This announcement and the listing document referred to herein have been published for information purposes only as required by the Listing Rules (as defined below) and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever. *For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

This announcement is for information purposes only, and does not constitute an invitation or solicitation of an offer to acquire, purchase or subscribe for securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities.

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Notice to Hong Kong investors*: The Issuer confirms that the Instruments are intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Instruments are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

PUBLICATION OF SUPPLEMENTAL OFFERING CIRCULAR ON THE STOCK EXCHANGE OF HONG KONG LIMITED

AIA Group Limited

友 邦 保 險 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code: 1299

(the "**Issuer**")

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

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

Please refer to the supplemental offering circular dated 18 August 2021 (the "**Supplemental Offering Circular**") appended hereto in relation to the US$12,000,000,000 Global Medium Term Note and Securities Programme (the "**Programme**"), which is supplemental to the offering circular dated 16 March 2021 (the "**Original Offering Circular**", and together with the Supplemental Offering Circular, the "**Offering Circular**"). A copy of the Original Offering Circular is available at https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0317/2021031700222.pdf. As disclosed in the Offering Circular, the instruments (the "**Instruments**") to be issued under the Programme will be intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

Hong Kong, 19 August 2021

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

AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1299)

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

This Supplemental Offering Circular (the "**Supplemental Offering Circular**") is supplemental to, and should be read in conjunction with, the Offering Circular dated 16 March 2021 (the "**Original Offering Circular**", and together with this Supplemental Offering Circular, the "**Offering Circular**") and all other documents that are deemed to be incorporated by reference therein in relation to the Global Medium Term Note and Securities Programme (the "**Programme**") established by AIA Group Limited (the "**Issuer**"). Save to the extent defined in this Supplemental Offering Circular, terms defined or otherwise attributed meanings in the Original Offering Circular have the same meaning when used in this Supplemental Offering Circular. References in the Original Offering Circular and this Supplemental Offering Circular to "this Offering Circular" or "the Offering Circular" mean the Original Offering Circular as supplemented by this Supplemental Offering Circular. To the extent that the Original Offering Circular is inconsistent with this Supplemental Offering Circular, the terms of this Supplemental Offering Circular shall prevail.

The Programme is listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**" or "**HKSE**").This Supplemental Offering Circular is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the "**Professional Investors**") only.

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

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

Arranger

Citigroup

Dealers

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

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

The date of this Supplemental Offering Circular is 18 August 2021.

DISCLAIMERS

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

SIGNIFICANT / MATERIAL CHANGE

Since 30 June 2021, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position of the Issuer and the Group.

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RECENT DEVELOPMENTS

PARTNERSHIP WITH THE BANK OF EAST ASIA AND ACQUISITION OF BEA LIFE LIMITED

On 24 March 2021, we announced that we had entered into an exclusive 15 year strategic bancassurance partnership with The Bank of East Asia ("**BEA**") covering Hong Kong and Mainland China. We will pay a total consideration of approximately US$650 million for the distribution partnership with BEA and for the acquisition of 100% of BEA Life Limited, a wholly-owned subsidiary of BEA. We will also acquire a closed portfolio of life insurance policies underwritten by Blue Cross (Asia-Pacific) Insurance Limited. As at 17 August 2021, the necessary regulatory approval for the acquisition of the shares of BEA Life Limited has been obtained and the completion of that acquisition is expected to take place shortly.

RATINGS CHANGES

On 29 March 2021, S&P Global Ratings revised our long-term issuer credit ratings to A+ with a "stable" outlook from A with a "positive" outlook.

On 14 May 2021, Moody's Investors Service revised our long-term issuer credit rating to A1 with a "stable" outlook from A2 with a "Ratings under Review" outlook.

MANAGEMENT UPDATE

On 31 May 2021, we announced the appointment of Ms. Jie Sun (Jane) as an Independent Non-executive Director of the Issuer with effect from 1 June 2021.

Ms. Sun, aged 52, is the chief executive officer and a member of the board of directors of Trip.com (listed on the Hong Kong Stock Exchange and the Nasdaq Global Select Market), one of the leading global travel services companies that operates the sub-brands Trip.com, Ctrip, Skyscanner and Qunar. Ms. Sun is a director of Tripadvisor, Inc. and MakeMyTrip, both listed on the Nasdaq Global Select Market. She is also an independent director of iQIYI, Inc. (listed on the Nasdaq Global Select Market) and TAL Education Group (listed on the New York Stock Exchange). Ms. Sun has extensive experience in operating and managing online travel businesses, mergers and acquisitions, and financial reporting and operations.

Ms. Sun received her Bachelor's degree from the business school of the University of Florida with high honors. She also obtained a LLM degree from Peking University Law School. She is a member of the American Institute of Certified Public Accountants.

INVESTMENT IN CHINA POST LIFE

On 29 June 2021, we announced that we had reached an agreement to invest RMB12,033 million (approximately US$1,860 million) through AIA Company Limited ("**AIA Co.**") for a 24.99% equity stake (post investment) in China Post Life Insurance Co., Ltd. The completion of the transaction remains subject to securing all necessary regulatory approvals.

ESTABLISHMENT OF NEW BRANCH IN HUBEI

In June 2021, AIA China received approval from the China Banking and Insurance Regulatory Commission ("**CBIRC**") to begin preparations to establish a new branch in Hubei province. Hubei has a fast-growing economy and ranks eighth by GDP by province in Mainland China. The approval is a further step in our geographical expansion strategy in Mainland China.

TOTAL CAPITALISATION

The following table sets out the consolidated Total Capitalisation (as defined below) of the Group as derived from the 2021 interim condensed consolidated financial statements. The table should be read in conjunction with the 2021 interim condensed consolidated financial statements and the notes thereto included elsewhere in this Supplemental Offering Circular.

	As of 30 June 2021 (Unaudited)
	(in US$ millions)
Other loans	11
Medium term notes and securities[(1)]	9,171
Total Borrowings	**9,182**
Equity	
Share capital	14,159
Employee share-based trusts	(225)
Other reserves	(11,877)
Retained earnings	46,391
Fair value reserve	10,073
Foreign currency translation reserve	(586)
Property revaluation reserve	1,048
Others	(39)
Non-controlling interests	473
Total Equity	**59,417**
Total Capitalisation[(2)]	**68,599**

(1) Represents our outstanding medium term notes and securities placed to the market as of 30 June 2021.
(2) Total Capitalisation is the sum of Total Borrowings plus Total Equity.

There has been no material change in our Total Capitalisation since 30 June 2021.

SELECTED INTERIM CONSOLIDATED FINANCIAL AND OTHER DATA

The tables set forth below show certain selected historical consolidated financial information and other data of the Group. The financial information as at and for the six months ended 30 June 2021 and 2020 set forth below has been derived from our unaudited interim condensed consolidated financial statements (the "2021 interim condensed consolidated financial statements") included elsewhere in this Supplemental Offering Circular. The information on VONB for the six months ended 30 June 2021 and 2020 and the information on EV Equity as at 30 June 2021 and 31 December 2020 set forth below has been derived from the "*Supplementary Embedded Value Information*" included elsewhere in this Supplemental Offering Circular. The selected historical consolidated financial and other data should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" set forth in the Original Offering Circular and the 2021 interim condensed consolidated financial statements and the information in the "*Supplementary Embedded Value Information*" included elsewhere in this Supplemental Offering Circular.

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

CONSOLIDATED INCOME STATEMENT

(in US$ millions)	Six months ended 30 June (Unaudited) 2021	Six months ended 30 June (Unaudited) 2020
Revenue		
Premiums and fee income	18,609	17,268
Premiums ceded to reinsurers	(1,361)	(1,135)
Net premiums and fee income	17,248	16,133
Investment return	6,780	3,381
Other operating revenue	166	150
Total revenue	**24,194**	**19,664**
Expenses		
Insurance and investment contract benefits	17,272	13,930
Insurance and investment contract benefits ceded	(1,202)	(899)
Net insurance and investment contract benefits	16,070	13,031
Commission and other acquisition expenses	2,267	2,157
Operating expenses	1,439	1,242
Finance costs	176	143
Other expenses	530	519
Total expenses	**20,482**	**17,092**
Profit before share of profit from associates and joint ventures	**3,712**	**2,572**
Share of profit from associates and joint ventures	2	2
Profit before tax	**3,714**	**2,574**
Income tax credit/(expense) attributable to policyholders' returns	72	(23)
Profit before tax attributable to shareholders' profits	**3,786**	**2,551**
Tax expense	(445)	(391)
Tax attributable to policyholders' returns	(72)	23
Tax expense attributable to shareholders' profits	(517)	(368)
Net profit	**3,269**	**2,183**
Less: amounts attributable to non-controlling interests	24	(14)
Net profit attributable to shareholders of the Issuer	**3,245**	**2,197**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in US$ millions)	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Unaudited)
Assets		
Intangible assets	2,569	2,634
Investments in associates and joint ventures	676	606
Property, plant and equipment	2,703	2,722
Investment property	4,579	4,639
Reinsurance assets	4,830	4,560
Deferred acquisition and origination costs	28,374	27,915
Financial investments:		
Loans and deposits	9,569	9,335
Available for sale		
Debt securities	159,298	165,106
At fair value through profit or loss		
Debt securities	37,731	36,775
Equity securities	65,106	59,182
Derivative financial instruments	915	1,069
Total financial investments	272,619	271,467
Deferred tax assets	32	23
Current tax recoverable	89	103
Other assets	6,271	5,833
Cash and cash equivalents	7,149	5,619
Total assets	**329,891**	**326,121**
Liabilities		
Insurance contract liabilities	228,276	223,071
Investment contract liabilities	12,859	12,881
Borrowings	9,182	8,559
Obligations under repurchase agreements	3,447	1,664
Derivative financial instruments	1,836	1,003
Provisions	225	230
Deferred tax liabilities	5,835	6,902
Current tax liabilities	446	346
Other liabilities	8,368	7,797
Total liabilities	**270,474**	**262,453**
Equity		
Share capital	14,159	14,155
Employee share-based trusts	(225)	(155)
Other reserves	(11,877)	(11,891)
Retained earnings	46,391	44,704
Fair value reserve	10,073	15,170
Foreign currency translation reserve	(586)	233
Property revaluation reserve	1,048	1,027
Others	(39)	(43)
Amounts reflected in other comprehensive income	10,496	16,387
Total equity attributable to shareholders of the Issuer	**58,944**	**63,200**
Non-controlling interests	473	468
Total equity	**59,417**	**63,668**
Total liabilities and equity	**329,891**	**326,121**

OTHER DATA

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

	For the six months ended 30 June	
(in US$ millions, except ratios)	**2021**	**2020**
VONB(1)	**1,814**	**1,410**
ANP(1)	**3,060**	**2,579**
TWPI(1)	**18,511**	**16,926**
OPAT(1)(2)	**3,182**	**2,933**

	As at 30 June 2021	**As at 31 December 2020**
EV Equity(1)	**70,102**	**67,185**
Group LCSM Cover Ratio(1)(3)	**412%**	**374%**
Leverage Ratio(4)	**13.4%**	**11.9%**

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

(2) For a reconciliation of OPAT to net profit, see note 4 to our 2021 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular. OPAT is calculated before non-operating investment returns and other items, net of tax.

(3) This ratio as at 31 December 2020 was based on the Group's understanding of the likely application of the GWS framework to the Group at the time and included US$1,735 million of subordinated securities but excluded US$5,810 million of senior notes that had not yet been approved to contribute to Group available capital. The calculation basis as at 31 December 2020 is largely consistent with that applied to the Group LCSM Cover Ratio as at 30 June 2021 with the key difference being the treatment of senior notes. For more information see *"Interim Results – Group LCSM Solvency Position"* and *"Regulatory and International Developments".*

(4) The leverage ratio is calculated by dividing Total Borrowings by Total Capitalisation, each as set out or defined in "*Total Capitalisation*" in the Original Offering Circular.

INTERIM FINANCIAL REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2021

The management discussion and analysis below covers the financial results for the six months period from 1 January 2021 to 30 June 2021 for the current period and for the six months period from 1 January 2020 to 30 June 2020 for the prior period. All figures included in this Supplemental Offering Circular are presented in actual reporting currency (U.S. dollar) and based on actual exchange rates unless otherwise stated.

New Business Performance

VONB, ANP AND VONB MARGIN BY SEGMENT

US$ millions, unless otherwise stated	Six months ended 30 June 2021 VONB	Six months ended 30 June 2021 VONB Margin	Six months ended 30 June 2021 ANP	Six months ended 30 June 2020 VONB	Six months ended 30 June 2020 VONB Margin	Six months ended 30 June 2020 ANP	VONB Change %
Mainland China	738	82.1%	899	594	81.8%	726	24%
Hong Kong	313	57.5%	505	306	51.0%	565	2%
Thailand	312	93.5%	333	199	63.9%	312	57%
Singapore	176	63.2%	279	127	59.3%	214	39%
Malaysia	157	61.7%	253	81	50.5%	159	94%
Other Markets	253	32.1%	791	240	39.7%	603	5%
Subtotal	**1,949**	**62.9%**	**3,060**	**1,547**	**59.3%**	**2,579**	**26%**
Adjustment to reflect consolidated reserving and capital requirements	(31)	n/m	n/m	(50)	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(88)	n/m	n/m	(77)	n/m	n/m	n/m
Total before non-controlling interests	**1,830**	**59.0%**	**3,060**	**1,420**	**54.4%**	**2,579**	**29%**
Non-controlling interests	(16)	n/m	n/m	(10)	n/m	n/m	n/m
Total	**1,814**	**59.0%**	**3,060**	**1,410**	**54.4%**	**2,579**	**29%**

VONB increased by 29% to US$1,814 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, reflecting our geographical diversification across Asia, our market-leading positions and the strength of our multi-channel distribution. Growth in VONB was broad-based with 11 markets reporting a strong increase and all of our reportable segments (except Hong Kong) exceeding the pre-pandemic levels in the six months ended 30 June 2019.

VONB from our agency channel increased by 32% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020 and accounted for 82% of the Group's total VONB. While travel restrictions continue to limit sales to Mainland Chinese visitors which resulted in a reduction in VONB from the retail IFA channel in Hong Kong, VONB from our partnership distribution channel remained broadly stable for the six months ended 30 June 2021 compared to the six months ended 30 June 2020.

ANP increased by 19% to US$3,060 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020 primarily due to growth in Malaysia, Singapore and Mainland China. VONB margin increased by 4.6 percentage points to 59.0% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, driven by a shift in product mix towards protection and unit-linked business, higher government bond yields and a reduction in acquisition expense overruns reflecting the strong recovery in new business volumes.

VONB from AIA China increased 24% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. Our agency force remained a key competitive advantage as a high adoption level for our comprehensive suite of digital tools supported a strong improvement in productivity in the six months ended 30 June 2021 compared to the six months ended 30 June 2020. The VONB in the six months ended 30 June 2021 was presented after deducting withholding tax of US$38 million. The VONB in the six months ended 30 June 2020, which was generated from the Shanghai branch of AIA Co. before the incorporation of the subsidiary in Mainland China, was presented before deducting any withholding tax. Excluding the impact of the 5% withholding tax applied from July 2020, VONB from AIA China increased 31% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020.

VONB from AIA Hong Kong grew by 2% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. VONB from our domestic customer segment increased by 16% in the six months ended 30 June 2021 compared to the six months ended 30 June 2020. These results were partly offset by reduced sales to the Mainland Chinese visitor customer segment. Our Premier Agency remained the market leader in agency distribution, which was supported by an increase in new recruits. Sales to Mainland Chinese visitors in our Macau branch has significantly increased and contributed over one-third of AIA Macau's total ANP in the six months ended 30 June 2021.

VONB from AIA Thailand increased by 57% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, which was higher than the pre-pandemic level in the six months ended 30 June 2019. These results were supported by a shift in product mix towards traditional protection and regular premium unit-linked products, which increased VONB margin from 63.9% for the six months ended 30 June 2020 to 93.5% for the six months ended 30 June 2021.

VONB from AIA Singapore increased by 39% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, driven by strong improvement in agency productivity, as we continued to support our Premier Agency by enhancing our digital tools and platforms.

VONB from AIA Malaysia increased by 94% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, which was 21% higher than the pre-pandemic level in the six months ended 30 June 2019, driven by a strong increase in VONB from our agency and bancassurance channels.

VONB from Other Markets increased by 5% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. VONB for the six months ended 30 June 2020 included the one-off contribution from the purchase of mortality cover by the Commonwealth Bank of Australia ("**CBA**") in the six months ended 30 June 2020. Excluding this one-off contribution, Other Markets reported 17% VONB growth. VONB growth was driven by Indonesia, South Korea and Vietnam.

EV Equity

EV Equity was US$70,102 million as at 30 June 2021 compared to US$67,185 million as at 31 December 2020, driven by EV operating profit of US$4,092 million and positive investment return variances of US$1,019 million, which reflected a rise in government bond yields and a strong equity market performance. Long-term economic assumptions remained unchanged from those reported as at 31 December 2020.

EV EQUITY

US$ millions, unless otherwise stated	**As at 30 June 2021**	**As at 31 December 2020**
EV	**68,179**	**65,247**
Goodwill and other intangible assets(1)	1,923	1,938
EV Equity	**70,102**	**67,185**

Note:
(1) Consistent with the 2021 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular. Net of tax, amounts attributable to participating funds and non-controlling interests.

EV OPERATING PROFIT

EV operating profit increased by US$214 million to US$4,092 million for the six months ended 31 June 2021 compared to the six months ended 30 June 2020. EV operating profit for the six months ended 30 June 2021 included US$363 million from positive operating variances as our overall experience has continued to be positive compared with our EV assumptions.

EV MOVEMENT

EV increased by US$2,932 million to US$68,179 million as at 30 June 2021 compared to US$65,247 million as at 31 December 2020. The growth in EV is reported after the payment of the final shareholder dividend for the year ended 31 December 2020 of US$1,558 million. The increase was mainly driven by EV operating profit of US$4,092 million and positive investment return variances of US$1,019 million, which reflected a rise in government bond yields and a strong equity market performance. Long-term economic assumptions remained unchanged from those reported at the twelve months ended 31 December 2020. The effect of foreign exchange translation movements was negative at US$612 million for the six months ended 30 June 2021.

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

US$ millions, unless otherwise stated	Six months ended 30 June 2021 ANW	VIF	EV
Opening EV	**28,503**	**36,744**	**65,247**
Value of new business	(400)	2,214	1,814
Expected return on EV	2,456	(391)	2,065
Operating experience variances	471	(85)	386
Operating assumption changes	42	(65)	(23)
Finance costs	(150)	-	(150)
EV operating profit	**2,419**	**1,673**	**4,092**
Investment return variances	1,482	(463)	1,019
Other non-operating variances	833	(794)	39
Total EV profit	**4,734**	**416**	**5,150**
Dividends	(1,558)	-	(1,558)
Other capital movements	(48)	-	(48)
Effect of changes in exchange rates	(86)	(526)	(612)
Closing EV	**31,545**	**36,634**	**68,179**

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

IFRS Profit

OPAT[1] BY SEGMENT

US$ millions, unless otherwise stated	Six months ended 30 June 2021	Six months ended 30 June 2020	%
Mainland China	722	640	13%
Hong Kong	1,055	1,005	5%
Thailand	485	478	1%
Singapore	339	303	12%
Malaysia	194	148	31%
Other Markets	391	333	17%
Group Corporate Centre	(4)	26	n/m
Total	**3,182**	**2,933**	**8%**

Note:
(1) Attributable to shareholders of the Issuer only and excludes non-controlling interests.

OPAT increased by 8% to US$3,182 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, which was driven by our high-quality, recurring sources of earnings and proactive management of our growing in-force portfolio. These results included the effect of 5% withholding tax for AIA China post subsidiarisation and a normalisation of claims compared with the low levels reported in the six months ended 30 June 2020. Excluding these items, underlying OPAT growth was 12% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. Renewal premiums received increased by 14% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, and total recurring premiums accounted for over 90% of premiums received for the six months ended 30 June 2021. Operating margin was 17.3% for the six months ended 30 June 2021 as compared to 17.5% for the six months ended 30 June 2020.

OPAT from Mainland China increased 13% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, primarily driven by higher earnings from our growing in-force portfolio. This result included the introduction of the withholding tax following the subsidiarisation. Excluding this item, OPAT growth was 19% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020 due to higher earnings from our growing in-force portfolio, which was partly offset by the normalisation of medical claims relative to the six months ended 30 June 2020.

