Friday, 29 May 2020 at the Grand Ballroom, Lower Level I, Kowloon Shangri-La, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. Details of the business to be transacted at the AGM are set out in the circular to be sent to the shareholders of the Company on or before 27 April 2020.

Details of voting results at the AGM can be found on the websites of both the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and the Company at www.aia.com on Friday, 29 May 2020 after the AGM.

## FINAL DIVIDEND

The Board has recommended an increase in the payment of a final dividend of 10 per cent to 93.30 Hong Kong cents per share for the year ended 31 December 2019 (for the thirteen-month period ended 31 December 2018: 84.80 Hong Kong cents per share), consistent with AIA's established prudent, sustainable and progressive dividend policy.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Friday, 19 June 2020 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 4 June 2020, being the record date for determining the entitlements to the final dividend.

## RELEVANT DATES FOR THE FINAL DIVIDEND

| | |
|---|---|
| Ex-dividend date | Wednesday, 3 June 2020 |
| Record date | Thursday, 4 June 2020 |
| Payment date | Friday, 19 June 2020 |

## ANNUAL STATEMENT ISSUED PURSUANT TO THE OFFSHORE FUND TAX EXEMPTION REGIME IN SINGAPORE

An indirect wholly-owned subsidiary of the Company, AIA Investment Management Private Limited, was incorporated in Singapore on 15 June 2016. Its businesses include the management of certain assets of the Company and its subsidiaries and branches, and it is required by the Income Tax (Exemption of Income of Prescribed Persons Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010 to issue an annual statement to each shareholder of the Company. To comply with the above legal requirement in Singapore, an annual statement containing the profit and market capitalisation information of the Company is available on the Company's website. You may visit the Company's website by clicking "Annual Statements issued pursuant to The Offshore Fund Tax Exemption Regime In Singapore" under the sub-section headed "Shareholder Centre" in the section headed "Investor Relations" to view the annual statement.

## SHARE REGISTRAR

If you have any enquiries relating to your shareholding, please contact the Company's share registrar with the contact details set out below:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: +852 2862 8555
Email: hkinfo@computershare.com.hk (for general enquiries)
aia.ecom@computershare.com.hk (for printed copies of the Company's corporate communications)
Website: www.computershare.com

## ANNUAL REPORT

The English and Chinese versions of this Annual Report are available on the website of the Company. If you would like to have a printed version of this Annual Report, please contact the Company's share registrar using the contact details provided above.

The Company makes every effort to ensure consistency between the Chinese and English versions of this Annual Report. In the event of any inconsistency, the English version shall prevail.

For environmental and cost reasons, shareholders are encouraged to elect to receive corporate communications (as defined in the Listing Rules) electronically. You may at any time send written notice to the Company c/o the Company's share registrar or via email at aia.ecom@computershare.com.hk specifying your name, address and request to change your choice of language or means of receipt of all corporate communications.

## INVESTMENT COMMUNITY AND NEWS MEDIA

Enquiries may be directed to:

| Investment Community | | News Media | |
|---|---|---|---|
| Lance Burbidge | +852 2832 1398 | Stephen Thomas | +852 2832 6178 |
| Evelyn Lam | +852 2832 1633 | Emerald Ng | +852 2832 4720 |
| Feon Lee | +852 2832 4704 | | |
| Rachel Poon | +852 2832 4792 | | |

## FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

When used in this document, the words "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group or the Group's management, are intended to identify forward-looking statements. These forward-looking statements reflect the Group's views as of the date hereof with respect to future events and are not a guarantee of future performance or developments. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including any changes in the laws, rules and regulations relating to any aspects of the Group's business operations, general economic, market and business conditions, including capital market developments, changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the actions and developments of the Group's competitors and the effects of competition in the insurance industry on the demand for, and price of, the Group's products and services, various business opportunities that the Group may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, the Group's ability to identify, measure, monitor and control risks in the Group's business, including its ability to manage and adapt its overall risk profile and risk management practices, its ability to properly price its products and services and establish reserves for future policy benefits and claims, seasonal fluctuations and factors beyond the Group's control. Subject to the requirements of the Listing Rules, the Group does not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, forward-looking events and circumstances discussed in this document might not occur in the way the Group expects, or at all. Accordingly, you should not place reliance on any forward-looking information or statements. All forward-looking statements in this document are qualified by reference to the cautionary statements set forth in this section.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Independent Non-executive Chairman and Independent Non-executive Director**
Mr. Edmund Sze-Wing Tse

