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AIA Group Limited
友邦保險控股有限公司
(Incorporated in Hong Kong with limited liability)

Stock Code: 1299

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

AIA REPORTS FINANCIAL RESULTS FOR THE FIRST HALF OF 2020

VALUE OF NEW BUSINESS DOWN 37 PER CENT; OPERATING PROFIT UP 5 PER CENT UNDERLYING FREE SURPLUS GENERATION UP 11 PER CENT

AIA Group Limited (the “Company”; stock code: 1299) today announces financial results for the six months ended 30 June 2020.

Growth rates are shown on a constant exchange rate basis below:

New business performance

- Value of new business (VONB) of US\$1,410 million, down 37 per cent
- Annualised new premiums (ANP) of US\$2,579 million, down 24 per cent
- VONB margin decreased by 11.1 pps to 54.4 per cent
- Very strong month-on-month VONB growth in markets as they emerged from COVID-19 restrictions

Operating profit

- Operating profit after tax (OPAT) up by 5 per cent to US\$2,933 million
- Embedded value (EV) operating profit lower by 13 per cent to US\$3,878 million

Cash flow and capital position

- Underlying free surplus generation of US\$3,049 million, up 11 per cent
- Free surplus of US\$11.8 billion
- EV Equity of US\$61.4 billion, down 3 per cent from 31 December 2019
- Shareholders’ allocated equity of US\$43.3 billion, up 2 per cent from 31 December 2019
- AIA Company Limited (AIA Co.) solvency ratio on the HKIO basis was 328 per cent

Interim dividend

- Interim dividend increased by 5 per cent to 35.00 Hong Kong cents per share

Lee Yuan Siong, AIA’s Group Chief Executive and President, said:

“AIA is an exceptional company with unrivalled distribution capabilities, a trusted brand, impressive financial strength and a diversified, high-quality business portfolio across the Asia-Pacific region. Since joining the Group, I have been incredibly impressed by the speed and compassion with which our businesses and partners have responded to the challenges brought by the COVID-19 pandemic and provided uninterrupted support to our customers and communities. These tremendous achievements would not be possible without the many talented people who have been instrumental in making AIA the leading life insurance group in the Asia-Pacific region. I am extremely grateful for their dedication, collaboration and contributions, both in the past and in these unprecedented times.

“In the first half of 2020, measures to contain the spread of COVID-19 across our markets have limited face-to-face sales meetings. In response, we have enhanced our digital tools and online capabilities and achieved strong adoption across the Group. All of our agents are able to conduct sales meetings remotely using video technology and secure mobile signatures, with over 40 per cent of policies issued in the second quarter closed in this way. Online recruitment seminars and processes have enabled us to scale our recruitment activities and increase our numbers of new agents without lowering our high quality standards, helping to position the Group for future growth. Last month, AIA was named the number one Million Dollar Round Table company in the world for a sixth consecutive year, reflecting the quality and depth of our agency force.

“New business sales were most affected by containment measures with a 37 per cent decline in VONB. Earnings and cash generation continued to benefit from the quality of our large in-force business supporting an increase in operating profit after tax of 5 per cent and growth of 11 per cent in underlying free surplus generation. Despite the unprecedented capital market conditions, AIA’s financial position has remained resilient and strong with the solvency ratio for AIA Co. at 328 per cent.

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

“AIA’s wholly-owned operation in Mainland China was the largest contributor to the Group’s VONB despite 13 per cent lower VONB in the first half of 2020. New business sales momentum improved as containment measures were progressively relaxed, and AIA China achieved modest VONB growth in the second quarter of 2020⁽¹⁾. In a historic milestone for AIA, we have incorporated the first wholly foreign owned life insurance subsidiary in Mainland China, following regulatory approval in June. We are making good progress in the application process for separate regulatory approvals to expand geographically by establishing branches of our newly-incorporated subsidiary in additional territories.

“AIA Hong Kong reported a 68 per cent decline in VONB, mainly driven by the mandatory quarantine requirements for all arrivals from Mainland China since early February. Outside Hong Kong and Mainland China, our businesses generated double-digit growth in the first quarter but containment measures significantly impacted new business sales in the second quarter. We saw encouraging signs of recovery in sales for our markets where containment measures were relaxed during May and June, including the domestic customer segment of AIA Hong Kong.