Hong Kong reported OPAT growth of 5% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, supported by underlying business growth and higher investment returns. Medical claims experience for the six months ended 30 June 2021 was not as positive as the experience in the six months ended 30 June 2020.

OPAT from Thailand remained broadly stable with a 1% increase for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, as earnings from new business for the six months ended 30 June 2021 was offset by adverse lapse experience and lower investment returns.

OPAT from Singapore increased by 12% for the six month ended 30 June 2021 compared with the six months ended 30 June 2020 as a result of growth in our in-force portfolio and increased investment returns.

OPAT from Malaysia increased by 31% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. OPAT for the six months ended 30 June 2020 was negatively impacted by a one-off provision due to an industry-wide initiative to identify and pay accumulated unreported death claims. Excluding this provision, OPAT from Malaysia increased by 12% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020 due to underlying business growth.

OPAT from Other Markets increased by 17% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, mainly driven by underlying business growth and positive claims experience from disability insurance policies in Australia.

TWPI BY SEGMENT

US$ millions, unless otherwise stated	Six months ended 30 June 2021	Six months ended 30 June 2020	%
Mainland China	3,961	3,001	32%
Hong Kong	5,773	6,136	(6)%
Thailand	2,089	1,981	5%
Singapore	1,730	1,502	15%
Malaysia	1,200	1,049	14%
Other Markets	3,758	3,257	15%
Total	**18,511**	**16,926**	**9%**

TWPI increased by 9% to US$18,511 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. In Hong Kong, TWPI decreased by 6% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020 as a cohort of long-term participating policies issued in 2016 has reached the end of the premium payment term. These policies remain in force and generated OPAT for the six months ended 30 June 2021. Renewal premiums received increased by 14% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, and total recurring premiums accounted for over 90% of premiums received in the six months ended 30 June 2021.

IFRS OPERATING PROFIT INVESTMENT RETURN

US$ millions, unless otherwise stated	Six months ended 30 June 2021	Six months ended 30 June 2020	%
Interest income	3,754	3,420	10%
Expected long-term investment return for equities and real estate	1,427	1,129	26%
Total	**5,181**	**4,549**	**14%**

IFRS operating profit investment return increased by 14% to US$5,181 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. The growth was primarily driven by the increase in the size of our investment portfolio.

OPERATING EXPENSES

US$ millions, unless otherwise stated	Six months ended 30 June 2021	Six months ended 30 June 2020	%
Operating expenses	1,439	1,242	16%

The expense ratio was 7.8% for the six months ended 30 June 2021 compared with 7.3% for the six months ended 30 June 2020 as a result of a geographical mix shift in TWPI away from Hong Kong, which was the reportable segment with the lowest expense ratio in the Group.

NET PROFIT[1]

US$ millions, unless otherwise stated	Six months ended 30 June 2021	Six months ended 30 June 2020	%
OPAT	3,182	2,933	8%
Short-term fluctuations in investment return related to equities and real estate, net of tax[2]	199	(1,290)	n/m
Reclassification of revaluation (gains)/losses for property held for own use, net of tax[2]	(37)	61	n/m
Corporate transaction related costs, net of tax	(19)	(37)	n/m
Implementation costs of new accounting standards, net of tax	(28)	(22)	n/m
Other non-operating investment return and other items, net of tax	(52)	552	n/m
Total	**3,245**	**2,197**	**48%**

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

IFRS NON-OPERATING MOVEMENT

IFRS net profit increased by 48% to US$3,245 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. Our net profit definition includes mark-to-market movements from equity and investment property portfolios. The result for the six months ended 30 June 2021 included positive short-term fluctuations from long-term assumptions for equities and real estate of US$199 million, compared with negative movements of US$1,290 million for the six months ended 30 June 2020. Other non-operating investment return and other items of US$552 million in the six months ended 30 June 2020 largely consisted of realised gains from our available for sale debt securities.

Segmental Information

Our reporting segments are categorised as follows: (i) each Key Segment, consisting of Mainland China, Hong Kong (which includes Macau), Thailand, Singapore (which includes Brunei) and Malaysia; (ii) combined results for our Other Markets, consisting of the combined results of Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam; and (iii) our Group Corporate Centre reporting segment.

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

Mainland China

	Six months ended 30 June	
	2021	**2020**
	(in US$ millions, except VONB margin)	
VONB[(1)(3)]	738	594
VONB margin[(2)]	82.1%	81.8%
ANP	899	726
TWPI	3,961	3,001
OPAT	722	640

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
(2) VONB margin excludes pension business which is consistent with the definition of ANP used within the calculation.
(3) Following the subsidiarisation of AIA China, VONB for the six months ended 30 June 2021 is presented after deducting withholding tax at the applicable rate in Mainland China (which is currently set at 5%). VONB for the six months ended 30 June 2020 was generated from the Shanghai branch of AIA Co. and was presented before deducting any withholding tax.

Six Months Ended 30 June 2021 Compared with Six Months Ended 30 June 2020

VONB increased by 24% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. VONB for the six months ended 30 June 2021 included the impact of the 5% withholding tax applied since July 2020. Excluding the effect of the withholding tax, VONB increased by 31% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, primarily driven by ANP growth while VONB margin remained broadly stable during the six months ended 30 June 2021.

ANP increased by 24% to US$899 million and TWPI increased by 32% to US$3,961 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, reflecting our growth in the underlying business.

VONB margin of 82.1% for the six months ended 30 June 2021 remained broadly stable compared to the six months ended 30 June 2020 as the enhanced profitability in our long-term savings products was offset by the impact of the withholding tax.

OPAT from Mainland China increased by 13% to US$722 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, primarily driven by higher earnings from our growing in-force portfolio, which was partly offset by the impact of the withholding tax and the normalisation of medical claims relative to the six months ended 30 June 2020. Excluding the withholding tax impact, OPAT increased by 19% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020.

Our high-quality, professional agency force is a key competitive advantage for AIA China and we continue to strengthen its capabilities with enhanced digital tools. In July 2021, we launched a powerful needs-based-selling application that analyses a customer's existing insurance coverage in real time, generates a personal needs analysis and enables our agents to provide tailored product recommendations. High adoption levels of our comprehensive suite of advanced digital tools in their daily activities has supported an increase in agency productivity.

Our new innovative modular critical illness proposition, *You Ru Yi*, provides bespoke coverage and includes an upgraded personal case management service and a nutrition programme. Since it was launched, *You Ru Yi* has become our primary protection proposition in Mainland China.

We also recently expanded our long-term savings offerings with the launch of a suite of new products that are designed to help us to meet evolving customer needs and deepen our share of wallet in our expanding customer base. We have formed new partnerships with hospitals to provide value-added services to our customers, including online direct billing and prescription services.

In March 2021, we launched our first new operation in Sichuan province. For the six months ended 30 June 2021, we had more than 400 full-time high-quality new agents, 70% of whom are university graduates. Leveraging on our model of geographical expansion, in June 2021, AIA China received approval from the China Banking and Insurance Regulatory Commission to begin preparations to establish a new branch in Hubei province. Hubei has a fast-growing economy and ranks eighth by GDP by province in Mainland China. The Hubei branch approval was received shortly after the launch of our operations in Sichuan province and is a further step in our geographical expansion strategy in Mainland China.

Hong Kong

	Six months ended 30 June	
	2021	2020
	(in US$ millions, except VONB margin)	
VONB[1]	313	306
VONB margin[2]	57.5%	51.0%
ANP	505	565
TWPI	5,773	6,136
OPAT	1,055	1,005

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
(2) VONB margin excludes pension business which is consistent with the definition of ANP used within the calculation.

Six Months Ended 30 June 2021 Compared with Six Months Ended 30 June 2020

VONB increased by 2% to US$313 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. VONB in our domestic customer segment increased by 16% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. These results were partly offset by reduced sales to the Mainland Chinese visitor customer segment. While the Individual Visit Scheme with Mainland China remained suspended for Hong Kong, quarantine requirements for cross-border visitors have been lifted for Macau.

VONB margin increased by 6.5 percentage points to 57.5% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, as the product mix shifted towards protection products.

ANP decreased by 11% to US$505 million and TWPI decreased by 6% to US$5,773 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, primarily driven by the reduced sales to the Mainland Chinese visitor customer segment. In the six months ended 30 June 2021, sales to Mainland Chinese visitors in our Macau branch significantly increased compared to the six months ended 30 June 2020 and contributed over one-third of AIA Macau's total ANP for the six months ended 30 June 2021.

OPAT grew by 5% to US$1,055 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, supported by underlying business growth and higher investment returns. Medical claims experience for the six months ended 30 June 2021 was not as positive as the experience in the six months ended 30 June 2020.

Our Premier Agency remained the market leader in agency distribution in Hong Kong and our continued focus on quality recruitment reported an increase in new recruits in the six months ended 30 June 2021. We also launched a series of new customer-centric and innovative propositions, including enhanced Voluntary Health Insurance Scheme products which offer top-tier medical protection, and AIA One Absolute, our innovative severity-based health protection proposition.

In March 2021, we announced a 15-year bancassurance partnership with BEA. The partnership was launched in early July 2021, providing us with exclusive access to BEA's customer base and further expanding our distribution capabilities.

Thailand

	Six months ended 30 June	
	2021	2020
	(in US$ millions, except VONB margin)	
VONB[(1)]	312	199
VONB margin[(2)]	93.5%	63.9%
ANP	333	312
TWPI	2,089	1,981
OPAT	485	478

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
(2) VONB margin excludes pension business, which is consistent with the definition of ANP used within the calculation.

Six Months Ended 30 June 2021 Compared with Six Months Ended 30 June 2020

VONB increased by 57% to US$312 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, which was a significant increase from the pre-pandemic level in the six months ended 30 June 2019. The VONB growth was primarily driven by VONB margin improvement.

VONB margin increased significantly from 63.9% for the six months ended 30 June 2020 to 93.5% for the six months ended 30 June 2021, primarily due to a product mix shift towards regular premium traditional protection and unit-linked products. This change in product mix was supported by greater consumer awareness of individual protection needs.

ANP increased by 7% to US$333 million and TWPI increased by 5% to US$2,089 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, primarily driven by underlying business growth.

AIA Thailand’s OPAT remain broadly stable with a 1% increase to US$485 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, as earnings from new business was offset by negative lapse experience and lower investment returns for the six months ended 30 June 2021.

Our market-leading agency business continued to focus on quality recruitment and achieved growth in the number of new recruits for the six months ended 30 June 2021. We further developed the functionality of our agency digital tools and launched AIA iSign, an enhanced remote sales tool that improves customer experience with a smoother sales process, enabling our agents to remotely complete sales of unit-linked products. VONB growth from our strategic bancassurance partner Bangkok Bank increased in the six months ended 30 June 2021 compared to the six months ended 30 June 2020, primarily driven by strategic initiatives to increase the productivity of insurance specialists.

Singapore

	Six months ended 30 June	
	2021	2020
	(in US$ millions, except VONB margin)	
VONB[(1)]	176	127
VONB margin[(2)]	63.2%	59.3%
ANP	279	214
TWPI	1,730	1,502
OPAT	339	303

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
(2) VONB margin excludes pension business which is consistent with the definition of ANP used within the calculation.

Six Months Ended 30 June 2021 Compared with Six Months Ended 30 June 2020

VONB increased by 39% to US$176 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, driven by a strong improvement in agency productivity, as we continued to support our Premier Agency by enhancing our digital tools and platforms.

VONB margin increased by 3.9 percentage points to 63.2% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, supported by reduced acquisition expense overruns that reflected ANP growth.

ANP increased by 30% to US$279 million and TWPI increased by 15% to US$1,730 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, primarily driven by underlying business growth.

OPAT from Singapore increased by 12% to US$339 million for the six month ended 30 June 2021 compared with the six months ended 30 June 2020 as a result of growth in our in-force portfolio and higher investment returns.

Our differentiated Premier Agency strategy achieved improvements in agent productivity in the six months ended 30 June 2021. In the six months ended 30 June 2021, we launched a new mobile-enabled recruitment platform that has been widely adopted with over 60% of new recruits recruited digitally since the platform's launch. We also enhanced iSmart, our mobile application enabling our agents to leverage their individual social media presence for leads generation.

Malaysia

	Six months ended 30 June	
	2021	**2020**
	(in US$ millions, except VONB margin)	
VONB[1]	157	81
VONB margin[2]	61.7%	50.5%
ANP..	253	159
TWPI	1,200	1,049
OPAT	194	148

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
(2) VONB margin excludes pension business which is consistent with the definition of ANP used within the calculation.

Six Months Ended 30 June 2021 Compared with Six Months Ended 30 June 2020

VONB increased by 94% to US$157 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, which was 21% higher than the pre-pandemic level in the six months ended 30 June 2019. The growth in VONB was driven by our agency and bancassurance channels. Our focus on quality recruitment and agency management helped to achieve strong growth in new recruits and a strong increase in active agents. Our partnerships channel achieved strong growth in VONB for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, primarily through Public Bank Berhad where we have worked to drive higher adoption of remote sales tools and execute cross-selling strategies.

VONB margin increased by 11.2 percentage points to 61.7% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, reflecting a favourable product mix shift and reduced acquisition expense overruns from higher sales volumes.

ANP increased by 59% to US$253 million and TWPI increased by 14% to US$1,200 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. These results were supported from both the agency and partnership distribution channels.

OPAT increased by 31% to US$194 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. In the six months ended 30 June 2020, OPAT was reduced by a one-off provision due to an industry-wide initiative to identify and pay accumulated unreported death claims. Excluding this provision, OPAT increased by 12% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020 due to underlying business growth.

Other Markets

	Six months ended 30 June	
	2021	2020
	(in US$ millions, except VONB margin)	
VONB[(1)(4)]	253	240
VONB margin[(2)]	32.1%	39.7%
ANP[(4)]	791	603
TWPI[(3)]	3,758	3,257
OPAT[(4)]	391	333

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
(2) VONB margin excludes pension business, which is consistent with the definition of ANP used within the calculation.
(3) TWPI excludes the contribution from Tata AIA Life.
(4) ANP, VONB and OPAT include the contribution from Tata AIA Life.

Six Months Ended 30 June 2021 Compared with Six Months Ended 30 June 2020

Our Other Markets segment reported a 5% increase in VONB to US$253 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, above the pre-pandemic level in the six months ended 30 June 2019. Excluding the one-off contribution from the purchase of mortality cover by CBA in the six months ended 30 June 2020, the segment reported strong VONB growth for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, and 7 of the 11 markets within this segment reported VONB growth in the six months ended 30 June 2021. VONB growth was driven by Indonesia, South Korea and Vietnam.

VONB margin decreased by 7.6 percentage points to 32.1% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020.

ANP increased by 31% to US$791 million and TWPI increased by 15% to US$3,758 million for the six months ended 30 June 2021 compared with 30 June 2020.

OPAT increased by 17% to US$391 million for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, driven by the growth in underlying business within this segment and positive claims experience from disability insurance policies in Australia in the six months ended 30 June 2021.

Geographical Market Highlights

Excluding the one-off contribution from CBA in the six months ended 30 June 2020, AIA Australia reported strong VONB growth for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. Group insurance business reported strong VONB growth for the six months ended 30 June 2021 compared to the six months ended 30 June 2020 as we benefitted from the renewal of several large group insurance schemes.

The New Zealand business reported strong VONB growth for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, supported by a reduction in acquisition expense overruns. Our IFA channel achieved strong performance as we focused on providing strong support to advisers.

AIA Cambodia continued to execute its multi-channel strategy and reported strong ANP growth in the six months ended 30 June 2021 compared with the six months ended 30 June 2020. This was driven by a strong performance in partnership distribution, despite disruptions from COVID-19 containment measures imposed in the six months ended 30 June 2021.

Tata AIA Life Insurance Company Limited ("**Tata AIA Life**") reported positive VONB growth for the six months ended 30 June 2021 compared to the six months ended 30 June 2020 and maintained its leading position in the pure retail protection market. Our high-quality and differentiated Premier Agency continued to drive productivity improvements and achieved strong ANP growth for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, even as COVID-19 infection rates within the country increased. Our bancassurance channel also reported strong growth in VONB for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, as we worked closely with our partners to improve productivity through our enhanced online purchase journeys. Our comprehensive suite of digital and remote selling tools has enabled business continuity and growth throughout the six months ended 30 June 2021, including agent recruitment processed through iRecruit and online training for our distribution partners and employees.

AIA Indonesia achieved strong VONB growth for the six months ended 30 June 2021 compared to the six months ended 30 June 2020 in both our agency and partnership distribution channels, driven by a significant increase in the number of active agents and an improvement in insurance specialist productivity for our strategic bancassurance partnerships.

During the six months ended 30 June 2021, the Myanmar business has been focused on ensuring the safety of our employees and agents and continuing to meet the needs of our customers.

Our operations in the Philippines reported a reduction in VONB for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, as the growth in the three months ended 30 June 2021 was more than offset by the decline in the three months ended 31 March 2021. We have continued to focus on increased adoption of remote selling tools among our agency and bank insurance specialists, as our business was affected by containment measures that have largely remained in place since March 2020.

AIA Korea reported strong VONB growth for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, driven by a strong performance in our direct marketing business and a higher VONB margin resulting from the repricing of several key products in 2020. We continued to enhance our omni-channel distribution model with SK Telecom, SK Inc. C&C and Samsung Card.

AIA Sri Lanka reported VONB growth for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, driven by an increase in the number of active agents and improved productivity in our strategic bancassurance partnerships. We achieved strong growth in new recruits for the six months ended 30 June 2021 compared to the six months ended 30 June 2020 and continued to support our agency force by enhancing digital support tools including the launch of a digital customer portal and enhanced remote sales capability.

AIA Taiwan recorded a decline in VONB for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. In May 2021, stringent containment measures were implemented for the first time since the start of the pandemic.

AIA Vietnam reported strong growth in VONB for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, driven by strong performance from our agency channel. We achieved an increase in the number of active agents and improved agent productivity for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. Our strategic bancassurance partnership with VPBank reported strong VONB growth, partly due to a positive shift in product mix. In July 2021, we announced a new 10-year exclusive life and health insurance partnership with Tiki Corporation, a leading all-in-one e-commerce platform.

Holding Company Financial Resources

At 30 June 2021, holding company financial resources were US$12,919 million compared with US$12,388 million at 31 December 2020. The increase of US$531 million resulted primarily from net capital flows to the holding company from subsidiaries of US$1,908 million, net proceeds from the issuances and redemption of medium-term notes and securities of US$619 million, and the payment of the final shareholder dividend for the year ended 31 December 2020 of US$1,558 million. Issuances of medium-term notes and securities totalled US$1,121 million while US$502 million were redeemed upon maturity.

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

US$ millions, unless otherwise stated	**Six months ended 30 June 2021**	**Six months ended 30 June 2020**
Opening holding company financial resources	**12,388**	**8,630**
Net capital flows to holding company	1,908	24
Increase in borrowings(1)	619	1,055
Interest payments on borrowings(1)	(157)	(115)
Investment income, mark-to-market movements in debt securities and others	(281)	672
Closing holding company financial resources before dividends	**14,477**	**10,266**
Dividends paid	(1,558)	(1,452)
Closing holding company financial resources	**12,919**	**8,814**

Assets recoverable and liabilities repayable within 12 months are as follows:

US$ millions, unless otherwise stated	**As at 30 June 2021**	**As at 30 June 2020**
Loans to/amounts due from subsidiaries(2)	85	92
Medium-term notes and securities(3)	(500)	(503)
Net other assets and other liabilities	(65)	(30)

Notes:

(1) Borrowings principally include medium-term notes and securities, other intercompany loans, and amounts outstanding, if any, from the Issuer's US$2,290 million unsecured committed credit facilities.

(2) As at 30 June 2021, loans to/amounts due from subsidiaries was US$1,899 million (31 December 2020: US$1,904 million). US$85 million was recoverable within the 12 months after the period ended 30 June 2021 (30 June 2020: US$92 million).

(3) As at 30 June 2021, medium-term notes and securities placed to the market was US$9,171 million (31 December 2020: US$8,559 million). US$500 million was repayable within the 12 months after the period ended 30 June 2021 (30 June 2020: US$503 million). Details of the medium-term notes and securities placed to the market are included in note 18 to our 2021 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular.