**Executive Director, Group Chief Executive and President**
Mr. Ng Keng Hooi

**Independent Non-executive Directors**
Mr. Jack Chak-Kwong So
Mr. Chung-Kong Chow
Mr. John Barrie Harrison
Mr. George Yong-Boon Yeo
Mr. Mohamed Azman Yahya
Professor Lawrence Juen-Yee Lau
Ms. Swee-Lian Teo
Dr. Narongchai Akrasanee
Mr. Cesar Velasquez Purisima

## AUDIT COMMITTEE
Mr. John Barrie Harrison *(Chairman)*
Mr. Jack Chak-Kwong So
Mr. George Yong-Boon Yeo
Dr. Narongchai Akrasanee

## NOMINATION COMMITTEE
Mr. Edmund Sze-Wing Tse *(Chairman)*
Mr. Jack Chak-Kwong So
Mr. Chung-Kong Chow
Mr. John Barrie Harrison
Mr. George Yong-Boon Yeo
Mr. Mohamed Azman Yahya
Professor Lawrence Juen-Yee Lau
Ms. Swee-Lian Teo
Dr. Narongchai Akrasanee
Mr. Cesar Velasquez Purisima

## REMUNERATION COMMITTEE
Mr. Jack Chak-Kwong So *(Chairman)*
Mr. George Yong-Boon Yeo
Mr. Mohamed Azman Yahya
Mr. Edmund Sze-Wing Tse

## RISK COMMITTEE
Mr. Chung-Kong Chow *(Chairman)*
Mr. John Barrie Harrison
Professor Lawrence Juen-Yee Lau
Ms. Swee-Lian Teo
Mr. Edmund Sze-Wing Tse
Mr. Ng Keng Hooi

## REGISTERED OFFICE
35/F, AIA Central
No. 1 Connaught Road Central
Hong Kong

## WEBSITE
www.aia.com

## COMPANY SECRETARY
Ms. Nicole Pao

## AUTHORISED REPRESENTATIVES
Mr. Ng Keng Hooi
Ms. Nicole Pao

## SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

## PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
Standard Chartered Bank

## AUDITOR
PricewaterhouseCoopers
*Certified Public Accountant*

# GLOSSARY

| | |
|---|---|
| active agent | An agent who sells at least one policy per month. |
| active market | A market in which all the following conditions exist:<br>• the items traded within the market are homogeneous;<br>• willing buyers and sellers can normally be found at any time; and<br>• prices are available to the public.<br><br>A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. |
| adjusted net worth or ANW | ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis. |
| AER | Actual exchange rates. |
| AGM | 2020 Annual General Meeting of the Company to be held at 11:00 a.m. (Hong Kong time) on Friday, 29 May 2020. |
| AIA or the Group | AIA Group Limited and its subsidiaries. |
| AIA Co. | AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company. |
| AIA International | AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company. |
| AIA Vitality | A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa. |
| AIG | American International Group, Inc. |

| | |
|---|---|
| ALC | The AIA Leadership Centre located in Bangkok, Thailand. |
| amortised cost | The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. |
| annualised new premiums or ANP | ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums. |
| ASPP | Agency Share Purchase Plan, adopted by the Company on 23 February 2012, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents. |
| 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 | The board of Directors. |
| CBA | Commonwealth Bank of Australia. |
| CER | Constant exchange rates. Change on constant exchange rates is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for balance sheet items as at the end of the current year and as at the end of the prior year, which is translated using the constant exchange rates. |
| CMLA | The Colonial Mutual Life Assurance Society Limited (including its affiliated companies), one of the largest life insurance providers in Australia. |
| Company | AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299). |

| | |
|---|---|
| consolidated investment funds | Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds. |
| Corporate Governance Code | Corporate Governance Code set out in Appendix 14 to the Listing Rules. |
| cost of capital or CoC | CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis. |
| COVID-19 | COVID-19 is the infectious disease caused by a recently identified coronavirus. |
| Dealing Policy | Directors' and Chief Executives' Dealing Policy of the Company. |
| deferred acquisition costs or DAC | Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. Such assets are tested for recoverability at least annually. |
| deferred origination costs or DOC | Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability. |
| Director(s) | The director(s) of the Company. |
| embedded value or EV | An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis. |
| EPS | Earnings per share. |

| | |
|---|---|
| equity attributable to shareholders of the Company on the embedded value basis or EV Equity | EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company. |
| ESPP | Employee Share Purchase Plan, adopted by the Company on 25 July 2011 (as amended), a voluntary share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees. |
| ExCo | The Executive Committee of the Group. |
| fair value through profit or loss or FVTPL | Under IAS 39, Financial Instruments: Recognition and Measurement, financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year. |
| first half | The six months from 1 January to 30 June. |
| first year premiums | First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold. |
| free surplus | ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements. |
| group insurance | An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf. |
| Group Office | Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions. |
| 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. |