“I am extremely proud of the way AIA’s businesses have responded to COVID-19, providing innovative and wide-ranging support and, most importantly, peace of mind for our customers at a time when they need us the most. We know that consumer attitudes and behaviours are shifting, with greater health awareness and an increased appreciation of the need for insurance protection. AIA’s business model is well aligned to this shift as we continue on our journey to become a lifelong partner to our customers, helping them to live Healthier, Longer, Better Lives.

“Since I assumed the role of Group Chief Executive and President in June, I have been working closely with the senior leadership team across the Group to develop and implement our strategic plans. The powerful demographic trends and immense opportunities in the Asia-Pacific region remain as relevant as ever. We will build on our significant competitive advantages and transform AIA into a simpler, faster, more connected organisation with personalised and meaningful propositions for our customers, backed up by exceptional technology and digital tools to deliver outstanding service. I am incredibly excited to embark on the next successful chapter in AIA’s history and continue to deliver long-term sustainable value for our shareholders.”

About AIA

AIA Group Limited and its subsidiaries (collectively “AIA” or the “Group”) comprise the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific – wholly-owned branches and subsidiaries in Mainland China, Hong Kong SAR⁽²⁾, Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, the Philippines, South Korea, Taiwan (China), Vietnam, Brunei, Macau SAR⁽³⁾, New Zealand, a 99 per cent subsidiary in Sri Lanka, and a 49 per cent joint venture in India.

The business that is now AIA was first established in Shanghai more than a century ago in 1919. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$291 billion as of 30 June 2020.

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

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

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Notes:

- (1) Due to the timing of the announcement of the tax rule change that increased the tax deductibility of commissions from 1 January 2019, the reported VONB in the second quarter of 2019 for AIA China included a positive impact from the tax rule change for the six months ended 30 June 2019. AIA China reported modest VONB growth for the second quarter of 2020 on a like-for-like basis, compared with the VONB in the second quarter of 2019.
- (2) Hong Kong SAR refers to Hong Kong Special Administrative Region.
- (3) Macau SAR refers to Macau Special Administrative Region.

FINANCIAL SUMMARY

Performance Highlights

| US\$ millions, unless otherwise stated | Six months ended 30 Jun 2020 | Six months ended 30 Jun 2019 | YoY CER | YoY AER |
|---|------------------------------------|------------------------------------|---------------|---------------|
| New Business Value | | | | |
| Value of new business (VONB) | 1,410 | 2,275 | (37)% | (38)% |
| VONB margin | 54.4% | 65.6% | (11.1) pps | (11.2) pps |
| Annualised new premiums (ANP) | 2,579 | 3,443 | (24)% | (25)% |
| EV Operating Profit | | | | |
| Embedded value (EV) operating profit | 3,878 | 4,523 | (13)% | (14)% |
| Operating return on EV | 12.9% | 17.3% | (3.9) pps | (4.4) pps |
| Basic EV operating earnings per share (US cents) | 32.17 | 37.58 | (13)% | (14)% |
| IFRS Earnings | | | | |
| Operating profit after tax (OPAT)* | 2,933 | 2,836 | 5% | 3% |
| Operating return on shareholders' allocated equity* | 13.2% | 14.0% | (0.6) pps | (0.8) pps |
| Total weighted premium income (TWPI) | 16,926 | 16,405 | 5% | 3% |
| Operating earnings per share (US cents) | | | | |
| – Basic* | 24.33 | 23.56 | 5% | 3% |
| – Diluted* | 24.29 | 23.51 | 5% | 3% |
| Underlying Free Surplus Generation | | | | |
| Underlying free surplus generation | 3,049 | 2,804 | 11% | 9% |
| Dividends | | | | |
| Dividend per share (HK cents) | 35.00 | 33.30 | n/a | 5% |
| | | | | |
| US\$ millions, unless otherwise stated | As at 30 Jun 2020 | As at 31 Dec 2019 | Change CER | Change AER |
| Embedded Value | | | | |
| EV Equity | 61,420 | 63,905 | (3)% | (4)% |
| Embedded value | 59,574 | 61,985 | (3)% | (4)% |
| Free surplus | 11,771 | 14,917 | (22)% | (21)% |
| EV Equity per share (US cents) | 507.98 | 528.62 | (3)% | (4)% |
| Equity and Capital | | | | |
| Shareholders' allocated equity* | 43,309 | 43,278 | 2% | – |
| AIA Co. HKIO solvency ratio | 328% | 362% | n/a | (34) pps |
| Group LCSM cover ratio | 350% | 366% | n/a | (16) pps |
| Shareholders' allocated equity per share (US cents)* | 358.19 | 357.99 | 2% | – |

* The comparative information for previous periods has been adjusted to conform to current period presentation.