IFRS Balance Sheet

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$ millions, unless otherwise stated	As at 30 June 2021	As at 31 December 2020	Change %
Assets			
Financial investments	272,619	271,467	-
Investment property	4,579	4,639	(1)%
Cash and cash equivalents	7,149	5,619	27%
Deferred acquisition and origination costs	28,374	27,915	2%
Other assets	17,170	16,481	4%
Total assets	**329,891**	**326,121**	**1%**
Liabilities			
Insurance and investment contract liabilities	241,135	235,952	2%
Borrowings	9,182	8,559	7%
Other liabilities	20,157	17,942	12%
Less total liabilities	**270,474**	**262,453**	**3%**
Equity			
Total equity	59,417	63,668	(7)%
Less non-controlling interests	473	468	1%
Total equity attributable to shareholders of AIA Group Limited	**58,944**	**63,200**	**(7)%**

MOVEMENT IN SHAREHOLDERS' EQUITY

US$ millions, unless otherwise stated	Six months ended 30 June 2021	Year ended 31 December 2020	Six months ended 30 June 2020
Opening shareholders' equity	**63,200**	**54,947**	**54,947**
Net profit	3,245	5,779	2,197
Fair value (losses)/gains on assets	(5,097)	3,501	1,826
Purchase of shares held by employee share-based trusts	(97)	(16)	(6)
Dividends	(1,558)	(1,997)	(1,452)
Revaluation gains/(losses) on property held for own use	22	(46)	(65)
Foreign currency translation adjustments	(819)	931	(710)
Other capital movements	48	101	67
Total movement in shareholders' equity	**(4,256)**	**8,253**	**1,857**
Closing shareholders' equity	**58,944**	**63,200**	**56,804**

TOTAL INVESTMENTS

US$ millions, unless otherwise stated	As at 30 June 2021	Percentage of total	As at 31 December 2020	Percentage of total
Total policyholder and shareholder	248,386	87%	247,408	87%
Total unit-linked contracts and consolidated investment funds	37,990	13%	36,302	13%
Total investments	**286,376**	**100%**	**283,710**	**100%**

The investment mix remained stable during the six months ended 30 June 2021 as set out below:

UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS

US$ millions, unless otherwise stated	As at 30 June 2021	Percentage of total	As at 31 December 2020	Percentage of total
Unit-linked contracts and consolidated investment funds				
Debt securities	6,779	18%	6,403	18%
Loans and deposits	580	2%	395	1%
Equities	29,614	78%	28,232	78%
Cash and cash equivalents	973	2%	1,219	3%
Derivatives	44	-	53	-
Total unit-linked contracts and consolidated investment funds	**37,990**	**100%**	**36,302**	**100%**

POLICYHOLDER AND SHAREHOLDER INVESTMENTS

US$ millions, unless otherwise stated	As at 30 June 2021	Percentage of total	As at 31 December 2020	Percentage of total
Participating funds and Other participating business with distinct portfolios[1]				
Government bonds	10,330	4%	9,324	4%
Other government and government agency bonds	10,870	5%	11,701	5%
Corporate bonds and structured securities	53,960	22%	54,947	22%
Loans and deposits	2,650	1%	2,519	1%
Subtotal – Fixed income investments	**77,810**	**32%**	**78,491**	**32%**
Equities	28,520	12%	23,892	10%
Investment property and property held for own use	1,069	-	1,054	-
Cash and cash equivalents	759	-	565	-
Derivatives	522	-	335	-
Subtotal Participating funds and Other participating business with distinct portfolios	**108,680**	**44%**	**104,337**	**42%**
Other policyholder and shareholder				
Government bonds	45,107	18%	46,939	19%
Other government and government agency bonds	17,887	7%	18,918	7%
Corporate bonds and structured securities	52,096	21%	53,649	22%
Loans and deposits	6,339	3%	6,421	3%
Subtotal – Fixed income investments	**121,429**	**49%**	**125,927**	**51%**
Equities	6,972	3%	7,058	3%
Investment property and property held for own use	5,539	2%	5,570	2%
Cash and cash equivalents	5,417	2%	3,835	2%
Derivatives	349	-	681	-
Subtotal other policyholder and shareholder	**139,706**	**56%**	**143,071**	**58%**
Total policyholder and shareholder	**248,386**	**100%**	**247,408**	**100%**

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

ASSETS

Total assets increased by US$3,770 million to US$329,891 million at 30 June 2021 compared with US$326,121 million at 31 December 2020 due to net cash inflows and mark-to-market gains on equities for the six months ended 30 June 2021, partly offset by negative fair value movements from our debt securities.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US$2,666 million to US$286,376 million at 30 June 2021, compared with US$283,710 million at 31 December 2020.

Of the total US$286,376 million investments at 30 June 2021, US$248,386 million were held in respect of policyholders and shareholders and the remaining US$37,990 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$199,239 million at 30 June 2021 compared with US$204,418 million at 31 December 2020.

Government bonds and other government and government agency bonds represented 42% of fixed income investments at 30 June 2021, compared with 43% at 31 December 2020. Corporate bonds and structured securities accounted for 53% of fixed income investments at 30 June 2021 and 31 December 2020. The average credit rating of our fixed income portfolio excluding government bonds remained stable at A- compared to the position at 31 December 2020. Our corporate bond portfolio is well diversified with over 1,700 issuers with an average holding size of US$59 million. At 30 June 2021, we held US$4.0 billion of bonds rated below investment grade or not rated, representing 2% of our total bond portfolio. Approximately US$30 million of our bonds, representing less than 0.1% of our total bond portfolio, were downgraded to below investment grade and we did not experience any impairments in the six months ended 30 June 2021, reflecting the overall quality of our investment portfolio.

Equity securities held in respect of policyholders and shareholders totalled US$35,492 million at 30 June 2021 compared with US$30,950 million at 31 December 2020. The US$4,542 million increase in carrying value was mainly attributable to new purchases driven by underlying business growth and positive mark-to-market movements. Of the US$35,492 million of equity securities, US$28,520 million of equity securities were held in participating funds and other participating business with distinct portfolios.

Cash and cash equivalents increased by US$1,530 million to US$7,149 million at 30 June 2021 compared with US$5,619 million at 31 December 2020. The increase largely reflected funds being held for purchase consideration of recently announced transactions.

Investment property and property held for own use in respect of policyholders and shareholders totalled US$6,608 million at 30 June 2021 compared with US$6,624 million at 31 December 2020.

Deferred acquisition and origination costs increased by US$459 million to US$28,374 million at 30 June 2021 compared with US$27,915 million at 31 December 2020.

Other assets increased to US$17,170 million at 30 June 2021 compared with US$16,481 million at 31 December 2020, reflecting an increase in investment-related receivables and reinsurance recoveries.

LIABILITIES

Total liabilities increased to US$270,474 million at 30 June 2021 from US$262,453 million at 31 December 2020.

Insurance and investment contract liabilities increased to US$241,135 million at 30 June 2021 compared with US$235,952 million at 31 December 2020, reflecting the underlying growth of the in-force portfolio and positive mark-to-market movements on equities backing unit-linked and participating policies, which were partially offset by the impact of negative foreign exchange translation.

Borrowings increased to US$9,182 million at 30 June 2021, due to the net proceeds from the issuances of medium-term notes and securities totalling US$1,121 million less the redemption of medium-term notes of US$502 million upon maturity. The leverage ratio, which is defined as borrowings expressed as a percentage of total borrowings and equity, was at 13.4% at 30 June 2021 compared with 11.9% at 31 December 2020.

Other liabilities were US$20,157 million at 30 June 2021, compared with US$17,942 million at 31 December 2020, reflecting an increase in repurchase agreements, investment-related payables and derivative financial liabilities, which were partly offset by a decrease in deferred tax liabilities.

Details of commitments and contingencies are included in note 25 to our 2021 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular.

EQUITY

Total equity attributable to shareholders was US$58,944 million at 30 June 2021 compared with US$63,200 million at 31 December 2020 due to the decrease in fair value reserve driven by the increase in government bond yields in the six months ended 30 June 2021, partially offset by earnings for the six months ended 30 June 2021.

Capital

REGULATORY CAPITAL REQUIREMENTS

We are subject to both Group and local level regulatory capital requirements and we have fully met these requirements as at 30 June 2021.

On 14 May 2021, the Group became subject to the new GWS framework implemented by the Hong Kong Insurance Authority (the "**HKIA**"), under which the HKIA has direct regulatory powers over Hong Kong incorporated holding companies of designated insurance groups. The framework includes the Local Capital Summation Method ("**LCSM**") assessment of the regulatory capital of the Group based on the sum of local level capital requirements.

The Group's various regulated branches and subsidiaries are also subject to local supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The vast majority of the jurisdictions in which the Group operates have enacted regulatory capital regimes for insurers that are risk-based and intended to better reflect the underlying economics than the earlier "Solvency 1" regulatory regimes that they replaced.

We continue to be closely engaged with the HKIA and the industry on the multi-year consultation process toward a risk-based capital regime in Hong Kong applicable to Hong Kong licensed insurance companies (which is distinct from the GWS framework applicable at the group level). This risk-based capital regime will replace the current Solvency 1 regime in Hong Kong. We expect that the regulatory capital rules of the new Hong Kong risk-based capital regime will be finalised during 2021.

Based on the most recently available information, our expectation is that the risk-based capital regime will become effective from 1 January 2024, however we understand that the HKIA is currently developing plans to allow early adoption.

We anticipate that our regulatory capital position will remain very strong following implementation of the new Hong Kong risk-based capital regime.

GROUP LCSM SOLVENCY POSITION

Our Group supervisor is the HKIA. The Group is in compliance with the group capital adequacy requirements as applied by the HKIA. On 29 March 2021, the HKIA implemented the new GWS framework, under which the HKIA has direct regulatory powers over Hong Kong incorporated holding companies of designated insurance groups. On 14 May 2021, AIA Group Limited became a designated insurance holding company and became subject to the GWS framework in Hong Kong including the Group Capital Rules. The Group Capital Rules set out the capital requirements of the Group under the GWS framework that define the Group's overall solvency position. These requirements are based on a "summation approach" and are referred to as the LCSM.

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

At 30 June 2021, the Group LCSM surplus was US$51,231 million, with a Group LCSM Cover Ratio of 412%. Group available capital includes:

(i) US$2,858 million of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20% per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and

(ii) US$5,810 million of senior notes issued before the Issuer became a designated insurance holding company that have been approved by the HKIA. Prior to maturity, the approved senior notes will receive full capital credit until 14 May 2031, after which the capital credit will reduce at the rate of 20% per annum until 14 May 2036.

The amounts above represent the net cash proceeds from the issuances of medium-term notes and securities that contribute to Group available capital. These are counted as Tier 2 group capital under the Group Capital Rules.

The comparative figures as at 31 December 2020 were based on the Group's understanding of the likely application of the GWS framework to the Group at the time and included US$1,735 million of subordinated securities, while excluding the US$5,810 million of senior notes that had not yet been approved by the HKIA to contribute to Group available capital. The basis of calculation is largely consistent with that applied to the Group LCSM solvency position as at 30 June 2021 with the key difference being the treatment of senior notes.

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

US$ millions, unless otherwise stated	**As at 30 June 2021**	**As at 31 December 2020**
Group available capital	67,675	59,830
Group minimum capital requirement	16,444	16,013
Group LCSM surplus	51,231	43,817
Group LCSM Cover Ratio	412%	374%
Senior notes approved as contributing to Group available capital(1)	5,810	-

Note:
(1) The amounts represent the net cash proceeds from the issuances of medium-term notes and securities that contribute to Group available capital. These are counted as Tier 2 group capital under the Group Capital Rules.

The following table summarises the movement in Group LCSM surplus:

US$ millions, unless otherwise stated	**Six months ended 30 June 2021**
Opening Group LCSM surplus	**43,817**
Senior notes approved as contributing to Group available capital(1)	**5,810**
Group LCSM surplus generation	**3,021**
Group LCSM surplus used to fund new business	**(89)**
Unallocated Group Office expenses	**(182)**
Finance costs and other capital movements	**(198)**
Group LCSM surplus before net increase in borrowings, investment return variances and dividends	**52,179**
New issuances of borrowings(1)	**1,121**
Redemption and maturity of borrowings	**-**
Group LCSM surplus before investment return variances and dividends	**53,300**
Investment return variances and other items	**(511)**
Group LCSM surplus before dividends	**52,789**
Dividends	**(1,558)**
Closing Group LCSM surplus	**51,231**

Note:
(1) The amounts represent the net cash proceeds from the issuances of medium-term notes and securities that contribute to Group available capital. These are counted as Tier 2 group capital under the Group Capital Rules.

LOCAL SOLVENCY REQUIREMENTS

The Group's individual branches and subsidiaries are also subject to supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 30 June 2021.

Global Medium-term Note and Securities Programme Issuances

Under the Programme, the Issuer has issued two fixed rate resettable subordinated perpetual securities. On 7 April 2021, the Issuer issued US$750 million of resettable subordinated perpetual securities at an annual rate of 2.7%. On 11 June 2021, the Issuer issued Singapore dollar (SGD) 500 million of resettable subordinated perpetual securities at an annual rate of 2.9%. The U.S. dollar equivalent is approximately US$378 million. Both securities are listed on The Stock Exchange of Hong Kong Limited.

At 30 June 2021, the aggregate carrying amount of the debt issued to the market under the Programme was US$9,171 million.

Credit Ratings

At 30 June 2021, AIA Co. had financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from S&P Global Ratings.

Moody's upgraded its issuer credit rating on the Issuer from A2 (Low Credit Risk) to A1 (Low Credit Risk) on 14 May 2021. S&P Global Ratings upgraded its issuer credit rating on the Issuer from A (Strong) to A+ (Strong), and revised the outlook on the Issuer from positive to stable on 29 April 2021.

At 30 June 2021, the Issuer had issuer credit ratings of A1 (Low Credit Risk) with a stable outlook from Moody's; AA- (Very High Credit Quality) with a stable outlook from Fitch; and A+ (Strong) with a stable outlook from S&P Global Ratings.

INTERIM BUSINESS REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2021

The information below covers the financial results for the six month period from 1 January 2021 to 30 June 2021 for the current period and for the six month period from 1 January 2020 to 30 June 2020 for the prior period.

Distribution

AGENCY

	Six months ended 30 June	
	2021	**2020**
	(in US$ millions, except VONB margin)	
VONB	1,574	1,194
VONB margin	76.0%	69.9%
ANP	2,070	1,708

Our proprietary agency network is our primary distribution channel and sits at the heart of our relationships with our customers. Our Premier Agents are equipped to provide personalised advice and value-added services that help our customers as they help them to meet their evolving protection and long-term savings needs.

VONB from our agency channel grew by 32% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. ANP grew by 21% to US$2,070 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020 and VONB margin increased from 69.9% for the six months ended 30 June 2020 to 76.0% for the six months ended 30 June 2021, driven by product mix shift and lower acquisition expense overruns. Our ongoing efforts to digitalise activities across the value chain has helped to build greater resilience in our agency force. These initiatives supported an increase in the number of active new agents and productivity in the six months ended 30 June 2021 compared with the six months ended 30 June 2020, despite periodic disruptions from the resurgence of COVID-19 in our markets.

In the six months ended 30 June 2021, we continued to enhance our digital platforms and embedded new features that industrialise our use of social media presence for leads generation and campaign marketing. These features are now live in six markets: Mainland China, Hong Kong, Singapore, Malaysia, India and the Philippines.

Our next-generation agency leaders are critical in achieving sustainable growth of our Premier Agency. We increased the number of agency leaders for the six months ended 30 June 2021 compared to the six months ended 30 June 2020. We have further enhanced our digital recruitment platforms and improved our leader development programmes.

In July 2021, we were named the number one Million Dollar Round Table ("**MDRT**") company in the world, our seventh consecutive year of achieving the largest number of registered members. Our total of more than 16,000 MDRT members registered in 2021 is an increase of 25% from 2020.

PARTNERSHIPS

	Six months ended 30 June	
	2021	2020
	(in US$ millions, except VONB margin)	
VONB	352	335
VONB margin	35.5%	38.4%
ANP	990	871

Our long-term distribution partnerships with market-leading financial institutions and other corporate partners provide us with the opportunity to engage with and meet the protection and long-term savings needs of hundreds of millions of potential customers in Asia-Pacific. Our focus is to deliver new, digitally-led and personalised propositions to customers of our partners.

VONB for partnerships grew by 13% for the six months ended 30 June 2021 compared to the six months ended 30 June 2020, after excluding the impact of the one-off purchase by CBA in the six months ended 30 June 2020. ANP increased by 14% and VONB margin decreased from 38.4% to 35.5% for the six months ended 30 June 2021 compared with the six months ended 30 June 2020, driven by a higher contribution from group insurance business in Australia.

Bancassurance

Excluding the one-off contribution from CBA in the six months ended 30 June 2020, our bancassurance channel reported strong VONB growth in the six months ended 30 June 2021 compared to the six months ended 30 June 2020. We achieved strong VONB growth through our long-term strategic bancassurance partnerships in Thailand and Malaysia.

In the six months ended 30 June 2021, we continued to work with our partners to strengthen activity management of insurance specialists and improve customer segmentation, resulting in an improvement in new business momentum. In particular, we have seen strong growth in productivity in Bangkok Bank Public Company Limited (Bangkok Bank) in Thailand, Public Bank Berhad in Malaysia and Bank Central Asia (BCA) in Indonesia. Our evolving digital capabilities enable us to engage, connect and serve the customers of our partners with seamless end-to-end experiences. For example, in the six months ended 30 June 2021, we launched a new product proposition with Citibank in Hong Kong and Singapore that provides customers with an online sales process linked to their mobile banking application. We are also driving integration with our partners' data and digital platforms to enable us to deliver the right propositions for different customer segments through an omnichannel experience. Our bancassurance partnerships are increasingly using social media, customer analytics and digital marketing to generate leads that can be closed through different channels from fully online through to face-to-face sales in-branch.

In April 2021, Citibank announced that it will pursue an exit from its consumer banking business in the markets covered by our bancassurance partnership except for Hong Kong and Singapore. We are in discussions with Citibank on the future arrangement of the bancassurance partnership.

Digital Platforms

Our strategy is to form strategic partnerships with technology companies that have significant active user bases and leading consumer companies that have widely-used digital platforms. Through these next generation partnerships, we attract and engage customers with online purchases of simple products, while applying new analytical models to identify customers with unmet needs for more comprehensive advice-driven life insurance propositions. In addition to existing partnerships with Practo PTE Ltd in India, Gojek in Indonesia and SK Telecom in South Korea, we have launched several new partnerships in 2021, including with TNG Digital Sdn. Bhd., Malaysia's largest e-wallet company, and Tiki Corporation, Vietnam's leading e-commerce retailer.

REGULATORY AND INTERNATIONAL DEVELOPMENTS

HONG KONG INSURANCE REGULATORY REGIME DEVELOPMENTS

A number of developments relating to the Hong Kong insurance regulatory regime have recently become effective or have been proposed and are in various stages of study, consultation or legislative enactment, as summarised below.

- *GWS Framework:* On 29 March 2021, the Group-Wide Supervision framework in Hong Kong (the "**GWS framework**") became effective and the Insurance (Group Capital) Rules (the "**Group Capital Rules**") came into operation. On 14 May 2021, the Issuer became a "designated insurance holding company" by the HKIA. As a designated insurance holding company, we are subject to the GWS framework and the Group Capital Rules. The HKIA has confirmed that the undertaking previously given by the Issuer to the HKIA has ceased to apply as of 14 May 2021. For further information on the prior undertaking to the HKIA, see "Regulation – Power of Intervention" in the Original Offering Circular and Note 37 to our 2020 audited consolidated financial statements included in the Original Offering Circular.

- *Proposed RBC standard:* We continue to be closely engaged with the HKIA on the multi-year consultation process toward a risk-based capital regime ("**HKRBC**") in Hong Kong applicable to Hong Kong licensed insurance companies (which is distinct from the GWS framework applicable at the group level). We expect that the new HKRBC rules will be finalised in 2021. We understand that the HKIA is currently developing plans to allow early adoption.