| | |
|---|---|
| Hong Kong | The Hong Kong Special Administrative Region (SAR) of the People's Republic of China (the PRC); in the context of our reportable market segments, Hong Kong includes Macau SAR. |
| Hong Kong Companies Ordinance | Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time. |
| Hong Kong Insurance Ordinance or HKIO | Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. |
| Hong Kong Stock Exchange or HKSE | The Stock Exchange of Hong Kong Limited. |
| IAIS | International Association of Insurance Supervisors. |
| IAS | International Accounting Standards. |
| IASB | International Accounting Standards Board. |
| IFA | Independent financial adviser. |
| IFRS | Standards and interpretations adopted by the IASB comprising:<br>• International Financial Reporting Standards;<br>• IAS; and<br>• Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC). |
| ING Malaysia | ING Management Holdings (Malaysia) Sdn. Bhd. |
| Interactive Mobile Office or 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 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. |
| liability adequacy testing | An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows. |
| Listing Rules | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. |
| Million Dollar Round Table or MDRT | MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards. |
| Model Code | Model Code for Securities Transactions of Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. |
| net funds to Group Corporate Centre | In presenting net capital in/(out) flows to reportable market segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable market segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends. |
| n/a | Not available. |
| n/m | Not meaningful. |
| operating profit after tax or OPAT | Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information. |
| operating return on EV or operating ROEV | Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value. |

| | |
|---|---|
| operating return on shareholders' allocated equity or operating ROE | Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity. |
| OTC | Over-the-counter. |
| other participating business with distinct portfolios | Business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. |
| participating funds | Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation. |
| persistency | The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums. |
| Philam Life | The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. |
| policyholder and shareholder investments | Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds. |
| pps | Percentage points. |
| protection gap | The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner. |
| puttable liabilities | A puttable financial instrument is one in which the holder of the instrument has the right to put the instrument back to the issuer for cash (or another financial asset). Units in investment funds such as mutual funds and open-ended investment companies are typically puttable instruments. As these can be put back to the issuer for cash, the non-controlling interests in any such funds which have to be consolidated by AIA are treated as financial liabilities. |
| PVNBP margin | VONB excluding pension business, expressed as a percentage of present value of new business premiums (PVNBP). PVNBP margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. |

| | |
|---|---|
| regulatory minimum capital | Net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. |
| renewal premiums | Premiums receivable in subsequent years of a recurring premium policy. |
| rider | A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums. |
| Risk-Based Capital or RBC | RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments. |
| RSPUs | Restricted stock purchase units. |
| RSSUs | Restricted stock subscription units. |
| RSU Scheme | Restricted Share Unit Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may grant restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. |
| second half | The six months from 1 July to 31 December. |
| SFO | Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong), as amended from time to time. |
| share(s) | For the Company, shall mean ordinary share(s) in the capital of the Company. |
| shareholders' allocated equity | Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve. |
| Singapore | The Republic of Singapore; in the context of our reportable market segments, Singapore includes Brunei. |
| single premium | A single payment that covers the entire cost of an insurance policy. |

| | |
|---|---|
| SO Scheme | Share Option Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may grant share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. |
| 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 Limited on 2 August 2019), a licensed insurer in New Zealand. |
| Takaful | Islamic insurance which is based on the principles of mutual assistance and risk sharing. |
| Tata AIA Life | Tata AIA Life Insurance Company Limited. |
| total weighted premium income or TWPI | TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums. |
| underlying free surplus generation or UFSG | Underlying free surplus generation represents free surplus generated from the in-force business, adjusted for certain non-recurring items. It excludes free surplus used to fund new business, unallocated group office expenses, investment variances and other non-operating items. UFSG for AIA is stated after reflecting consolidated reserving and capital requirements. |
| unit-linked investments | Financial investments held to back unit-linked contracts. |
| unit-linked products | Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges. |

| | |
|---|---|
| universal life | A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge. |
| value of business acquired or VOBA | VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement. |
| value of in-force business or VIF | VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis. |
| value of new business or VONB | VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis. |
| VONB margin | VONB excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis. |
| working capital | Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations. |

AIA GROUP LIMITED 友邦保險控股有限公司

ANNUAL REPORT 2019

AIA.COM

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC™ C021898