New Business Performance by Segment

| US\$ millions, unless otherwise stated | Six months ended 30 Jun 2020 | | | Six months ended 30 Jun 2019 | | | VONB Change | |
|---|---------------------------------|----------------|--------------|---------------------------------|----------------|-------|-------------|------------|
| | VONB | VONB Margin | ANP | VONB | VONB Margin | ANP | YoY CER | YoY AER |
| Hong Kong | 306 | 51.0% | 565 | 945 | 68.0% | 1,367 | (68)% | (68)% |
| Thailand | 199 | 63.9% | 312 | 215 | 66.8% | 321 | (7)% | (7)% |
| Singapore | 127 | 59.3% | 214 | 173 | 64.8% | 267 | (24)% | (27)% |
| Malaysia | 81 | 50.5% | 159 | 130 | 65.4% | 198 | (36)% | (38)% |
| Mainland China | 594 | 81.8% | 726 | 702 | 93.2% | 753 | (13)% | (15)% |
| Other Markets** | 240 | 39.7% | 603 | 224 | 41.8% | 537 | 10% | 7% |
| Subtotal | 1,547 | 59.3% | 2,579 | 2,389 | 68.9% | 3,443 | (34)% | (35)% |
| Adjustment to reflect consolidated reserving and capital requirements | (50) | n/m | n/m | (39) | n/m | n/m | n/m | n/m |
| After-tax value of unallocated Group Office expenses | (77) | n/m | n/m | (75) | n/m | n/m | n/m | n/m |
| Total before non-controlling interests | 1,420 | 54.4% | 2,579 | 2,275 | 65.6% | 3,443 | (37)% | (38)% |
| Non-controlling interests** | (10) | n/m | n/m | – | n/m | n/m | n/m | n/m |
| Total | 1,410 | 54.4% | 2,579 | 2,275 | 65.6% | 3,443 | (37)% | (38)% |

** Please refer to Note 4.

Notes:

- (1) A presentation for analysts and investors, hosted by Lee Yuan Siong, Group Chief Executive and President, is scheduled at 9:30 a.m. Hong Kong time today via live webcast.

The webcast of the presentation and presentation slides will be available on AIA's website:

<http://www.aia.com/en/investor-relations/results-presentations.html>

- (2) All figures are presented in actual reporting currency (US dollar) and based on actual exchange rates (AER) unless otherwise stated. Change on constant exchange rates (CER) is calculated using constant average exchange rates for the first half of 2020 and for the first half of 2019 other than for balance sheet items that use CER as at 30 June 2020 and as at 31 December 2019.

- (3) Change is shown on a year-on-year basis unless otherwise stated.

- (4) VONB is calculated based on assumptions applicable at the point of sale.

In the first half of 2020, ANP and VONB for Other Markets included the results from our 49 per cent shareholding in Tata AIA Life Insurance Company Limited (Tata AIA Life).

The total reported VONB for the Group in the first half of 2020 excludes VONB attributable to non-controlling interests of US\$10 million. For the first half of 2019, ANP and VONB have not been restated and do not include any contribution from Tata AIA Life or a deduction for the amount attributable to non-controlling interests. As disclosed in our Interim Report 2019, the VONB attributable to non-controlling interests for the first half of 2019 was US\$15 million.

- (5) VONB includes pension business. ANP and VONB margin exclude pension business and are reported before deduction of non-controlling interests.
- (6) OPAT and operating earnings per share are shown after non-controlling interests unless otherwise stated.
- (7) Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value. Operating return on shareholders' allocated equity is calculated 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 equity. Both are measured on an annualised basis.