INTERNATIONAL DEVELOPMENTS

ComFrame

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

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

BEPS 2.0

We continue to closely monitor developments in respect of the Organisation for Economic Co-operation and Development's (the "**OECD**") recent work on tax policy, commonly referred to as "Base erosion and profit shifting 2.0" ("**BEPS 2.0**"), and constructively engages with governments and the OECD. The first pillar of BEPS 2.0 focuses on changes to the international tax system to allocate more taxing rights to sales and market jurisdictions and to ensure a taxable presence in jurisdictions where enterprises have no physical presence but still have a significant economic presence. The second pillar focuses on the development of rules that seek to apply a global minimum tax rate to multinational enterprises and their cross-border transactions. 133 of the 139 members of the OECD/G20 Inclusive Framework that have signed up to the BEPS 2.0 initiative (including Hong Kong) issued a statement which sets out, at a high level, certain agreed elements of the initiative.

Pillar One (which is now limited to changes to the international tax system that target the "largest and most profitable" multinational groups) includes an exclusion for regulated financial services businesses. The details of the exclusion are still to be determined but are expected to apply to the Group. Pillar Two will introduce a minimum tax rate of "at least 15 per cent" on a jurisdiction-by-jurisdiction basis. Specific details on the operation of these rules, such as how the effective tax rate (the "**ETR**") will be calculated for the purposes of comparing the ETR in a particular jurisdiction with the 15% minimum rate, are still unclear. However, based on publicly available information, the rules that the OECD is proposing are likely to impact our effective tax rate. A commitment has been made by the G20 Inclusive Framework to continue discussions in order to reach a "final decision" on the "design elements" of both pillars by October 2021 and that jurisdictions should bring the rules on Pillar Two into law in 2022, to be effective from 2023.

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(1) INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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(2) INTERIM SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

Independent Review Report on the Supplementary Embedded Value Information[(1)] F-58

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(1) References to page numbers in the independent review report on the interim consolidated financial statements and the independent review report on the interim supplementary embedded value information refer to the original page numbers in the 2021 interim results announcement of the Issuer which may be found at http://www.aia.com, and cross-references to page numbers included in the independent review reports are to such original page numbering. Neither the 2021 interim results announcement nor any other information on the Issuer's website has been incorporated by reference into the Offering Circular.

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

pwc 羅兵咸永道

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 51 to 105, which comprise the interim consolidated statement of financial position of AIA Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2021 and the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34 and IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
17 August 2021

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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INTERIM CONSOLIDATED INCOME STATEMENT

US$m	Notes	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Revenue			
Premiums and fee income		**18,609**	17,268
Premiums ceded to reinsurers		**(1,361)**	(1,135)
Net premiums and fee income		**17,248**	16,133
Investment return	7	**6,780**	3,381
Other operating revenue		**166**	150
Total revenue		**24,194**	19,664
Expenses			
Insurance and investment contract benefits		**17,272**	13,930
Insurance and investment contract benefits ceded		**(1,202)**	(899)
Net insurance and investment contract benefits		**16,070**	13,031
Commission and other acquisition expenses		**2,267**	2,157
Operating expenses		**1,439**	1,242
Finance costs		**176**	143
Other expenses		**530**	519
Total expenses	8	**20,482**	17,092
Profit before share of profit from associates and joint ventures		**3,712**	2,572
Share of profit from associates and joint ventures		**2**	2
Profit before tax		**3,714**	2,574
Income tax credit/(expense) attributable to policyholders' returns		**72**	(23)
Profit before tax attributable to shareholders' profits		**3,786**	2,551
Tax expense	9	**(445)**	(391)
Tax attributable to policyholders' returns		**(72)**	23
Tax expense attributable to shareholders' profits		**(517)**	(368)
Net profit		**3,269**	2,183
Net profit attributable to:			
Shareholders of AIA Group Limited		**3,245**	2,197
Non-controlling interests		**24**	(14)
Earnings per share (US$)			
Basic	10	**0.27**	0.18
Diluted	10	**0.27**	0.18

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Net profit	**3,269**	2,183
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on available for sale financial assets (net of tax of: six months ended 30 June 2021: US$739m; six months ended 30 June 2020: US$(84)m)[(2)]	**(4,092)**	2,742
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: six months ended 30 June 2021: US$42m; six months ended 30 June 2020: US$61m)[(2)]	**(1,061)**	(865)
Foreign currency translation adjustments	**(813)**	(679)
Cash flow hedges	**–**	12
Share of other comprehensive income/(expense) from associates and joint ventures	**33**	(65)
Subtotal	**(5,933)**	1,145
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains/(losses) on property held for own use (net of tax of: six months ended 30 June 2021: nil; six months ended 30 June 2020: US$5m)	**22**	(65)
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: six months ended 30 June 2021: nil; six months ended 30 June 2020: US$(1)m)	**4**	2
Subtotal	**26**	(63)
Total other comprehensive (expense)/income	**(5,907)**	1,082
Total comprehensive (expense)/income	**(2,638)**	3,265
Total comprehensive (expense)/income attributable to:		
Shareholders of AIA Group Limited	**(2,646)**	3,262
Non-controlling interests	**8**	3

Notes:

(1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.

(2) Gross of tax, policyholders' participation and other shadow accounting related movements, US$(7,246)m relates to the fair value losses (six months ended 30 June 2020: US$4,709m relates to the fair value gains) on available for sale financial assets and US$1,103m (six months ended 30 June 2020: US$926m) relates to the fair value gains on available for sale financial assets transferred to income on disposal during the period.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
Assets			
Intangible assets	12	**2,569**	2,634
Investments in associates and joint ventures		**676**	606
Property, plant and equipment		**2,703**	2,722
Investment property		**4,579**	4,639
Reinsurance assets		**4,830**	4,560
Deferred acquisition and origination costs		**28,374**	27,915
Financial investments:	13, 15		
Loans and deposits		**9,569**	9,335
Available for sale			
Debt securities		**159,298**	165,106
At fair value through profit or loss			
Debt securities		**37,731**	36,775
Equity securities		**65,106**	59,182
Derivative financial instruments	14	**915**	1,069
		272,619	271,467
Deferred tax assets		**32**	23
Current tax recoverable		**89**	103
Other assets		**6,271**	5,833
Cash and cash equivalents	16	**7,149**	5,619
Total assets		**329,891**	326,121
Liabilities			
Insurance contract liabilities	17	**228,276**	223,071
Investment contract liabilities	17	**12,859**	12,881
Borrowings	18	**9,182**	8,559
Obligations under repurchase agreements	19	**3,447**	1,664
Derivative financial instruments	14	**1,836**	1,003
Provisions		**225**	230
Deferred tax liabilities		**5,835**	6,902
Current tax liabilities		**446**	346
Other liabilities		**8,368**	7,797
Total liabilities		**270,474**	262,453

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US$m	Notes	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
Equity			
Share capital	20	**14,159**	14,155
Employee share-based trusts	20	**(225)**	(155)
Other reserves	20	**(11,877)**	(11,891)
Retained earnings		**46,391**	44,704
Fair value reserve	20	**10,073**	15,170
Foreign currency translation reserve	20	**(586)**	233
Property revaluation reserve	20	**1,048**	1,027
Others		**(39)**	(43)
Amounts reflected in other comprehensive income		**10,496**	16,387
Total equity attributable to:			
Shareholders of AIA Group Limited		**58,944**	63,200
Non-controlling interests		**473**	468
Total equity		**59,417**	63,668
Total liabilities and equity		**329,891**	326,121

Approved and authorised for issue by the Board of Directors on 17 August 2021.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income: Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	Total equity
Balance at 1 January 2021		**14,155**	**(155)**	**(11,891)**	**44,704**	**15,170**	**233**	**1,027**	**(43)**	**468**	**63,668**
Net profit		**–**	**–**	**–**	**3,245**	**–**	**–**	**–**	**–**	**24**	**3,269**
Fair value losses on available for sale financial assets[2]		**–**	**–**	**–**	**–**	**(4,081)**	**–**	**–**	**–**	**(11)**	**(4,092)**
Fair value gains on available for sale financial assets transferred to income on disposal[2]		**–**	**–**	**–**	**–**	**(1,061)**	**–**	**–**	**–**	**–**	**(1,061)**
Foreign currency translation adjustments		**–**	**–**	**–**	**–**	**–**	**(808)**	**–**	**–**	**(5)**	**(813)**
Share of other comprehensive income/(expense) from associates and joint ventures		**–**	**–**	**–**	**–**	**45**	**(11)**	**(1)**	**–**	**–**	**33**
Revaluation gains on property held for own use		**–**	**–**	**–**	**–**	**–**	**–**	**22**	**–**	**–**	**22**
Effect of remeasurement of net liability of defined benefit schemes		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Total comprehensive income/ (expense) for the period		**–**	**–**	**–**	**3,245**	**(5,097)**	**(819)**	**21**	**4**	**8**	**(2,638)**
Dividends	11	**–**	**–**	**–**	**(1,558)**	**–**	**–**	**–**	**–**	**(14)**	**(1,572)**
Shares issued under share option scheme and agency share purchase plan		**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**
Capital contributions from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Share-based compensation		**–**	**–**	**41**	**–**	**–**	**–**	**–**	**–**	**–**	**41**
Purchase of shares held by employee share-based trusts		**–**	**(97)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(97)**
Transfer of vested shares from employee share-based trusts		**–**	**27**	**(27)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 30 June 2021 – Unaudited		**14,159**	**(225)**	**(11,877)**	**46,391**	**10,073**	**(586)**	**1,048**	**(39)**	**473**	**59,417**

Notes:

(1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.

(2) Gross of tax, policyholders' participation and other shadow accounting related movements, US$(7,246)m relates to the fair value losses on available for sale financial assets and US$1,103m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the six months ended 30 June 2021.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

						Other comprehensive income					
US$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	Total equity
Balance at 1 January 2020		14,129	(220)	(11,887)	40,922	11,669	(698)	1,073	(41)	448	55,395
Net profit		–	–	–	2,197	–	–	–	–	(14)	2,183
Fair value gains on available for sale financial assets[2]		–	–	–	–	2,727	–	–	–	15	2,742
Fair value gains on available for sale financial assets transferred to income on disposal[2]		–	–	–	–	(865)	–	–	–	–	(865)
Foreign currency translation adjustments		–	–	–	–	–	(681)	–	–	2	(679)
Cash flow hedges		–	–	–	–	–	–	–	12	–	12
Share of other comprehensive expense from associates and joint ventures		–	–	–	–	(36)	(29)	–	–	–	(65)
Revaluation losses on property held for own use		–	–	–	–	–	–	(65)	–	–	(65)
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	2	–	2
Total comprehensive income/ (expense) for the period		–	–	–	2,197	1,826	(710)	(65)	14	3	3,265
Dividends	11	–	–	–	(1,452)	–	–	–	–	–	(1,452)
Shares issued under share option scheme and agency share purchase plan		6	–	–	–	–	–	–	–	–	6
Share-based compensation		–	–	47	–	–	–	–	–	–	47
Purchase of shares held by employee share-based trusts		–	(6)	–	–	–	–	–	–	–	(6)
Transfer of vested shares from employee share-based trusts		–	71	(71)	–	–	–	–	–	–	–
Balance at 30 June 2020 – Unaudited		14,135	(155)	(11,911)	41,667	13,495	(1,408)	1,008	(27)	451	57,255

Notes:

(1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.

(2) Gross of tax, policyholders' participation and other shadow accounting related movements, US$4,709m relates to the fair value gains on available for sale financial assets and US$926m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the six months ended 30 June 2020.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Cash flows from operating activities		
Profit before tax	**3,714**	2,574
Adjustments for:		
Financial investments	**(12,101)**	(7,459)
Insurance and investment contract liabilities, and deferred acquisition and origination costs	**10,139**	9,053
Obligations under repurchase agreements	**1,774**	(314)
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items	**(4,193)**	(4,024)
Operating cash items:		
Interest received	**3,712**	3,377
Dividends received	**519**	460
Interest paid	**(24)**	(24)
Tax paid	**(446)**	(377)
Net cash provided by operating activities	**3,094**	3,266
Cash flows from investing activities		
Payments for intangible assets	**(120)**	(81)
Distribution or dividend from an associate	**–**	2
Payments for increase in interest of joint ventures	**(27)**	(2)
Proceeds from sales of investment property and property, plant and equipment	**1**	–
Payments for investment property and property, plant and equipment	**(51)**	(51)
Acquisition of subsidiaries	**–**	(536)
Net cash used in investing activities	**(197)**	(668)
Cash flows from financing activities		
Issuances of medium-term notes and securities	**1,121**	1,055
Redemption of medium-term notes	**(502)**	–
Proceeds from other borrowings	**94**	911
Repayment of other borrowings	**(83)**	(841)
Capital contributions from non-controlling interests	**11**	–
Payments for lease liabilities[(1)]	**(95)**	(96)
Interest paid on medium-term notes and securities	**(148)**	(107)
Dividends paid during the period	**(1,572)**	(1,452)
Purchase of shares held by employee share-based trusts	**(97)**	(6)
Shares issued under share option scheme and agency share purchase plan	**4**	6
Net cash used in financing activities	**(1,267)**	(530)
Net increase in cash and cash equivalents	**1,630**	2,068
Cash and cash equivalents at beginning of the financial period	**5,393**	3,753
Effect of exchange rate changes on cash and cash equivalents	**(94)**	(59)
Cash and cash equivalents at end of the financial period	**6,929**	5,762

Note:
(1) The total cash outflow for leases for the six months ended 30 June 2021 was US$98m (six months ended 30 June 2020: US$100m).

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

	Note	**As at 30 June 2021 (Unaudited)**	As at 30 June 2020 (Unaudited)
Cash and cash equivalents in the interim consolidated statement of financial position	16	**7,149**	5,950
Bank overdrafts		**(220)**	(188)
Cash and cash equivalents in the interim consolidated statement of cash flows		**6,929**	5,762

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

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

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

2. Basis of preparation and statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting and International Accounting Standard (IAS) 34, Interim Financial Reporting. International Financial Reporting Standards (IFRS) is substantially consistent with Hong Kong Financial Reporting Standards (HKFRS) and the accounting policy selections that the Group has made in preparing these interim condensed consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. References to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) in these interim condensed consolidated financial statements should be read as referring to the equivalent HKFRS, HKAS and Hong Kong (IFRIC) Interpretations (HK(IFRIC) – Int) as the case may be. Accordingly, there are not any differences of accounting practice between HKFRS and IFRS affecting these interim condensed consolidated financial statements. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2020.

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

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

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2; and

- Amendment to IFRS 16, COVID-19-Related Rent Concessions.

(b) The following relevant new amendments to standards have been issued since the release of the Group's 2020 consolidated financial statements, but are not effective for the financial year ending 31 December 2021 and have not been early adopted (the financial years for which the adoption is required for the Group is stated in parentheses). The Group has assessed the impact of the new amendment on its financial position and results of operations and it is not expected to have a material impact on the financial position or results of operations of the Group:

- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction (2023).

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgement on estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Actual results may differ from these estimates. The interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRS and IFRS.

The interim condensed consolidated financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 50. The interim condensed consolidated financial statements have also been reviewed by the Company's Audit Committee.

The financial statements relating to the financial year ended 31 December 2020 that are included in the interim condensed consolidated financial statements as comparative information does not constitute the Group's statutory financial statements for that financial period but is derived from those financial statements. The Group has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 March 2021. Their report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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

3. Exchange rates

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

	US dollar exchange rates		
	Six months ended 30 June 2021 (Unaudited)	Year ended 31 December 2020	Six months ended 30 June 2020 (Unaudited)
Mainland China	**6.47**	6.90	7.03
Hong Kong	**7.76**	7.76	7.76
Thailand	**30.82**	31.27	31.60
Singapore	**1.33**	1.38	1.40
Malaysia	**4.10**	4.20	4.25

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

	US dollar exchange rates		
	As at 30 June 2021 (Unaudited)	As at 31 December 2020	As at 30 June 2020 (Unaudited)
Mainland China	**6.46**	6.53	7.07
Hong Kong	**7.77**	7.75	7.75
Thailand	**32.03**	29.95	30.88
Singapore	**1.34**	1.32	1.40
Malaysia	**4.15**	4.02	4.28

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

4. Operating profit after tax

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

US$m	Note	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Operating profit after tax	6	**3,206**	2,958
Non-operating items, net of related changes in insurance and investment contract liabilities and taxes:			
Short-term fluctuations in investment return related to equities and real estate(1)		**196**	(1,309)
Reclassification of revaluation (gains)/losses for property held for own use(1)		**(37)**	61
Corporate transaction related costs		**(19)**	(37)
Implementation costs for new accounting standards		**(28)**	(22)
Other non-operating investment return and other items		**(49)**	532
Subtotal(2)		**63**	(775)
Net profit		**3,269**	2,183
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited		**3,182**	2,933
Non-controlling interests		**24**	25
Net profit attributable to:			
Shareholders of AIA Group Limited		**3,245**	2,197
Non-controlling interests		**24**	(14)

Notes:

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

(2) The amount is net of tax credit of US$13m (six months ended 30 June 2020: US$91m). The gross amount before tax is US$50m (six months ended 30 June 2020: US$(866)m).

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

5. Total weighted premium income and annualised new premiums

For management decision-making and internal performance management purposes, the Group measures business volumes during the period using a performance measure referred to as total weighted premium income (TWPI). The Group measures new business activity using a performance measure referred to as annualised new premiums (ANP). The presentation of this note is consistent with our reportable segment presentation in note 6.

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premiums and fee income recorded in the interim consolidated income statement.

ANP is a key internal measure of new business activities, which consists of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. ANP excludes new business of pension business, personal lines and motor insurance.

TWPI US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
TWPI by geography		
Mainland China	**3,961**	3,001
Hong Kong	**5,773**	6,136
Thailand	**2,089**	1,981
Singapore	**1,730**	1,502
Malaysia	**1,200**	1,049
Other Markets	**3,758**	3,257
Total	**18,511**	16,926
First year premiums by geography		
Mainland China	**872**	693
Hong Kong	**357**	462
Thailand	**291**	282
Singapore	**188**	145
Malaysia	**186**	141
Other Markets	**518**	439
Total	**2,412**	2,162
Single premiums by geography		
Mainland China	**92**	234
Hong Kong	**1,376**	876
Thailand	**256**	91
Singapore	**711**	521
Malaysia	**163**	87
Other Markets	**448**	440
Total	**3,046**	2,249

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

TWPI (continued) US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Renewal premiums by geography		
Mainland China	**3,080**	2,285
Hong Kong	**5,278**	5,586
Thailand	**1,772**	1,690
Singapore	**1,471**	1,305
Malaysia	**998**	899
Other Markets	**3,195**	2,774
Total	**15,794**	14,539

ANP US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
ANP by geography		
Mainland China	**899**	726
Hong Kong	**505**	565
Thailand	**333**	312
Singapore	**279**	214
Malaysia	**253**	159
Other Markets	**791**	603
Total	**3,060**	2,579

6. 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 Mainland China, Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia, Cambodia, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

As each reportable segment other than the Group Corporate Centre segment focuses on serving the life insurance needs of its local market, there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- ANP;
- TWPI;
- investment return;
- operating expenses;
- operating profit after tax attributable to shareholders of AIA Group Limited;
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit after tax expressed as a percentage of TWPI; and
- operating return on shareholders' allocated equity measured on an annualised basis as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing shareholders' allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests and fair value reserve).

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

The Group provides deferred tax liabilities in respect of unremitted earnings in jurisdictions where withholding tax charge would be incurred upon dividend distribution. On 1 October 2020, AIA Company Limited (AIA Co.) converted its Mainland China business to a wholly-owned subsidiary, AIA Life Insurance Company Limited, which was incorporated in Shanghai on 9 July 2020. Upon the conversion of the Mainland China business to AIA Life Insurance Company Limited, any future dividends to the Group from this subsidiary are subject to withholding tax at the applicable tax rate in Mainland China (currently at 5 per cent). Consequently, deferred tax liability in respect of unremitted earnings of this subsidiary was provided for in the period ended 30 June 2021 and year ended 31 December 2020.