- (8) AIA's IFRS accounting treatment for the recognition and measurement of insurance contract liabilities of Hong Kong participating business has been refined to reflect expected changes to policyholder bonuses. Comparative information is also adjusted for the first half of 2019 and as at 31 December 2019.
- (9) The Hong Kong Insurance Authority (HKIA) is introducing a group-wide capital framework for monitoring insurance groups under its supervision. The cover ratio of group available capital to group minimum capital requirement (MCR) under the Local Capital Summation Method (LCSM) is based on our current understanding of the likely framework as it applies to the Group.
- (10) In the context of our reportable market segments, Hong Kong refers to operations in Hong Kong Special Administrative Region and Macau Special Administrative Region; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia (including New Zealand), Cambodia, India, Indonesia, Myanmar, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam.
- (11) The results of Tata AIA Life are accounted for the six-month period ended 31 March 2020 and the six-month period ended 31 March 2019 in AIA's consolidated results for the first half of 2020 and the first half of 2019 respectively.

The IFRS results of Tata AIA Life are accounted for using the equity method. For clarity, TWPI does not include any contribution from Tata AIA Life.

- (12) AIA's financial information in this Financial Summary is based on the unaudited interim condensed consolidated financial statements and supplementary embedded value information for the first half of 2020, unless otherwise stated.

TABLE OF CONTENTS

| | <i>Page</i> |
|---|-------------|
| Group Chief Executive and President's Message | 2 |
| Financial and Operating Review | 4 |
| Financial Review | 4 |
| Business Review | 30 |
| Risk Management | 44 |
| Corporate Governance | 45 |
| Compliance with Corporate Governance Code | 45 |
| Compliance with Model Code | 45 |
| Changes in Directors' Information | 45 |
| Directors' and the Chief Executive's Interests and Short Positions in Shares and Underlying Shares | 46 |
| Interests and Short Positions in Shares and Underlying Shares of Persons other than the Directors or the Chief Executive | 47 |
| Purchase, Sale or Redemption of the Company's Listed Securities | 48 |
| Share-based Compensation | 49 |
| Employees | 55 |
| Financial Statements | 56 |
| Report on Review of Interim Condensed Consolidated Financial Statements | 57 |
| Interim Consolidated Income Statement | 58 |
| Interim Consolidated Statement of Comprehensive Income | 59 |
| Interim Consolidated Statement of Financial Position | 60 |
| Interim Consolidated Statement of Changes in Equity | 62 |
| Interim Condensed Consolidated Statement of Cash Flows | 64 |
| Notes to the Unaudited Interim Condensed Consolidated Financial Statements | 65 |
| Report on Review of Supplementary Embedded Value Information | 123 |
| Supplementary Embedded Value Information | 124 |
| Information for Shareholders | 147 |
| Glossary | 149 |

GROUP CHIEF EXECUTIVE AND PRESIDENT'S MESSAGE

AIA is a company with a rich heritage and an excellent track record of execution, and it is a great privilege for me to be its Group Chief Executive and President.

I would like to thank the board of directors (Board) for their confidence in selecting me to lead this incredible organisation. I am also grateful to my predecessor, Mr. Ng Keng Hooi, for his tremendous contribution to AIA over many years.

I have experienced first-hand AIA's resilience and agility, as our businesses have rapidly reacted and adapted to the far-reaching effects of the COVID-19 pandemic. Our highly robust set of financial results in the first half of 2020 are a testament to the quality of our people and the strength of our business at this unprecedented time. AIA has a special responsibility as the trusted partner our customers turn to when they are concerned about their health and well-being. I would like to express my deepest appreciation to all our employees, agents and partners for going the extra mile for our customers and communities at this time.

Since joining, I have worked closely with our senior leadership team to develop and implement a strategy for the Group which builds on AIA's existing strengths and embraces the transformation that we must make to best serve our customers into the future.

While 2020 is proving to be a challenging year, I am extremely optimistic about the long-term outlook for AIA. Our new strategy is underpinned by the structural and powerful growth drivers in Asia. The compounding nature of wealth creation combined with the increasing need for protection is creating an unprecedented opportunity for AIA's protection and long-term savings solutions.