6. Segment information (continued)

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
Six months ended 30 June 2021 – Unaudited								
ANP	899	505	333	279	253	791	–	3,060
TWPI	3,961	5,773	2,089	1,730	1,200	3,758	–	18,511
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	3,776	6,192	1,968	1,877	999	2,535	63	17,410
Investment return	658	1,993	614	709	298	610	299	5,181
Total revenue	4,434	8,185	2,582	2,586	1,297	3,145	362	22,591
Net insurance and investment contract benefits	2,978	5,985	1,415	1,918	807	1,627	57	14,787
Commission and other acquisition expenses	303	747	421	185	123	480	8	2,267
Operating expenses	232	209	128	111	109	509	141	1,439
Finance costs and other expenses	29	92	28	22	8	45	140	364
Total expenses	3,542	7,033	1,992	2,236	1,047	2,661	346	18,857
Share of (losses)/profit from associates and joint ventures	–	(1)	–	–	–	3	–	2
Operating profit before tax	892	1,151	590	350	250	487	16	3,736
Tax on operating profit before tax	(170)	(89)	(105)	(11)	(51)	(84)	(20)	(530)
Operating profit/(losses) after tax	722	1,062	485	339	199	403	(4)	3,206
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	722	1,055	485	339	194	391	(4)	3,182
Non-controlling interests	–	7	–	–	5	12	–	24
Key operating ratios:								
Expense ratio	5.9%	3.6%	6.1%	6.4%	9.1%	13.5%	–	7.8%
Operating margin	18.2%	18.4%	23.2%	19.6%	16.6%	10.7%	–	17.3%
Operating return on shareholders' allocated equity	31.4%	16.3%	14.5%	16.0%	17.9%	8.6%	–	12.8%
Operating profit before tax includes:								
Finance costs	18	15	–	1	1	4	133	172
Depreciation and amortisation	49	46	11	14	12	50	16	198

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
30 June 2021 – Unaudited								
Total assets	38,567	118,329	35,116	46,851	17,265	53,636	20,127	329,891
Total liabilities	33,847	100,647	26,746	41,640	15,069	43,230	9,295	270,474
Total equity	4,720	17,682	8,370	5,211	2,196	10,406	10,832	59,417
Shareholders' allocated equity	4,066	12,828	6,492	4,222	2,082	8,840	10,341	48,871
Total assets include:								
Investments in associates and joint ventures	–	3	–	–	2	671	–	676

6. Segment information (continued)

Segment information may be reconciled to the interim consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[(1)]	Interim consolidated income statement	
Six months ended 30 June 2021 – Unaudited					
Net premiums, fee income and other operating revenue	17,410	–	4	17,414	Net premiums, fee income and other operating revenue
Investment return	5,181	741	858	6,780	Investment return
Total revenue	22,591	741	862	24,194	**Total revenue**
Net insurance and investment contract benefits	14,787	503	780	16,070	Net insurance and investment contract benefits
Other expenses	4,070	–	342	4,412	Other expenses
Total expenses	18,857	503	1,122	20,482	**Total expenses**
Share of profit from associates and joint ventures	2	–	–	2	Share of profit from associates and joint ventures
Operating profit before tax	3,736	238	(260)	3,714	**Profit before tax**

Note:
(1) Include unit-linked contracts.

6. Segment information (continued)

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
Six months ended 30 June 2020 – Unaudited								
ANP	726	565	312	214	159	603	–	2,579
TWPI	3,001	6,136	1,981	1,502	1,049	3,257	–	16,926
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	3,039	6,631	1,909	1,596	901	2,151	57	16,284
Investment return	509	1,695	631	616	279	573	246	4,549
Total revenue	3,548	8,326	2,540	2,212	1,180	2,724	303	20,833
Net insurance and investment contract benefits	2,388	6,155	1,415	1,619	770	1,304	47	13,698
Commission and other acquisition expenses	222	770	397	170	127	463	8	2,157
Operating expenses	185	220	113	96	90	445	93	1,242
Finance costs and other expenses	22	88	26	28	7	39	111	321
Total expenses	2,817	7,233	1,951	1,913	994	2,251	259	17,418
Share of profit from associates and joint ventures	–	–	–	–	–	2	–	2
Operating profit before tax	731	1,093	589	299	186	475	44	3,417
Tax on operating profit before tax	(91)	(80)	(111)	4	(36)	(127)	(18)	(459)
Operating profit after tax	640	1,013	478	303	150	348	26	2,958
Operating profit after tax attributable to:								
Shareholders of AIA Group Limited	640	1,005	478	303	148	333	26	2,933
Non-controlling interests	–	8	–	–	2	15	–	25
Key operating ratios:								
Expense ratio	6.2%	3.6%	5.7%	6.4%	8.6%	13.7%	–	7.3%
Operating margin	21.3%	16.5%	24.1%	20.2%	14.3%	10.7%	–	17.5%
Operating return on shareholders' allocated equity	28.7%	18.8%	14.4%	16.9%	15.8%	7.8%	–	13.2%
Operating profit before tax includes:								
Finance costs	16	16	–	1	1	5	102	141
Depreciation and amortisation	43	51	11	15	10	57	18	205

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
31 December 2020								
Total assets	34,919	113,933	38,640	45,994	17,715	55,644	19,276	326,121
Total liabilities	29,989	95,598	28,730	40,640	15,445	44,369	7,682	262,453
Total equity	4,930	18,335	9,910	5,354	2,270	11,275	11,594	63,668
Shareholders' allocated equity	4,407	11,999	6,421	3,916	2,060	8,936	10,291	48,030
Total assets include:								
Investments in associates and joint ventures	–	3	–	–	2	601	–	606

6. Segment information (continued)

Segment information may be reconciled to the interim consolidated income statement as shown below:

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[(1)]	Interim consolidated income statement	
Six months ended 30 June 2020 – Unaudited					
Net premiums, fee income and other operating revenue	16,284	–	(1)	16,283	Net premiums, fee income and other operating revenue
Investment return	4,549	(2,886)	1,718	3,381	Investment return
Total revenue	20,833	(2,886)	1,717	19,664	**Total revenue**
Net insurance and investment contract benefits	13,698	(1,384)	717	13,031	Net insurance and investment contract benefits
Other expenses	3,720	–	341	4,061	Other expenses
Total expenses	17,418	(1,384)	1,058	17,092	**Total expenses**
Share of profit from associates and joint ventures	2	–	–	2	Share of profit from associates and joint ventures
Operating profit before tax	3,417	(1,502)	659	2,574	**Profit before tax**

Note:
(1) Include unit-linked contracts.

7. Investment return

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Interest income	**3,681**	3,443
Dividend income	**539**	459
Rental income	**84**	87
Investment income	**4,304**	3,989
Available for sale		
Net realised gains from debt securities	**1,103**	926
Net gains of available for sale financial assets reflected in the interim consolidated income statement	**1,103**	926
At fair value through profit or loss		
Net (losses)/gains of debt securities	**(907)**	719
Net gains/(losses) of equity securities	**2,798**	(3,165)
Net fair value movement on derivatives	**(864)**	843
Net gains/(losses) in respect of financial instruments at fair value through profit or loss	**1,027**	(1,603)
Net fair value movement of investment property	**(2)**	(276)
Net foreign exchange gains	**395**	363
Other net realised losses	**(47)**	(18)
Investment experience	**2,476**	(608)
Investment return	**6,780**	3,381

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

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Foreign exchange gains	**261**	111

8. Expenses

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Insurance contract benefits	**7,596**	6,878
Change in insurance contract liabilities	**9,004**	7,207
Investment contract benefits	**672**	(155)
Insurance and investment contract benefits	**17,272**	13,930
Insurance and investment contract benefits ceded	**(1,202)**	(899)
Insurance and investment contract benefits, net of reinsurance ceded	**16,070**	13,031
Commission and other acquisition expenses incurred	**2,857**	2,725
Deferral and amortisation of acquisition costs	**(590)**	(568)
Commission and other acquisition expenses	**2,267**	2,157
Employee benefit expenses	**932**	817
Depreciation	**135**	132
Amortisation	**43**	49
Other operating expenses	**329**	244
Operating expenses	**1,439**	1,242
Investment management expenses and others	**297**	283
Depreciation on property held for own use	**16**	16
Restructuring and other non-operating costs[1]	**207**	190
Change in third-party interests in consolidated investment funds	**10**	30
Other expenses	**530**	519
Finance costs	**176**	143
Total	**20,482**	17,092

Note:

(1) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of corporate transaction related costs, implementation costs for new accounting standards and other items that are not expected to be recurring in nature.

8. Expenses (continued)

Finance costs may be analysed as:

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Repurchase agreements	**19**	15
Medium-term notes and securities	**147**	111
Lease liabilities	**7**	8
Other loans	**3**	9
Total	**176**	143

Employee benefit expenses consist of:

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Wages and salaries	**751**	664
Share-based compensation	**39**	48
Pension costs – defined contribution plans	**60**	46
Pension costs – defined benefit plans	**7**	7
Other employee benefit expenses	**75**	52
Total	**932**	817

9. Income tax

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Tax charged in the interim consolidated income statement		
Current income tax – Hong Kong Profits Tax	**86**	77
Current income tax – overseas	**595**	213
Deferred income tax on temporary differences	**(236)**	101
Total	**445**	391

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

The tax benefit or expense attributable to life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, New Zealand, the Philippines and Sri Lanka is included in the tax charge or credit and is analysed separately in the interim consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from period to period. The tax credit attributable to policyholders' returns included above is US$72m (six months ended 30 June 2020: tax expense of US$23m).

During the period ended 30 June 2021, changes in the corporate income tax rates have been enacted in the Philippines and Sri Lanka. For the Philippines, the corporate income tax rate changed from 30 per cent to 25 per cent effective from 1 July 2020. For Sri Lanka, the corporate income tax rate changed from 28 per cent to 24 per cent effective from 1 January 2020.

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

10. Earnings per share

BASIC

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for the purpose of computing basic and diluted earnings per share.

	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US$m)	**3,245**	2,197
Weighted average number of ordinary shares in issue (million)	**12,065**	12,055
Basic earnings per share (US cents per share)	**26.90**	18.22

10. Earnings per share (continued)

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 30 June 2021 and 2020, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 23.

	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US$m)	**3,245**	2,197
Weighted average number of ordinary shares in issue (million)	**12,065**	12,055
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans (million)	**22**	19
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,087**	12,074
Diluted earnings per share (US cents per share)	**26.85**	18.20

At 30 June 2021, 1,849,222 share options (30 June 2020: 9,824,311) 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 4) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. As of 30 June 2021 and 2020, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 23.

	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)
Basic (US cents per share)	**26.37**	24.33
Diluted (US cents per share)	**26.33**	24.29

11. Dividends

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

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Interim dividend declared after the reporting date of 38.00 Hong Kong cents per share (six months ended 30 June 2020: 35.00 Hong Kong cents per share)[1]	**590**	545

Note:

(1) Based upon shares outstanding at 30 June 2021 and 2020 that are entitled to a dividend, other than those held by employee share-based trusts.

The above interim dividend was declared after the reporting date and has not been recognised as a liability at the reporting date.

Dividends to shareholders of the Company attributable to the previous financial period, approved and paid during the interim period:

US$m	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Final dividend in respect of the previous financial period, approved and paid during the interim period of 100.30 Hong Kong cents per share (six months ended 30 June 2020: 93.30 Hong Kong cents per share)	**1,558**	1,452

12. Intangible assets

US$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 January 2021	1,659	823	911	3,393
Additions	–	54	–	54
Disposals	–	(18)	–	(18)
Foreign exchange movements	(48)	(13)	(8)	(69)
At 30 June 2021 – Unaudited	**1,611**	**846**	**903**	**3,360**
Accumulated amortisation				
At 1 January 2021	(4)	(512)	(243)	(759)
Amortisation charge for the period	–	(43)	(20)	(63)
Disposals	–	18	–	18
Foreign exchange movements	–	8	5	13
At 30 June 2021 – Unaudited	**(4)**	**(529)**	**(258)**	**(791)**
Net book value				
At 31 December 2020	1,655	311	668	2,634
At 30 June 2021 – Unaudited	**1,607**	**317**	**645**	**2,569**

The Group holds intangible assets for its long-term use and the annual amortisation charge of US$126m (31 December 2020: US$142m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period.

The carrying amount of distribution and other rights is US$645m (31 December 2020: US$668m), a significant proportion of which is related to the bancassurance partnership with Citibank, N.A. (Citibank).

In April 2021, Citibank announced publicly that it will pursue an exit from its consumer banking business in the markets covered by the bancassurance partnership except for Hong Kong and Singapore. The Group is in discussions with Citibank on the future arrangement of the bancassurance partnership.

The Group determined that there was no impairment of the Group's intangible assets as at 30 June 2021.

13. Financial investments

DEBT SECURITIES

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[5]	
US$m	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
30 June 2021 – Unaudited								
Government bonds[1]	**10,330**	**–**	**1,185**	**43,922**	**55,437**	**1,669**	**–**	**57,106**
Other government and government agency bonds[2]	**6,615**	**4,255**	**70**	**17,817**	**28,757**	**548**	**678**	**29,983**
Corporate bonds	**10,926**	**42,699**	**1,058**	**49,663**	**104,346**	**1,361**	**2,301**	**108,008**
Structured securities[3]	**335**	**–**	**433**	**942**	**1,710**	**222**	**–**	**1,932**
Total[4]	**28,206**	**46,954**	**2,746**	**112,344**	**190,250**	**3,800**	**2,979**	**197,029**
31 December 2020								
Government bonds[1]	9,324	–	1,189	45,750	56,263	1,846	–	58,109
Other government and government agency bonds[2]	6,767	4,934	75	18,843	30,619	508	332	31,459
Corporate bonds	11,922	42,668	264	51,975	106,829	1,459	2,063	110,351
Structured securities[3]	357	–	474	936	1,767	195	–	1,962
Total[4]	28,370	47,602	2,002	117,504	195,478	4,008	2,395	201,881

Notes:

(1) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates.

(2) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities, government-related entities, multilateral development banks and supranational organisations.

(3) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(4) Debt securities of US$8,490m (31 December 2020: US$9,188m) are restricted due to local regulatory requirements.

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

13. 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
30 June 2021 – Unaudited						
Equity shares	**17,083**	**5,044**	**22,127**	**7,193**	**1,806**	**31,126**
Interests in investment funds	**11,437**	**1,928**	**13,365**	**20,603**	**12**	**33,980**
Total	**28,520**	**6,972**	**35,492**	**27,796**	**1,818**	**65,106**

US$m	Policyholder and shareholder: Participating funds and other participating business with distinct portfolios FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds[1] FVTPL	Total
31 December 2020						
Equity shares	15,596	6,302	21,898	7,185	1,073	30,156
Interests in investment funds	8,296	756	9,052	19,974	–	29,026
Total	23,892	7,058	30,950	27,159	1,073	59,182

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

DEBT AND EQUITY SECURITIES

US$m	As at 30 June 2021 (Unaudited)	As at 31 December 2020
Debt securities		
Listed	**154,261**	160,062
Unlisted	**42,768**	41,819
Total	**197,029**	201,881
Equity securities		
Listed	**33,166**	31,050
Unlisted[1]	**31,940**	28,132
Total	**65,106**	59,182

Note:
(1) Including US$27,002m (31 December 2020: US$25,806m) of investment funds which can be redeemed daily.

13. Financial investments (continued)

LOANS AND DEPOSITS

US$m	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
Policy loans	**3,559**	3,547
Mortgage loans on residential real estate	**549**	590
Mortgage loans on commercial real estate	**46**	49
Other loans	**597**	760
Allowance for loan losses	**(15)**	(14)
Loans	**4,736**	4,932
Term deposits	**3,225**	2,683
Promissory notes[(1)]	**1,608**	1,720
Total	**9,569**	9,335

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

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US$1,953m (31 December 2020: US$2,057m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 30 June 2021, the carrying value of such receivables is US$294m (31 December 2020: US$271m).

Effect of Inter-bank offered rate (IBOR) reform

The International Accounting Standards Board (IASB) published *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2* to address the implications on financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate. These amendments have been adopted for the first time for the year ending 31 December 2021 and have no material impact to the Group.

The Group currently holds a number of financial instrument contracts which reference USD London Interbank Offered Rate (LIBOR), Singapore Swap Offer Rate (SOR) and Thai Baht Interest Rate Fixing (THBFIX), that extend beyond 2021 (collectively "Original Benchmark Interest Rates") and have not yet transitioned to replacement benchmark interest rates.

The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to systems, processes, risk management procedures and valuation models that may arise as a consequence of the reform. Such reform has no impact on the Group's risk management strategy. Risks arising from instruments that are subject to such transition are not considered significant.

While the impact of IBOR reform on profit or loss and other comprehensive income is not considered significant to the Group, the following table contains the carrying value of relevant financial instruments that the Group holds at 30 June 2021.

	Carrying value at 30 June 2021 and have yet to transition to a replacement benchmark interest rate		
US$m	**USD LIBOR**	**SOR**	**THBFIX**
Non-derivative financial assets	**1,518**	**904**	**–**
Non-derivative financial liabilities	**–**	**(371)**	**–**
Net derivative financial assets/(liabilities)	**(73)**	**23**	**45**

14. Derivative financial instruments

The Group's derivative exposure is as follows:

US$m	Notional amount	Fair value Assets	Fair value Liabilities
30 June 2021 – Unaudited			
Foreign exchange contracts			
Cross-currency swaps	**8,086**	**101**	**(310)**
Forwards	**3,971**	**72**	**(22)**
Foreign exchange futures	**91**	**–**	**–**
Total foreign exchange contracts	**12,148**	**173**	**(332)**
Interest rate contracts			
Interest rate swaps	**8,879**	**415**	**(249)**
Other			
Warrants and options	**147**	**9**	**–**
Forward contracts	**17,004**	**310**	**(1,252)**
Swaps	**1,787**	**8**	**(3)**
Netting	**(91)**	**–**	**–**
Total	**39,874**	**915**	**(1,836)**
31 December 2020			
Foreign exchange contracts			
Cross-currency swaps	8,172	313	(158)
Forwards	2,694	121	(17)
Foreign exchange futures	100	–	–
Total foreign exchange contracts	10,966	434	(175)
Interest rate contracts			
Interest rate swaps	8,510	561	(308)
Other			
Warrants and options	1,342	51	(45)
Forward contracts	10,658	18	(469)
Swaps	1,267	5	(6)
Netting	(100)	–	–
Total	32,643	1,069	(1,003)

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

Of the total derivatives, US$25m (31 December 2020: US$25m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the interim consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to provide an economic hedge to financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the interim consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

14. Derivative financial instruments (continued)

FOREIGN EXCHANGE CONTRACTS

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices and the timing of payments.

INTEREST RATE SWAPS

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

OTHER DERIVATIVES

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Forward contracts are contractual obligations to buy or sell a financial instrument on a predetermined future date at a specified price. Swaps are OTC contractual agreements between the Group and a third party to exchange a series of cash flows based upon an index, rates or other variables applied to a notional amount.

NETTING ADJUSTMENT

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

COLLATERAL UNDER DERIVATIVE TRANSACTIONS

At 30 June 2021, the Group had posted cash collateral of US$170m (31 December 2020: US$86m) and pledged debt securities with carrying value of US$1,489m (31 December 2020: US$696m) for liabilities and held cash collateral of US$288m (31 December 2020: US$500m), debt securities collateral with carrying value of US$20m (31 December 2020: US$17m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

15. Fair value measurement of financial instruments

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

		Fair value				
US$m	Notes	**Fair value through profit or loss**	**Available for sale**	**Cost/ amortised cost**	**Total carrying value**	**Total fair value**
30 June 2021- Unaudited						
Financial investments	13					
Loans and deposits		**–**	**–**	**9,569**	**9,569**	**9,565**
Debt securities		**37,731**	**159,298**	**–**	**197,029**	**197,029**
Equity securities		**65,106**	**–**	**–**	**65,106**	**65,106**
Derivative financial instruments	14	**915**	**–**	**–**	**915**	**915**
Reinsurance receivables		**–**	**–**	**816**	**816**	**816**
Other receivables		**–**	**–**	**3,423**	**3,423**	**3,423**
Accrued investment income		**–**	**–**	**1,838**	**1,838**	**1,838**
Cash and cash equivalents	16	**–**	**–**	**7,149**	**7,149**	**7,149**
Financial assets		**103,752**	**159,298**	**22,795**	**285,845**	**285,841**

	Notes	**Fair value through profit or loss**	**Cost/ amortised cost**	**Total carrying value**	**Total fair value**
Financial liabilities					
Investment contract liabilities	17	**12,016**	**556**	**12,572**	**12,572**
Borrowings	18	**–**	**9,182**	**9,182**	**10,020**
Obligations under repurchase agreements	19	**–**	**3,447**	**3,447**	**3,447**
Derivative financial instruments	14	**1,836**	**–**	**1,836**	**1,836**
Other liabilities		**1,004**	**7,364**	**8,368**	**8,368**
Financial liabilities		**14,856**	**20,549**	**35,405**	**36,243**

15. Fair value measurement of financial instruments (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 2020						
Financial investments	13					
Loans and deposits		–	–	9,335	9,335	9,333
Debt securities		36,775	165,106	–	201,881	201,881
Equity securities		59,182	–	–	59,182	59,182
Derivative financial instruments	14	1,069	–	–	1,069	1,069
Reinsurance receivables		–	–	671	671	671
Other receivables		–	–	3,053	3,053	3,053
Accrued investment income		–	–	1,822	1,822	1,822
Cash and cash equivalents	16	–	–	5,619	5,619	5,619
Financial assets		97,026	165,106	20,500	282,632	282,630

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	17	12,026	543	12,569	12,569
Borrowings	18	–	8,559	8,559	9,555
Obligations under repurchase agreements	19	–	1,664	1,664	1,664
Derivative financial instruments	14	1,003	–	1,003	1,003
Other liabilities		1,025	6,772	7,797	7,797
Financial liabilities		14,054	17,538	31,592	32,588

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the six months ended 30 June 2021.