We see growth opportunities for all of our businesses but nowhere more so than in Mainland China. In June, AIA was honoured to become the first foreign company to receive regulatory approval to set up a wholly owned life insurance subsidiary in Mainland China. AIA traces its roots to Shanghai in 1919 and it is entirely fitting to base our new subsidiary in the city where we began.

Collectively, our 18 markets expect to see an expansion in the middle-class population by 1.4 billion people in the next ten years, seven times faster than the rest of the world. Low insurance penetration and limited social welfare support in many of our markets mean that these growing middle classes lack financial protection.

Furthermore, lifestyle-related diseases are already the main contributor of premature deaths in the region, medical inflation is outstripping wage increases and the need for increased retirement savings is acute with more than half a billion people expected to be aged over 65 by 2030.

Expectations of Asian consumers are also evolving: wellness, health and maintaining quality of life into old age are increasingly front of mind. At the same time, consumers are unsure of how much cover they need and what types of products to buy. With so many options, consumers gravitate towards companies and services that provide personalised advice and relevant engagement.

We are mindful that a strong sense of purpose and authenticity are fundamental to the role we play within our communities. Our commitment to helping people live Healthier, Longer, Better Lives is long-standing. We have now formalised this commitment as our singular purpose, underpinning everything we do including our Environmental, Social and Governance programme.

How will AIA take advantage of the opportunities provided by the structural growth drivers in Asia and deliver sustainable long-term value for our shareholders?

Our customers are becoming more digital, so we must make a step-change in our technology, digital and analytics capabilities. In turn this will transform the experience for our customers, distributors, partners and employees – driving greater growth, efficiency and productivity.

At the same time, we will deliver compelling propositions to our customers, including integrated and personalised journeys that achieve better health and wellness outcomes. We are also committed to scaling and enhancing our unrivalled distribution platform, including our Premier Agency channel, leading bancassurance partnerships and digital platforms.

To deliver our ambitions, we will build on AIA's culture of local empowerment to drive a simpler, faster, more connected organisation. Underpinning our strategy will be our clear focus on maintaining financial discipline to deliver sustainable long-term value for our shareholders.

I believe we have the right plan to optimise AIA's future growth and I look forward to keeping our shareholders well informed as it is executed.

In closing, I would like to thank our customers for their continued trust in AIA and all of our outstanding employees, agents and partners who embody AIA's purpose each and every day to help people live Healthier, Longer, Better Lives.

Lee Yuan Siong

Group Chief Executive and President

20 August 2020

FINANCIAL AND OPERATING REVIEW

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

FINANCIAL REVIEW

Summary and Key Financial Highlights

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

As a result of containment measures limiting face-to-face sales, value of new business (VONB) decreased by 37 per cent compared with the first half of 2019. As restrictions eased and digital capabilities became more widely adopted, we saw encouraging new business sales momentum across the Group. Annualised new premiums (ANP) increased in May and we achieved very strong double-digit month-on-month growth in June. AIA China delivered year-on-year growth in both ANP and VONB for the second quarter of 2020 on a like-for-like basis⁽¹⁾ and this momentum has continued into July.

Operating profit after tax (OPAT) increased by 5 per cent and underlying free surplus generation (UFSG) grew by 11 per cent, demonstrating the resilience of our large in-force portfolio of long-term business with high-quality, recurring sources of earnings. Shareholders' allocated equity increased by 5 per cent before the payment of the final shareholder dividend for 2019 as OPAT more than offset the effect of movements in capital markets in the first half.

Equity attributable to shareholders of AIA Group Limited (the Company) on the embedded value basis (EV Equity) remained broadly stable before the payment of the final shareholder dividend for 2019, as EV operating profit offset negative investment return variances and the impact of a further reduction in our long-term economic assumptions reflecting lower interest rates.

The Group remained financially strong at 30 June 2020 with free surplus of US\$11.8 billion and the solvency position of AIA Company Limited (AIA Co.), our primary operating entity, was 328 per cent. Under the new Group-wide Supervision (GWS) basis at 30 June 2020, the Group Local Capital Summation Method (Group LCSM) cover ratio was 350 per cent excluding any contribution from medium-term notes.

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

We remain confident in the opportunities for AIA's businesses across the Asia-Pacific region, allowing us to continue to focus on delivering profitable new business growth, leveraging our competitive advantages to invest capital where we see attractive opportunities, while maintaining our financial discipline.