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.

15. Fair value measurement of financial instruments (continued)

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

A summary of financial assets and liabilities carried at fair value according to fair value hierarchy is given below:

	Fair value hierarchy			
US$m	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2021 – Unaudited				
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	**–**	**46,946**	**8**	**46,954**
Other policyholder and shareholder	**–**	**111,151**	**1,193**	**112,344**
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	**–**	**27,368**	**838**	**28,206**
Unit-linked and consolidated investment funds	**22**	**6,757**	**–**	**6,779**
Other policyholder and shareholder	**1**	**2,434**	**311**	**2,746**
Equity securities				
Participating funds and other participating business with distinct portfolios	**23,742**	**999**	**3,779**	**28,520**
Unit-linked and consolidated investment funds	**28,991**	**302**	**321**	**29,614**
Other policyholder and shareholder	**5,290**	**1,063**	**619**	**6,972**
Derivative financial instruments				
Foreign exchange contracts	**–**	**173**	**–**	**173**
Interest rate contracts	**–**	**415**	**–**	**415**
Other contracts	**12**	**315**	**–**	**327**
Total financial assets on a recurring fair value measurement basis	**58,058**	**197,923**	**7,069**	**263,050**
% of Total	***22.1***	***75.2***	***2.7***	***100.0***
Financial liabilities				
Investment contract liabilities	**–**	**11,704**	**312**	**12,016**
Derivative financial instruments				
Foreign exchange contracts	**–**	**332**	**–**	**332**
Interest rate contracts	**–**	**249**	**–**	**249**
Other contracts	**9**	**1,246**	**–**	**1,255**
Other liabilities	**–**	**1,004**	**–**	**1,004**
Total financial liabilities on a recurring fair value measurement basis	**9**	**14,535**	**312**	**14,856**
% of Total	***0.1***	***97.8***	***2.1***	***100.0***

15. Fair value measurement of financial instruments (continued)

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

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2020				
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	–	47,594	8	47,602
Other policyholder and shareholder	69	116,178	1,257	117,504
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	14	27,426	930	28,370
Unit-linked and consolidated investment funds	14	6,386	3	6,403
Other policyholder and shareholder	1	1,697	304	2,002
Equity securities				
Participating funds and other participating business with distinct portfolios	20,272	877	2,743	23,892
Unit-linked and consolidated investment funds	27,640	285	307	28,232
Other policyholder and shareholder	5,481	1,077	500	7,058
Derivative financial instruments				
Foreign exchange contracts	–	434	–	434
Interest rate contracts	–	561	–	561
Other contracts	13	61	–	74
Total financial assets on a recurring fair value measurement basis	53,504	202,576	6,052	262,132
% of Total	*20.4*	*77.3*	*2.3*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	12,026	12,026
Derivative financial instruments				
Foreign exchange contracts	–	175	–	175
Interest rate contracts	–	308	–	308
Other contracts	12	508	–	520
Other liabilities	–	1,025	–	1,025
Total financial liabilities on a recurring fair value measurement basis	12	2,016	12,026	14,054
% of Total	*0.1*	*14.3*	*85.6*	*100.0*

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the six months ended 30 June 2021, the Group transferred US$312m (year ended 31 December 2020: US$127m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US$202m (year ended 31 December 2020: US$9m) of assets from Level 2 to Level 1 during the six months ended 30 June 2021.

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

15. Fair value measurement of financial instruments (continued)

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

The table below sets out a summary of changes in the Group's Level 3 financial assets and liabilities measured at fair value on a recurring basis for the six months ended 30 June 2021. The table reflects gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 30 June 2021.

Level 3 financial assets and liabilities

US$m	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 January 2021	**2,502**	**3,550**	**–**	**(12,026)**
Net movement on investment contract liabilities	–	–	–	(5)
Total gains/(losses)				
Reported under investment return in the interim consolidated income statement	(2)	346	–	–
Reported under fair value reserve and foreign currency translation reserve in the interim consolidated statement of comprehensive income	12	(35)	–	–
Purchases	172	895	–	–
Sales	(14)	(37)	–	–
Settlements	(320)	–	–	–
Transfer out of Level 3	–	–	–	11,719
At 30 June 2021 – Unaudited	**2,350**	**4,719**	**–**	**(312)**
Change in unrealised gains or losses included in the interim consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return	**(36)**	**332**	**–**	**–**

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. In 2021, the Group has revisited the fair value hierarchy disclosure of its investment contract liabilities. Of the total investment contract liabilities reported, US$11,719m have been valued based on quoted prices of the underlying investments hence they are classified as Level 2.

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.

15. Fair value measurement of financial instruments (continued)

SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 FAIR VALUE MEASUREMENTS

As at 30 June 2021, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 30 June 2021 (Unaudited) (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	907	Discounted cash flows	Risk adjusted discount rate	3.71% – 10.79%

VALUATION PROCESSES

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses private pricing providers and, only in rare cases when third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment team analyses reported price exceptions and reviews price challenge responses from private pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Valuations Advisory Committee which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the debt securities and investment contracts. The unobservable inputs for determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

16. Cash and cash equivalents

US$m	As at 30 June 2021 (Unaudited)	As at 31 December 2020
Cash	**4,260**	2,877
Cash equivalents	**2,889**	2,742
Total[(1)]	**7,149**	5,619

Note:
(1) US$931m (31 December 2020: US$1,111m) are held to back unit-linked contracts and US$42m (31 December 2020: US$108m) are held by consolidated investment funds.

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

17. Insurance and investment contract liabilities

INSURANCE CONTRACT LIABILITIES

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

US$m	As at 30 June 2021 (Unaudited)	As at 31 December 2020
Deferred profit	**27,166**	24,972
Unearned revenue	**2,039**	1,751
Policyholders' share of participating surplus	**30,259**	31,151
Liabilities for future policyholder benefits	**168,812**	165,197
Total	**228,276**	223,071

INVESTMENT CONTRACT LIABILITIES

Investment contract liabilities include deferred fee income of US$287m (31 December 2020: US$312m).

18. Borrowings

US$m	As at 30 June 2021 (Unaudited)	As at 31 December 2020
Other loans	**11**	–
Medium-term notes and securities		
Senior notes	**6,321**	6,824
Subordinated securities	**2,850**	1,735
Total	**9,182**	8,559

18. Borrowings (continued)

The following table summarises the Company's outstanding medium-term notes and securities placed to the market at 30 June 2021:

SENIOR NOTES

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
13 March 2013(1)	US$500m	3.125%	10 years	13 March 2023
11 March 2014(1)	US$500m	4.875%	30 years	11 March 2044
11 March 2015(1)	US$750m	3.200%	10 years	11 March 2025
16 March 2016(1)	US$750m	4.500%	30 years	16 March 2046
23 May 2017(2)	US$500m	4.470%	30 years	23 May 2047
6 April 2018(1)	US$500m	3.900%	10 years	6 April 2028
20 September 2018(1)	US$500m	3M LIBOR + 0.52%	3 years	20 September 2021
16 January 2019	HK$1,300m	2.950%	3.5 years	16 July 2022
16 January 2019	HK$1,100m	3.680%	12 years	16 January 2031
9 April 2019(1)	US$1,000m	3.600%	10 years	9 April 2029
7 April 2020(1)	US$1,000m	3.375%	10 years	7 April 2030
24 June 2020	A$90m	2.950%	10 years	24 June 2030

SUBORDINATED SECURITIES

Issue date	Nominal amount	Interest rate	Tenor at issue	Maturity
16 September 2020(1)(3)	US$1,750m	3.200%	20 years	16 September 2040
7 April 2021(1)(3)(4)	US$750m	2.700%	Perpetual	n/a
11 June 2021(1)(3)(4)	SG$500m	2.900%	Perpetual	n/a

Notes:

(1) These medium-term notes and securities are listed on The Stock Exchange of Hong Kong Limited.

(2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

(3) The Company has the right to redeem these securities, in whole, at par on predetermined dates as set out within the terms and conditions of the securities.

(4) The coupon rate of these securities is fixed for a predetermined period as set out within the terms and conditions of the securities, and then resets to the initial spread plus a then prevailing benchmark rate if the securities have not been redeemed.

The net proceeds from issuance during the six months ended 30 June 2021 are used for general corporate purposes.

The Group has access to an aggregate of US$2,290m unsecured committed credit facilities, which includes a US$100m revolving three-year credit facility expiring in 2024 and a US$2,190m five-year credit facility expiring in 2026, following extension of both facilities by one year effective 28 July 2021. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 30 June 2021 and 31 December 2020.

19. Obligations under repurchase agreements

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

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

US$m	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
Debt securities – AFS		
Repurchase agreements	**3,200**	1,444
Debt securities – FVTPL		
Repurchase agreements	**248**	232
Total	**3,448**	1,676

COLLATERAL

At 30 June 2021, the Group had pledged debt securities of US$16m (31 December 2020: US$1m). Cash collateral of US$26m (31 December 2020: nil) was held based on the market value of the securities transferred. In the absence of default, the Group did not sell or repledge the collateral received.

At 30 June 2021, the obligations under repurchase agreements were US$3,447m (31 December 2020: US$1,664m).

20. Share capital and reserves

SHARE CAPITAL

	As at 30 June 2021		As at 31 December 2020	
	Million shares (Unaudited)	**US$m (Unaudited)**	Million shares	US$m
Ordinary shares[(1)], issued and fully paid				
At beginning of the financial period	**12,095**	**14,155**	12,089	14,129
Shares issued under share option scheme and agency share purchase plan	**2**	**4**	6	26
At end of the financial period	**12,097**	**14,159**	12,095	14,155

Note:
(1) Ordinary shares have no nominal value.

The Company issued 505,584 shares under share option scheme (year ended 31 December 2020: 4,876,916 shares) and 1,192,355 shares under agency share purchase plan (year ended 31 December 2020: 1,185,442 shares) during the six months ended 30 June 2021.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2021 with the exception of 7,458,188 shares (year ended 31 December 2020: 1,552,886 shares) of the Company purchased by and nil share (year ended 31 December 2020: nil share) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the six months ended 30 June 2021, 5,570,654 shares (six months ended 30 June 2020: 11,233,639 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 30 June 2021, 30,635,796 shares (31 December 2020: 28,748,261 shares) of the Company were held by the employee share-based trusts.

20. Share capital and reserves (continued)

RESERVES

Fair value reserve

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

Foreign currency translation reserve

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

Employee share-based trusts

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

Property revaluation reserve

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

Other reserves

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

21. Group capital structure

Capital Management Approach

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely among Group members and satisfying regulatory capital requirements at all times.

The Group's capital management function oversees all capital-related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining AIA's capacity to pay dividends to shareholders.

Group-wide Supervision Framework and the Local Capital Summation Method

The group supervisor of the Group is the Hong Kong Insurance Authority (HKIA). The Group is in compliance with the group capital adequacy requirements as applied to it.

In 2021, the HKIA implemented the new Group-wide Supervision (GWS) framework, under which the HKIA has direct regulatory powers over Hong Kong incorporated holding companies of insurance groups that are designated. On 14 May 2021, the Company became a designated insurance holding company and is now subject to the GWS framework including the Insurance (Group Capital) Rules (GWS Capital Rules). Under the GWS Capital Rules, the Group available capital and the Group minimum capital requirement are based on a "summation approach", and are referred to as the Local Capital Summation Method (LCSM).

Under the LCSM, the Group available capital and the Group minimum capital requirement are calculated based on summing up of the available capital and applicable required capital according to the respective regulatory requirements for each entity within the Group, subject to any variation the HKIA considers necessary. The Group LCSM surplus is the difference between the Group available capital and the Group minimum capital requirement. The Group LCSM cover ratio is the ratio of the Group available capital to the Group minimum capital requirement.

At 30 June 2021, the Group available capital includes:

(i) US$2,858m[(1)] of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20 per cent per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and

(ii) US$5,810m[(1)] of senior notes issued before designation that have been approved by the HKIA. Prior to maturity, the approved senior notes receive full capital credit until 14 May 2031, after which the capital credit reduces at the rate of 20 per cent per annum until 14 May 2036.

The comparative figures as at 31 December 2020 were based on the Group's understanding of the likely application of the GWS framework to the Group at the time and included US$1,735m of subordinated securities, while excluding US$5,810m of senior notes not then approved as contributing to Group available capital. This is largely consistent with the basis of calculation of the Group LCSM solvency position as at 30 June 2021 with the key difference being the treatment of senior notes.

Note:

(1) The amounts represent the net cash proceeds from the issuances of medium-term notes and securities contributing to Group available capital. These are counted as tier 2 group capital under the GWS Capital Rules.

21. Group capital structure (continued)

Group-wide Supervision Framework and the Local Capital Summation Method (continued)

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

US$m	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020 (Unaudited)
Group available capital	**67,675**	59,830
Group minimum capital requirement	**16,444**	16,013
Group LCSM surplus	**51,231**	43,817
Group LCSM cover ratio	**412%**	374%

Local Regulatory Solvency

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions.

The Group's principal operating companies AIA Co. and AIA International Limited (AIA International), as authorised insurers in Hong Kong, are required by the HKIA to meet the solvency margin requirements of the Hong Kong Insurance Ordinance. During the six months ended 30 June 2021 and the year ended 31 December 2020, these two principal operating companies were in compliance with these solvency requirements.

Dividends, remittances and other payments from individual branches and subsidiaries

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends, remittances and other payments being received from its operating branches and subsidiaries, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated branches and subsidiaries to make payment of dividends, remittances and other payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group.

Capital and Regulatory Orders Specific to the Group

On 14 May 2021, AIA Group Limited became a designated insurance holding company and is now subject to the GWS framework. The HKIA has confirmed that the undertaking as previously disclosed in note 37 to the Group's consolidated financial statements as at and for the year ended 31 December 2020 has ceased to apply as of 14 May 2021.

22. Risk management

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

CREDIT RISK

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

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

INTEREST RATE RISK

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

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

22. Risk management (continued)

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.

SENSITIVITY ANALYSIS

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholder participation ratios.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

	30 June 2021 (Unaudited)			31 December 2020		
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	**1,158**	**1,158**	**1,158**	1,091	1,091	1,091
10 per cent decrease in equity prices	**(1,158)**	**(1,158)**	**(1,158)**	(1,091)	(1,091)	(1,091)
Interest rate risk						
+ 50 basis points shift in yield curves	**(690)**	**(8,000)**	**(690)**	(550)	(8,403)	(550)
- 50 basis points shift in yield curves	**728**	**8,910**	**728**	584	9,356	584

22. Risk management (continued)

FOREIGN EXCHANGE RATE RISK

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

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

FOREIGN EXCHANGE RATE NET EXPOSURE

US$m	United States Dollar	China Renminbi	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit
30 June 2021 – Unaudited						
Equity analysed by original currency	**30,501**	**6,891**	**5,735**	**5,137**	**(5,526)**	**2,384**
Net positions of currency derivatives	**(8,908)**	**(13)**	**332**	**3,033**	**3,711**	**(38)**
Currency exposure	**21,593**	**6,878**	**6,067**	**8,170**	**(1,815)**	**2,346**
5% strengthening of original currency						
Impact on profit before tax	**356**	**98**	**113**	**4**	**11**	**(1)**
Impact on other comprehensive income	**(381)**	**246**	**140**	**404**	**(101)**	**118**
Impact on total equity	**(25)**	**344**	**253**	**408**	**(90)**	**117**
5% strengthening of the US dollar						
Impact on profit before tax	**356**	**(95)**	**(71)**	**(2)**	**6**	**1**
Impact on other comprehensive income	**(381)**	**(249)**	**(182)**	**(406)**	**84**	**(118)**
Impact on total equity	**(25)**	**(344)**	**(253)**	**(408)**	**90**	**(117)**

US$m	United States Dollar	China Renminbi	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit
31 December 2020						
Equity analysed by original currency	35,400	5,862	4,617	6,445	(4,644)	2,516
Net positions of currency derivatives	(9,942)	–	650	3,457	4,239	135
Currency exposure	25,458	5,862	5,267	9,902	(405)	2,651
5% strengthening of original currency						
Impact on profit before tax	260	41	71	9	25	5
Impact on other comprehensive income	(286)	252	141	485	(45)	128
Impact on total equity	(26)	293	212	494	(20)	133
5% strengthening of the US dollar						
Impact on profit before tax	260	(34)	(5)	(6)	(9)	(4)
Impact on other comprehensive income	(286)	(259)	(207)	(488)	29	(129)
Impact on total equity	(26)	(293)	(212)	(494)	20	(133)

22. Risk management (continued)

LIQUIDITY RISK

The liquidity principle adopted by the Group Board is "*We will maintain sufficient liquidity to meet our expected financial commitments as they fall due*" and as such AIA has defined liquidity risk as the risk of failure to meet current and future financial commitments as they fall due. This incorporates the risks arising from the timing mismatch of cash inflows and outflows in day-to-day operations, including collateral requirements, as well as the market liquidity of assets required for policyholder liabilities.

AIA manages liquidity risk in accordance with the Group's liquidity framework. This framework contains the standards, procedures, and tools used by the Group to monitor and manage liquidity risk in base and stressed conditions across multiple time horizons from daily to twelve months. AIA further supports its liquidity by maintaining access to committed credit facilities, use of bond repurchase markets and debt markets via the Group's Global Medium-term Note and Securities Programme.

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity[2]
30 June 2021 – Unaudited						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	**8,989**	**2,117**	**1,108**	**516**	**1,679**	**3,569**
Other receivables	**2,661**	**2,544**	**66**	**14**	**–**	**37**
Debt securities	**190,250**	**4,783**	**20,719**	**28,916**	**135,832**	**–**
Equity securities	**35,492**	**–**	**–**	**–**	**–**	**35,492**
Reinsurance receivables	**816**	**816**	**–**	**–**	**–**	**–**
Accrued investment income	**1,768**	**1,759**	**2**	**–**	**–**	**7**
Cash and cash equivalents	**6,176**	**6,176**	**–**	**–**	**–**	**–**
Derivative financial instruments	**872**	**55**	**395**	**125**	**297**	**–**
Subtotal	**247,024**	**18,250**	**22,290**	**29,571**	**137,808**	**39,105**
Financial assets (Unit-linked contracts and consolidated investment funds)	**38,481**	**–**	**–**	**–**	**–**	**38,481**[3]
Total	**285,505**	**18,250**	**22,290**	**29,571**	**137,808**	**77,586**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	**172,777**	**4,280**	**15,530**	**17,510**	**135,457**	**–**
Borrowings	**9,182**	**511**	**1,413**[1]	**2,689**	**3,454**	**1,115**
Obligations under repurchase agreements	**3,447**	**3,447**	**–**	**–**	**–**	**–**
Other liabilities excluding lease liabilities	**7,816**	**6,107**	**262**	**168**	**188**	**1,091**
Lease liabilities	**497**	**168**	**299**	**29**	**1**	**–**
Derivative financial instruments	**1,808**	**396**	**1,079**	**126**	**207**	**–**
Subtotal	**195,527**	**14,909**	**18,583**	**20,522**	**139,307**	**2,206**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	**35,798**	**–**	**–**	**–**	**–**	**35,798**
Total	**231,325**	**14,909**	**18,583**	**20,522**	**139,307**	**38,004**

Note:
(1) Including US$747m which fall due after 2 years through 5 years.

22. Risk management (continued)

LIQUIDITY RISK (continued)

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity(2)
31 December 2020						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	8,940	1,997	1,013	580	1,793	3,557
Other receivables	2,574	2,477	50	13	–	34
Debt securities	195,478	3,973	21,353	31,072	139,080	–
Equity securities	30,950	–	–	–	–	30,950
Reinsurance receivables	671	671	–	–	–	–
Accrued investment income	1,757	1,756	1	–	–	–
Cash and cash equivalents	4,400	4,400	–	–	–	–
Derivative financial instruments	1,016	189	189	249	389	–
Subtotal	245,786	15,463	22,606	31,914	141,262	34,541
Financial assets (Unit-linked contracts and consolidated investment funds)	36,499	–	–	–	–	36,499(3)
Total	282,285	15,463	22,606	31,914	141,262	71,040
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	169,477	4,316	15,559	17,309	132,293	–
Borrowings	8,559	1,002	1,414(4)	2,548	3,595	–
Obligations under repurchase agreements	1,664	1,664	–	–	–	–
Other liabilities excluding lease liabilities	4,025	2,305	240	150	171	1,159
Lease liabilities	539	177	325	35	2	–
Derivative financial instruments	991	135	534	109	213	–
Subtotal	185,255	9,599	18,072	20,151	136,274	1,159
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	35,125	–	–	–	–	35,125
Total	220,380	9,599	18,072	20,151	136,274	36,284

Notes:

(2) Financial assets with no fixed maturity are equities or receivables on demand which the Group has the choice to call. Borrowings with no fixed maturity are resettable subordinated perpetual securities issued by the Company. Other financial liabilities with no fixed maturity are payables on demand as the counterparty has a choice of when the amount is paid.

(3) The total value of amounts within financial assets (Unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds). Included within financial assets (Unit-linked contracts and consolidated investment funds) are debt securities of US$553m (31 December 2020: US$433m) due in one year or less, US$2,961m (31 December 2020: US$2,622m) due after 1 year through 5 years, US$2,001m (31 December 2020: US$1,934m) due after 5 years through 10 years and US$1,264m (31 December 2020: US$1,414m) due after 10 years, in accordance with the contractual terms of the financial investments.

(4) Including US$1,246m which fall due after 2 years through 5 years.

23. Share-based compensation

SHARE-BASED COMPENSATION PLANS

During the six months ended 30 June 2021, the Group made further grants of share options (SOs), restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (2020 SO Scheme) and the Restricted Share Unit Scheme (2020 RSU Scheme) and the Employee Share Purchase Plan (2020 ESPP). In addition, the Group made further grants of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (2021 ASPP and 2012 ASPP).

Due to the expiry of the 2010 SO Scheme in 2020, the Company obtained the approval from its shareholders at the annual general meeting of the Company held on 29 May 2020 (2020 AGM) for the termination of the 2010 SO Scheme and the adoption of a new share option scheme (2020 SO Scheme), each as of 29 May 2020. The 2020 SO Scheme is also effective for a period of 10 years from the date of adoption. Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme, no further SOs can be granted thereunder. However, the 2010 SO Scheme shall remain in full force and effect for all SOs granted prior to its termination, and the exercise of such SOs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 SO Scheme and the Listing Rules.

VALUATION METHODOLOGY

The Group utilises a binomial lattice model to calculate the fair value of the SO grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, RSPU and RSSU grants, taking into account the terms and conditions upon which the grants were made. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange. The expected life of the SOs is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. An allowance for forfeiture prior to vesting is not included in the valuation of the grants.

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

	Share options	
	Six months ended 30 June 2021 (Unaudited)	Year ended 31 December 2020
Assumptions		
Risk-free interest rate	**1.24%**	0.85%
Volatility	**26%**	24%
Dividend yield	**1.60%**	1.60%
Exercise price (HK$)	**97.33**	68.10
Share option life (in years)	**10**	10
Expected life (in years)	**7.82**	7.84
Weighted average fair value per option/unit at measurement date (HK$)	**22.26**	15.51

The weighted average share price for SO valuation for grants made during the six months ended 30 June 2021 is HK$92.75 (year ended 31 December 2020: HK$68.10). The total fair value of SO granted during the six months ended 30 June 2021 is US$5m (six months ended 30 June 2020: US$12m).

23. Share-based compensation (continued)

RECOGNISED COMPENSATION COST

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation grants made by the Group for the six months ended 30 June 2021 is US$44m (six months ended 30 June 2020: US$52m).

24. Remuneration of key management personnel

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

US$	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Key management compensation and other expenses		
Salaries and other short-term employee benefits	**12,829,872**	14,490,699
Post-employment benefits	**343,746**	802,167
Termination benefits	**–**	1,708,678
Share-based payments[1]	**7,182,450**	16,371,764
Total	**20,356,068**	33,373,308

Note:

(1) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the key management personnel based on the fair value at the respective grant dates.

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

US$	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)
Below 1,000,000	**3**	4
1,000,001 to 2,000,000	**8**	7
2,000,001 to 3,000,000	**–**	1
6,000,001 to 7,000,000	**–**	1
7,000,001 and above	**1**	1

25. Commitments and contingencies

INVESTMENT AND CAPITAL COMMITMENTS

The Group announced in March 2021 that it had reached an agreement to enter into a new exclusive 15-year strategic bancassurance partnership with The Bank of East Asia, Limited (BEA) covering Hong Kong and Mainland China. As part of the agreement, the Group also agreed to acquire 100 per cent of BEA Life Limited, a wholly-owned subsidiary of BEA, and a closed portfolio of life insurance policies underwritten by Blue Cross (Asia-Pacific) Insurance Limited. The total gross consideration with respect to these transactions is HK$5,070m (approximately US$650m). As at 17 August 2021, the necessary regulatory approval for the acquisition of the shares of BEA Life Limited has been obtained and the completion of that acquisition is expected to take place shortly.

The Group announced in June 2021 that it had reached an agreement to invest RMB12,033m (approximately US$1,860m) through AIA Co. for a 24.99 per cent equity stake (post investment) in China Post Life Insurance Co., Ltd. The completion of this transaction remains subject to securing all necessary regulatory approvals.

Other investment and capital commitments, consisting of commitments to invest in private equity partnerships and other assets, were as follows:

US$m	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
Not later than one year	**3,956**	2,504
Later than one and not later than five years	**218**	174
Later than five years	**9**	16
Total	**4,183**	2,694

25. Commitments and contingencies (continued)

CONTINGENCIES

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies, claims and taxes. The Group believes that these matters are adequately provided for in these financial statements.

The Group operates in many jurisdictions across Asia and in certain of those jurisdictions, the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities, which can result in disputes arising. The Group has made provisions to cover the potential tax implications, based on management's judgement and best estimate in relation to the probability or likelihood of the potential outcomes, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US$456m at 30 June 2021 (31 December 2020: US$479m). The liabilities and related reinsurance assets, which totalled US$3m (31 December 2020: US$3m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

26. Events after the reporting period

On 17 August 2021, a Committee appointed by the Board of Directors declared an interim dividend of 38.00 Hong Kong cents per share (six months ended 30 June 2020: 35.00 Hong Kong cents per share).

27. Interim statement of financial position of the Company

US$m	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
Assets		
Investment in subsidiaries at cost[4]	**17,202**	17,341
Financial investments:		
At fair value through other comprehensive income		
Debt securities[2]	**8,817**	9,871
At fair value through profit or loss		
Debt securities	**34**	37
Equity securities[4]	**1,174**	227
Derivative financial instruments	**5**	–
	10,030	10,135
Loans to/amounts due from subsidiaries	**1,899**	1,904
Other assets	**85**	78
Promissory notes from subsidiaries[3]	**3,166**	1,844
Cash and cash equivalents	**728**	409
Total assets	**33,110**	31,711
Liabilities		
Borrowings	**9,764**	9,152
Obligations under repurchase agreements	**1,000**	–
Derivative financial instruments	**9**	12
Other liabilities	**150**	92
Total liabilities	**10,923**	9,256
Equity		
Share capital	**14,159**	14,155
Employee share-based trusts	**(225)**	(155)
Other reserves	**273**	259
Retained earnings	**7,727**	7,360
Amounts reflected in other comprehensive income	**253**	836
Total equity	**22,187**	22,455
Total liabilities and equity	**33,110**	31,711

Notes:

(1) The financial information of the Company should be read in conjunction with the interim condensed consolidated financial statements of the Group.

(2) Includes United States Treasury securities of US$3,248m as at 30 June 2021 (31 December 2020: US$3,372m).

(3) The promissory notes from subsidiaries are repayable on demand.

(4) The Company's interests in investment funds such as mutual funds and unit trusts, including funds controlled by the Group, are measured at fair value through profit or loss. Interests in other entities controlled by the Group are measured at cost, unless impaired, and presented as investment in subsidiaries at cost.

Approved and authorised for issue by the Board of Directors on 17 August 2021.

28. Interim 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 2021	**14,155**	**(155)**	**259**	**7,360**	**836**	**22,455**
Net profit	**–**	**–**	**–**	**1,925**	**–**	**1,925**
Fair value losses on debt securities at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(404)**	**(404)**
Fair value gains on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	**–**	**–**	**–**	**–**	**(179)**	**(179)**
Dividends	**–**	**–**	**–**	**(1,558)**	**–**	**(1,558)**
Shares issued under share option scheme and agency share purchase plan	**4**	**–**	**–**	**–**	**–**	**4**
Share-based compensation	**–**	**–**	**41**	**–**	**–**	**41**
Purchase of shares held by employee share-based trusts	**–**	**(97)**	**–**	**–**	**–**	**(97)**
Transfer of vested shares from employee share-based trusts	**–**	**27**	**(27)**	**–**	**–**	**–**
Balance at 30 June 2021 – Unaudited	**14,159**	**(225)**	**273**	**7,727**	**253**	**22,187**

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 January 2020	14,129	(220)	260	7,079	395	21,643
Net profit	–	–	–	86	–	86
Fair value gains on debt securities at fair value through other comprehensive income	–	–	–	–	492	492
Fair value gains on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal	–	–	–	–	(47)	(47)
Dividends	–	–	–	(1,452)	–	(1,452)
Shares issued under share option scheme and agency share purchase plan	6	–	–	–	–	6
Share-based compensation	–	–	47	–	–	47
Purchase of shares held by employee share-based trusts	–	(6)	–	–	–	(6)
Transfer of vested shares from employee share-based trusts	–	71	(71)	–	–	–
Balance at 30 June 2020 – Unaudited	14,135	(155)	236	5,713	840	20,769

REPORT ON REVIEW OF SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)

pwc 羅兵咸永道

Introduction

We have reviewed the Supplementary Embedded Value Information ("the EV Information") set out on pages 107 to 130, which comprises the EV consolidated results of AIA Group Limited (the "Company") and its subsidiaries (together, the "Group") as at and for the six-month period ended 30 June 2021, sensitivity analysis and a summary of significant methodology and assumptions and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information. Our responsibility is to express a conclusion on this EV Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the EV Information of the Group is not prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

Basis of Preparation

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 August 2021

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SUPPLEMENTARY EMBEDDED VALUE INFORMATION

Cautionary Statements Concerning Supplementary Embedded Value Information

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

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

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

The Supplementary Embedded Value Information is unaudited, but has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers’ independent review report to the Board of Directors is included on page 106.

1. HIGHLIGHTS

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

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

The Supplementary Embedded Value Information in this report should be read in conjunction with the Supplementary Embedded Value Information of the Group in the Company's Annual Report 2020.

Unless otherwise stated, the growth rates provided in the commentaries are shown on a constant exchange rate (CER) basis.

1. HIGHLIGHTS (continued)

Summary of Key Metrics[1] (US$ millions)

	As at 30 June 2021 (Unaudited)	As at 31 December 2020	Change CER	Change AER
EV Equity	**70,102**	67,185	5%	4%
EV	**68,179**	65,247	5%	4%
Adjusted net worth (ANW)	**31,545**	28,503	10%	11%
Value of in-force business (VIF)	**36,634**	36,744	2%	–

	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)	YoY CER	YoY AER
VONB	**1,814**	1,410	22%	29%
Annualised new premiums (ANP)	**3,060**	2,579	13%	19%
VONB margin	**59.0%**	54.4%	4.2 pps	4.6 pps
EV operating profit	**4,092**	3,878	1%	6%
Operating return on EV (Operating ROEV)[2]	**12.9%**	12.9%	(0.3) pps	–
Underlying free surplus generation (UFSG)	**3,374**	3,049	6%	11%

Notes:

(1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

(2) On an annualised basis.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

The EV as at 30 June 2021 is presented consistently with the segment information in the IFRS interim condensed consolidated financial statements.

Summary of EV by Business Unit (US$ millions)

	As at 30 June 2021 (Unaudited)				
Business Unit	ANW[1]	VIF before CoC	CoC	VIF after CoC	**EV**
AIA China	3,221	8,996	2	8,994	**12,215**
AIA Hong Kong	8,589	17,195	1,673	15,522	**24,111**
AIA Thailand	3,841	4,357	929	3,428	**7,269**
AIA Singapore	3,172	4,581	827	3,754	**6,926**
AIA Malaysia	1,272	2,166	241	1,925	**3,197**
Other Markets	5,334	5,175	1,422	3,753	**9,087**
Group Corporate Centre	10,724	–	–	–	**10,724**
Subtotal	36,153	42,470	5,094	37,376	**73,529**
Adjustment to reflect consolidated reserving and capital requirements[2]	(4,247)	1,703	1,039	664	**(3,583)**
After-tax value of unallocated Group Office expenses	–	(1,217)	–	(1,217)	**(1,217)**
Total (before non-controlling interests)	31,906	42,956	6,133	36,823	**68,729**
Non-controlling interests	(361)	(199)	(10)	(189)	**(550)**
Total	31,545	42,757	6,123	36,634	**68,179**

2. EMBEDDED VALUE RESULTS (continued)

2.1 Embedded Value by Business Unit (continued)

	As at 31 December 2020				
Business Unit	ANW[1]	VIF before CoC	CoC	VIF after CoC	EV
AIA China	3,439	8,409	4	8,405	11,844
AIA Hong Kong	7,735	17,319	2,159	15,160	22,895
AIA Thailand	3,008	5,145	1,096	4,049	7,057
AIA Singapore	2,984	4,416	814	3,602	6,586
AIA Malaysia	1,293	2,084	233	1,851	3,144
Other Markets	5,983	5,018	1,561	3,457	9,440
Group Corporate Centre	11,472	–	–	–	11,472
Subtotal	35,914	42,391	5,867	36,524	72,438
Adjustment to reflect consolidated reserving and capital requirements[2]	(7,064)	3,115	1,596	1,519	(5,545)
After-tax value of unallocated Group Office expenses	–	(1,138)	–	(1,138)	(1,138)
Total (before non-controlling interests)	28,850	44,368	7,463	36,905	65,755
Non-controlling interests	(347)	(173)	(12)	(161)	(508)
Total	28,503	44,195	7,451	36,744	65,247

Notes:

(1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre.

(2) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2020 and Section 4.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

Derivation of the Consolidated ANW from IFRS Equity (US$ millions)

	As at 30 June 2021 (Unaudited)	As at 31 December 2020
IFRS equity attributable to shareholders of the Company	**58,944**	63,200
Elimination of IFRS deferred acquisition and origination costs assets	**(28,374)**	(27,915)
Difference between IFRS policy liabilities and local statutory policy liabilities	**4,203**	(937)
Difference between net IFRS policy liabilities and local statutory policy liabilities	**(24,171)**	(28,852)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	**(1)**	(3)
Elimination of intangible assets	**(2,569)**	(2,634)
Recognition of deferred tax impacts of the above adjustments	**3,476**	3,735
Recognition of non-controlling interests impacts of the above adjustments	**113**	121
ANW (Business Unit)	**35,792**	35,567
Adjustment to reflect consolidated reserving requirements, net of tax	**(4,247)**	(7,064)
ANW (Consolidated)	**31,545**	28,503

2. EMBEDDED VALUE RESULTS (continued)

2.3 Breakdown of ANW

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

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

	As at 30 June 2021 (Unaudited)		As at 31 December 2020	
	Business Unit	**Consolidated**	Business Unit	Consolidated
Free surplus	**24,591**	**17,907**	24,093	13,473
Required capital	**11,201**	**13,638**	11,474	15,030
ANW	**35,792**	**31,545**	35,567	28,503

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

2. EMBEDDED VALUE RESULTS (continued)

2.4 Earnings Profile

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

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

	As at 30 June 2021 (Unaudited)	
Expected period of emergence	**Undiscounted**	**Discounted**
1 – 5 years	**20,409**	**16,990**
6 – 10 years	**19,201**	**10,807**
11 – 15 years	**21,235**	**8,169**
16 – 20 years	**19,558**	**5,224**
21 years and thereafter	**146,764**	**9,082**
Total	**227,167**	**50,272**

	As at 31 December 2020	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	21,452	17,845
6 – 10 years	19,489	10,980
11 – 15 years	22,452	8,615
16 – 20 years	20,070	5,356
21 years and thereafter	143,817	8,978
Total	227,280	51,774

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$50,272 million (31 December 2020: US$51,774 million) plus the free surplus of US$17,907 million (31 December 2020: US$13,473 million) shown in Section 2.3 of this report is equal to the EV of US$68,179 million (31 December 2020: US$65,247 million) shown in Section 2.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business

The VONB for the Group for the six months ended 30 June 2021 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS interim condensed consolidated financial statements.

The Group VONB for the six months ended 30 June 2021 was US$1,814 million, an increase of US$404 million, or 22 per cent, from US$1,410 million for the six months ended 30 June 2020.

Summary of VONB by Business Unit (US$ millions)

	Six months ended 30 June 2021 (Unaudited)			Six months ended 30 June 2020 (Unaudited)		
Business Unit	VONB before CoC	CoC	**VONB after CoC**	VONB before CoC	CoC	VONB after CoC
AIA China[1]	782	44	**738**	629	35	594
AIA Hong Kong	346	33	**313**	359	53	306
AIA Thailand	329	17	**312**	222	23	199
AIA Singapore	185	9	**176**	134	7	127
AIA Malaysia	168	11	**157**	88	7	81
Other Markets	302	49	**253**	295	55	240
Total before unallocated Group Office expenses and non-controlling interests (Business Unit)	2,112	163	**1,949**	1,727	180	1,547
Adjustment to reflect consolidated reserving and capital requirements	(29)	2	**(31)**	(20)	30	(50)
Total before unallocated Group Office expenses and non-controlling interests (Consolidated)	2,083	165	**1,918**	1,707	210	1,497
After-tax value of unallocated Group Office expenses	(88)	–	**(88)**	(77)	–	(77)
Total before non-controlling interests (Consolidated)	1,995	165	**1,830**	1,630	210	1,420
Non-controlling interests	(16)	–	**(16)**	(11)	(1)	(10)
Total	1,979	165	**1,814**	1,619	209	1,410

Note:

(1) Following the subsidiarisation of AIA China in July 2020 as described in section 4.1 of the Supplementary Embedded Value Information in the Company's Annual Report 2020, the VONB for AIA China in the six months ended 30 June 2021 is presented after deducting withholding tax at the applicable rate in Mainland China (currently set at 5 per cent). The VONB for AIA China in the six months ended 30 June 2020 is presented before deducting withholding tax.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the six months ended 30 June 2021.

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

The Group VONB margin for the six months ended 30 June 2021 was 59.0 per cent compared with 54.4 per cent for the six months ended 30 June 2020. The Group PVNBP margin for the six months ended 30 June 2021 was 10 per cent compared with 9 per cent for the six months ended 30 June 2020.

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

	VONB after CoC	ANP	VONB Margin	PVNBP Margin
Half Year				
Values for 2021				
Six months ended 30 June 2021 (Unaudited)	**1,814**	**3,060**	**59.0%**	**10%**
Values for 2020				
Six months ended 30 June 2020 (Unaudited)	1,410	2,579	54.4%	9%
Quarter				
Values for 2021				
Three months ended 31 March 2021 (Unaudited)	**1,052**	**1,703**	**61.6%**	**10%**
Three months ended 30 June 2021 (Unaudited)	**762**	**1,357**	**55.7%**	**9%**
Values for 2020				
Three months ended 31 March 2020 (Unaudited)	841	1,483	56.6%	10%
Three months ended 30 June 2020 (Unaudited)	569	1,096	51.4%	9%

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the VONB (excluding pension business), ANP and VONB margin by Business Unit.

Summary of VONB Excluding Pension, ANP and VONB Margin by Business Unit (US$ millions)

	Six months ended 30 June 2021 (Unaudited)			Six months ended 30 June 2020 (Unaudited)		
Business Unit	VONB excluding pension	ANP	**VONB margin**	VONB excluding pension	ANP	VONB margin
AIA China(1)	738	899	**82.1%**	594	726	81.8%
AIA Hong Kong	290	505	**57.5%**	289	565	51.0%
AIA Thailand	312	333	**93.5%**	199	312	63.9%
AIA Singapore	176	279	**63.2%**	127	214	59.3%
AIA Malaysia	156	253	**61.7%**	80	159	50.5%
Other Markets	254	791	**32.1%**	240	603	39.7%
Total before unallocated Group Office expenses (Business Unit)	1,926	3,060	**62.9%**	1,529	2,579	59.3%
Adjustment to reflect consolidated reserving and capital requirements	(32)	–		(50)	–	
Total before unallocated Group Office expenses (Consolidated)	1,894	3,060	**61.9%**	1,479	2,579	57.3%
After-tax value of unallocated Group Office expenses	(88)	–		(77)	–	
Total	1,806	3,060	**59.0%**	1,402	2,579	54.4%

Note:

(1) Following the subsidiarisation of AIA China in July 2020 as described in section 4.1 of the Supplementary Embedded Value Information in the Company's Annual Report 2020, the VONB for AIA China in the six months ended 30 June 2021 is presented after deducting withholding tax at the applicable rate in Mainland China (currently set at 5 per cent). The VONB for AIA China in the six months ended 30 June 2020 is presented before deducting withholding tax.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of Movement in EV (US$ millions)

	Six months ended 30 June 2021 (Unaudited)			Six months ended 30 June 2020 (Unaudited)			YoY AER
	ANW	VIF	**EV**	ANW	VIF	EV	EV
Opening EV	28,503	36,744	**65,247**	28,241	33,744	61,985	5%
VONB	(400)	2,214	**1,814**	(363)	1,773	1,410	29%
Expected return on EV	2,456	(391)	**2,065**	2,844	(654)	2,190	(6)%
Operating experience variances	471	(85)	**386**	494	(69)	425	n/m[1]
Operating assumption changes	42	(65)	**(23)**	(152)	116	(36)	n/m
Finance costs	(150)	–	**(150)**	(111)	–	(111)	35%
EV operating profit	2,419	1,673	**4,092**	2,712	1,166	3,878	6%
Investment return variances	1,482	(463)	**1,019**	(3,076)	(302)	(3,378)	n/m
Effect of changes in economic assumptions	–	–	**–**	33	(968)	(935)	n/m
Other non-operating variances	833	(794)	**39**	426	(91)	335	n/m
Total EV profit	4,734	416	**5,150**	95	(195)	(100)	n/m
Dividends	(1,558)	–	**(1,558)**	(1,452)	–	(1,452)	7%
Other capital movements	(48)	–	**(48)**	61	–	61	(179)%
Effect of changes in exchange rates	(86)	(526)	**(612)**	(323)	(597)	(920)	n/m
Closing EV	31,545	36,634	**68,179**	26,622	32,952	59,574	14%

Note:
(1) Not meaningful (n/m).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV operating profit was US$4,092 million (2020: US$3,878 million), reflecting VONB of US$1,814 million (2020: US$1,410 million), an expected return on EV of US$2,065 million (2020: US$2,190 million), operating experience variances and operating assumption changes which were again positive and amounted to US$363 million (2020: US$389 million), net of finance costs of US$150 million (2020: US$111 million).

The VONB is calculated at the point of sale for business written during the period. The expected return on EV is the expected change in the EV over the period plus the expected return on the VONB up to 30 June 2021. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the period and that expected based on the operating assumptions.

The operating experience variances, net of tax, increased EV by US$386 million (2020: US$425 million), driven by:

- Expense variances of US$115 million (2020: US$68 million), partly offset by development costs of US$4 million (2020: US$3 million);

- Mortality and morbidity claims variances of US$195 million (2020: US$273 million); and

- Persistency and other variances of US$80 million (2020: US$87 million) which included persistency variances of US$(109) million (2020: US$(82) million) and other variances arising from management actions of US$189 million (2020: US$169 million).

The effect of changes in operating assumptions during the period was a decrease in EV of US$23 million (2020: decrease in EV of US$36 million).

The EV profit of US$5,150 million (2020: US$(100) million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances, reflecting short-term fluctuations in investment returns, arise from the impact of differences between the actual investment returns in the period and the expected investment returns. This amounted to an increase in EV of US$1,019 million (2020: decrease in EV of US$3,378 million) driven by the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns.

The effect of changes in economic assumptions was nil (2020: decrease in EV of US$935 million).

Other non-operating variances increased EV by US$39 million (2020: increased EV by US$335 million) which comprised positive impacts from adjustments to capital requirements on consolidation, partly offset by negative impacts from certain non-operating expenses and modelling-related enhancements.

The final shareholder dividend for 2020 paid in the first half of 2021 totalled US$1,558 million (2020: US$1,452 million). Other capital movements decreased EV by US$48 million (2020: increased EV by US$61 million).

Foreign exchange movements decreased EV by US$612 million (2020: decreased EV by US$920 million).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

Operating ROEV (US$ millions)

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 12.9 per cent (2020: 12.9 per cent) for the six months ended 30 June 2021.

	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)	YoY CER	YoY AER
EV operating profit	**4,092**	3,878	1%	6%
Opening EV	**65,247**	61,985	3%	5%
Operating ROEV[1]	**12.9%**	12.9%	(0.3) pps	–

Note:
(1) On an annualised basis.

2.7 EV Equity

The EV Equity increased to US$70,102 million at 30 June 2021, an increase of 5 per cent from US$67,185 million as at 31 December 2020.

Derivation of EV Equity from EV (US$ millions)

	As at 30 June 2021 (Unaudited)	As at 31 December 2020	Change CER	Change AER
EV	**68,179**	65,247	5%	4%
Goodwill and other intangible assets[1]	**1,923**	1,938	1%	(1)%
EV Equity	**70,102**	67,185	5%	4%

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

2. EMBEDDED VALUE RESULTS (continued)

2.8 Free Surplus Generation

Free Surplus Generation (US$ millions)

	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)	YoY CER (Unaudited)	YoY AER (Unaudited)
Opening free surplus	**13,473**	14,917	(11)%	(10)%
UFSG	**3,374**	3,049	6%	11%
Free surplus used to fund new business	**(921)**	(703)	25%	31%
Investment return variances and other items	**3,919**	(3,899)	n/m[1]	n/m
Unallocated Group Office expenses	**(182)**	(91)	100%	100%
Dividends	**(1,558)**	(1,452)	7%	7%
Finance costs and other capital movements	**(198)**	(50)	n/m	n/m
Closing free surplus	**17,907**	11,771	46%	52%

Free surplus increased by US$4,434 million to US$17,907 million (31 December 2020: US$13,473 million) as at 30 June 2021.

UFSG, as defined in Section 4.8 of the Supplementary Embedded Value Information in the Company's Annual Report 2020, increased by 6 per cent to US$3,374 million (2020: US$3,049 million). Investment in writing new business reduced free surplus by US$921 million (2020: US$703 million).

Investment return variances and other items amounted to US$3,919 million (2020: US$(3,899) million), reflecting the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns, and other items, including the free surplus impacts arising from other non-operating variances as described in Section 2.6.

Unallocated Group Office expenses amounted to US$182 million (2020: US$91 million).

Note:
(1) Not meaningful (n/m).

3. SENSITIVITY ANALYSIS

The EV as at 30 June 2021 and the VONB for the six months ended 30 June 2021 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

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

The EV as at 30 June 2021 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 30 June 2021); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 June 2021).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 30 June 2021 and the values of debt instruments and derivatives held at 30 June 2021 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 30 June 2021 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

3. SENSITIVITY ANALYSIS (continued)

For each of the remaining sensitivity analyses, the statutory reserving bases as at 30 June 2021 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV (US$ millions)

	As at 30 June 2021 (Unaudited)		As at 31 December 2020	
Scenario	**EV**	**% Change**	EV	% Change
Central value	**68,179**		65,247	
Impact of:				
200 bps increase in risk discount rates	**(9,176)**	**(13.5)%**	(9,098)	(13.9)%
200 bps decrease in risk discount rates	**14,403**	**21.1%**	14,409	22.1%
10% increase in equity prices	**1,312**	**1.9%**	1,099	1.7%
10% decrease in equity prices	**(1,307)**	**(1.9)%**	(1,095)	(1.7)%
50 bps increase in interest rates	**90**	**0.1%**	652	1.0%
50 bps decrease in interest rates	**(533)**	**(0.8)%**	(1,294)	(2.0)%
5% appreciation in the presentation currency	**(1,963)**	**(2.9)%**	(1,906)	(2.9)%
5% depreciation in the presentation currency	**1,963**	**2.9%**	1,906	2.9%
10% increase in lapse/discontinuance rates	**(1,007)**	**(1.5)%**	(891)	(1.4)%
10% decrease in lapse/discontinuance rates	**1,126**	**1.7%**	1,049	1.6%
10% increase in mortality/morbidity rates	**(4,851)**	**(7.1)%**	(4,556)	(7.0)%
10% decrease in mortality/morbidity rates	**4,766**	**7.0%**	4,665	7.1%
10% decrease in maintenance expenses	**841**	**1.2%**	882	1.4%
Expense inflation set to 0%	**1,034**	**1.5%**	1,063	1.6%

Sensitivity of VONB (US$ millions)

	Six months ended 30 June 2021 (Unaudited)		Six months ended 30 June 2020 (Unaudited)	
Scenario	**VONB**	**% Change**	VONB	% Change
Central value	**1,814**		1,410	
Impact of:				
200 bps increase in risk discount rates	**(393)**	**(21.7)%**	(324)	(23.0)%
200 bps decrease in risk discount rates	**590**	**32.5%**	492	34.9%
50 bps increase in interest rates	**50**	**2.8%**	102	7.2%
50 bps decrease in interest rates	**(66)**	**(3.6)%**	(159)	(11.3)%
5% appreciation in the presentation currency	**(79)**	**(4.4)%**	(53)	(3.8)%
5% depreciation in the presentation currency	**79**	**4.4%**	53	3.8%
10% increase in lapse/discontinuance rates	**(110)**	**(6.1)%**	(81)	(5.7)%
10% decrease in lapse/discontinuance rates	**123**	**6.8%**	85	6.0%
10% increase in mortality/morbidity rates	**(214)**	**(11.8)%**	(159)	(11.3)%
10% decrease in mortality/morbidity rates	**214**	**11.8%**	153	10.9%
10% decrease in maintenance expenses	**54**	**3.0%**	41	2.9%
Expense inflation set to 0%	**47**	**2.6%**	23	1.6%

4. METHODOLOGY

The methodology used by the Group for determining the EV results for the period is consistent with that described in Section 4 of the Supplementary Embedded Value Information in the Company's Annual Report 2020 taking into account the capital requirements as set out in Section 4.1.

4.1 Capital Requirements

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

Business Unit	Capital requirements
AIA Australia(1)	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA New Zealand(2)	100% of regulatory capital adequacy requirement
AIA Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	Higher of 135% of capital adequacy requirement and 80% of Tier 1 capital requirement under the regulatory Risk-Based Capital framework
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement(3)
AIA Vietnam	100% of required minimum solvency margin
Tata AIA Life	175% of required minimum solvency margin

Notes:

(1) AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co., and the business acquired by the Group from Commonwealth Bank of Australia (CBA) upon the completion of the portfolio transfer of CBA's life insurance business conducted through The Colonial Mutual Life Assurance Society Limited (CMLA) under Part 9 of the Life Insurance Act 1995 (Cth) of Australia.

(2) AIA New Zealand refers to AIA Sovereign Limited, a wholly-owned subsidiary of AIA International and the holding company of AIA New Zealand Limited to which the above capital requirement applies.

(3) The Capital Requirement ratio assumed in the EV calculation is 120% up to year-end of 2021, and 140% thereafter, in line with the regulatory requirement under Thailand RBC 2.

Capital Requirements on Consolidation

The non-Hong Kong branches of AIA Co. and AIA International hold required capital of no less than 100% of the Hong Kong statutory minimum solvency margin requirement.

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

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

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 30 June 2021 and the VONB for the period ended 30 June 2021.

Long-term investment return assumptions used in the EV basis for the interim results remain unchanged from those shown in Section 5.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2020, while risk discount rates were updated to reflect the risks associated with new business written during the reporting period as disclosed in Section 5.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2020.

The non-economic assumptions used are based on those at 31 December 2020, updated to reflect the Group's latest view of expected future experience. A more detailed description of the assumptions can be found in Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2020.

5.2 Economic Assumptions

Investment Returns

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

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

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

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve. Therefore, the risk discount rate and long-term investment returns are not provided for Tata AIA Life.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit 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 30 June 2021 (Unaudited)**	As at 31 December 2020	As at 30 June 2020 (Unaudited)
AIA Australia	**1.53**	0.97	0.87
AIA China	**3.09**	3.15	2.85
AIA Hong Kong(1)	**1.47**	0.91	0.66
AIA Indonesia	**6.59**	5.89	7.21
AIA Korea	**2.10**	1.72	1.39
AIA Malaysia	**3.29**	2.65	2.87
AIA New Zealand	**1.77**	0.99	0.93
AIA Philippines	**3.92**	3.00	2.80
AIA Singapore	**1.58**	0.84	0.90
AIA Sri Lanka	**8.20**	7.55	7.20
AIA Taiwan	**0.42**	0.32	0.45
AIA Thailand	**1.78**	1.28	1.28
AIA Vietnam	**2.21**	2.60	2.99

Note:
(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The risk discount rates as at 30 June 2021 reflect the weighted average of the risk margins of the in-force business at the start of 2021, and those of the new business written during the first half of 2021 which, as disclosed in the Company's Annual Report 2020, are determined at a product level starting from 2021 to better reflect the market and non-market risks associated with the mix of products sold during the reporting period. In addition, the VONB results are calculated based on start-of-quarter long-term investment return assumptions consistent with the measurement at the point of sale. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. The investment returns shown are gross of tax and investment expenses.

	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 30 Jun 2021 (Unaudited)**	As at 31 Dec 2020	As at 30 Jun 2020 (Unaudited)	**As at 30 Jun 2021 (Unaudited)**	As at 31 Dec 2020	As at 30 Jun 2020 (Unaudited)	**As at 30 Jun 2021 (Unaudited)**	As at 31 Dec 2020	As at 30 Jun 2020 (Unaudited)
AIA Australia	**6.43**	6.45	6.45	**2.30**	2.30	2.30	**6.60**	6.60	6.60
AIA China	**9.73**	9.75	9.75	**3.70**	3.70	3.70	**9.30**	9.30	9.30
AIA Hong Kong(1)	**7.00**	7.00	7.00	**2.20**	2.20	2.20	**7.00**	7.00	7.00
AIA Indonesia	**12.99**	13.00	13.00	**7.50**	7.50	7.50	**12.00**	12.00	12.00
AIA Korea	**8.10**	8.10	8.10	**2.20**	2.20	2.20	**6.50**	6.50	6.50
AIA Malaysia	**8.55**	8.55	8.55	**4.00**	4.00	4.00	**8.60**	8.60	8.60
AIA New Zealand	**6.53**	6.55	6.85	**2.30**	2.30	2.60	**6.80**	6.80	7.10
AIA Philippines	**11.80**	11.80	11.80	**5.30**	5.30	5.30	**10.50**	10.50	10.50
AIA Singapore	**6.60**	6.60	6.60	**2.20**	2.20	2.20	**6.70**	6.70	6.70
AIA Sri Lanka	**15.70**	15.70	15.70	**10.00**	10.00	10.00	**12.00**	12.00	12.00
AIA Taiwan	**7.25**	7.25	7.55	**1.00**	1.00	1.30	**5.60**	5.60	5.90
AIA Thailand	**7.75**	7.80	7.90	**2.70**	2.70	2.70	**7.70**	7.70	7.70
AIA Vietnam	**9.71**	9.80	9.80	**4.00**	4.00	4.00	**9.30**	9.30	9.30

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.3 Expense Inflation

The expected long-term expense inflation rates used by each Business Unit are set out below:

Expense Inflation Assumptions by Business Unit (%)

Business Unit	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
AIA Australia	**2.05**	2.05
AIA China	**2.00**	2.00
AIA Hong Kong	**2.00**	2.00
AIA Indonesia	**3.50**	3.50
AIA Korea	**3.50**	3.50
AIA Malaysia	**3.00**	3.00
AIA New Zealand	**2.00**	2.00
AIA Philippines	**3.50**	3.50
AIA Singapore	**2.00**	2.00
AIA Sri Lanka	**6.50**	6.50
AIA Taiwan	**1.20**	1.20
AIA Thailand	**2.00**	2.00
AIA Vietnam	**4.00**	4.00
Tata AIA Life[1]	**5.60**	5.60

Note:

(1) For Tata AIA Life, in accordance with the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, the inflation assumption is derived by applying a spread to the reference interest rate.

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5. ASSUMPTIONS (continued)

5.4 Taxation

The EV and VONB presented in this report are net of tax based on current taxation legislation. The projected corporate income tax payable in any year allows for the benefits arising from any tax loss carried forward where relevant. Where applicable, tax payable on investment income has been reflected in the projected investment returns. Any withholding tax payable on future remittances from local business units are also reflected under the appropriate operating segment.

The local corporate income tax rates used by each Business Unit are set out below:

Local Corporate Income Tax Rates by Business Unit (%)

Business Unit	**As at 30 June 2021 (Unaudited)**	As at 31 December 2020
AIA Australia	**30.0**	30.0
AIA China	**25.0**	25.0
AIA Hong Kong	**16.5**	16.5
AIA Indonesia(1)	**22.0**	22.0
AIA Korea(2)	**27.5**	27.5
AIA Malaysia	**24.0**	24.0
AIA New Zealand	**28.0**	28.0
AIA Philippines(3)	**25.0**	30.0
AIA Singapore	**17.0**	17.0
AIA Sri Lanka(4)	**24.0**	28.0
AIA Taiwan	**20.0**	20.0
AIA Thailand	**20.0**	20.0
AIA Vietnam	**20.0**	20.0
Tata AIA Life	**14.6**	14.6

Notes:

(1) During 2020, a change in corporate income tax rate was enacted in Indonesia from 25% to 22% for fiscal years 2020 and 2021 and to 20% from fiscal year 2022 onwards.

(2) AIA Korea is subject to an assumed corporate income tax of 27.5% up to fiscal year 2022, which includes an Accumulated Earnings Tax following the subsidiarisation of the branch in AIA Korea. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2023.

(3) During the reporting period, a change in corporate income tax rate has been enacted in the Philippines from 30% to 25%, and this was effective from 1 July 2020 onwards.

(4) During the reporting period, a change in corporate income tax rate has been enacted in Sri Lanka from 28% to 24%, and this was effective from 1 January 2020 onwards.

6. COMMITMENTS AND EVENTS AFTER THE REPORTING PERIOD

The Group announced in March 2021 that it had reached an agreement to enter into a new exclusive 15-year strategic bancassurance partnership with The Bank of East Asia, Limited (BEA) covering Hong Kong and Mainland China. As part of the agreement, the Group also agreed to acquire 100 per cent of BEA Life Limited, a wholly-owned subsidiary of BEA, and a closed portfolio of life insurance policies underwritten by Blue Cross (Asia-Pacific) Insurance Limited. The total gross consideration with respect to these transactions is HK$5,070 million (approximately US$650 million). As at 17 August 2021, the necessary regulatory approval for the acquisition of the shares of BEA Life Limited has been obtained and the completion of that acquisition is expected to take place shortly.

The Group announced in June 2021 that it had reached an agreement to invest RMB12,033 million (approximately US$1,860 million) through AIA Co. for a 24.99 per cent equity stake (post investment) in China Post Life Insurance Co., Ltd. The completion of this transaction remains subject to securing all necessary regulatory approvals.

Refer to note 25 to the IFRS interim condensed consolidated financial statements for details of investment and capital commitments.

On 17 August 2021, a Committee appointed by the Board of Directors declared an interim dividend of 38.00 Hong Kong cents per share (six months ended 30 June 2020: 35.00 Hong Kong cents per share).