Note:

(1) As mentioned in our Interim Report 2019, in the second quarter of 2019, the Ministry of Finance and State Administration of Taxation of the People's Republic of China announced a tax rule change that increased the tax deductibility of commissions in China retroactively from 2018 tax year onwards. The effect of the tax rule change on policies issued in the three months ended 31 March 2019, which amounted to US\$36 million, was reported in the VONB for the three months ended 30 June 2019. Excluding this amount from the VONB for the three months ended 30 June 2019, VONB in the second quarter of 2020 for AIA China increased on a like-for-like basis.

EMBEDDED VALUE

VONB of US\$1,410 million decreased by 37 per cent compared with the first half of 2019. As some markets eased containment measures and our businesses adopted new remote capabilities for customer meetings and sales, we increased total ANP in May from the April low that coincided with the peak of containment measures and achieved very strong double-digit month-on-month growth in June. AIA China delivered year-on-year growth in both ANP and VONB for the second quarter on a like-for-like basis⁽¹⁾ as containment measures in Mainland China were progressively eased and this momentum has continued into July.

VONB from our agency distribution channel declined by 29 per cent and accounted for 78 per cent of the Group's total VONB in the first half of 2020. Our partnership distribution channel reported a 49 per cent drop in VONB, driven primarily by a significant reduction in VONB from our retail independent financial adviser (IFA) channel in Hong Kong. This was due to minimal Mainland Chinese visitors to Hong Kong following the introduction of quarantine measures in early February.

ANP decreased by 24 per cent to US\$2,579 million and VONB margin reduced to 54.4 per cent. The present value of new business premium (PVNBP) margin decreased to 9 per cent. The decreases in margin resulted from a combination of product and geographical mix shifts and the impact of acquisition expense overruns. Within the overall product mix shift, an increased proportion of traditional protection business, where margin remained stable, was more than offset by shifts to lower-margin deferred annuities in Hong Kong and to participating products in Mainland China, as our agents focused on additional sales to existing customers.

EV operating profit was US\$3,878 million for the first half of 2020, a reduction of 13 per cent mainly driven by the decline in VONB, resulting in a lower annualised operating return on EV (Operating ROEV) of 12.9 per cent. Operating variances remained positive at US\$389 million, including positive medical claims experience driven by lower incidences of non-critical claims.

EV Equity remained broadly stable before the payment of the shareholder dividend, as EV operating profit offset negative investment return variances and the impact of the further reduction in our long-term economic assumptions. The reduction in assumptions reflects our long-term view of the levels of government bond yields as at 30 June 2020 and VONB in the second half will be calculated using these assumptions, following our usual approach. EV Equity, after the payment of the shareholder dividend and the effect of exchange rates, was US\$61,420 million at 30 June 2020.

IFRS EARNINGS

OPAT increased by 5 per cent to US\$2,933 million demonstrating the quality and resilience of our geographically diverse and growing in-force portfolio of protection and long-term savings business. Recurring premiums accounted for close to 90 per cent of total premiums received in the first half. Significant positive claims experience offset negative lapse experience in Thailand and the effect of reduced yields on new fixed income investments and lower expected long-term equity returns in the first half.

Total weighted premium income (TWPI) increased by 5 per cent to US\$16,926 million compared with the first half of 2019. Operating margin remained stable at 17.5 per cent.

The expense ratio was 7.3 per cent compared with 7.1 per cent in the first half of 2019 as a result of lower new business volumes and the inclusion of the business acquired from Commonwealth Bank of Australia (CBA) in Australia in the second half of 2019.

Average shareholders' allocated equity grew by 9 per cent compared with the same period last year. This growth resulted in a decline in annualised operating return on shareholders' allocated equity (operating ROE) of 60 bps to 13.2 per cent.

Shareholders' allocated equity increased by 5 per cent before the payment of the final shareholder dividend for 2019 as OPAT more than offset the effect of movements in capital markets. Net profit was US\$2,197 million, the depreciation of local currencies against our US dollar reporting currency was US\$710 million and the payment of dividends to shareholders was US\$1,452 million. Shareholders' allocated equity, after the payment of the shareholder dividend and the effect of exchange rates, was US\$43,309 million at 30 June 2020.

CAPITAL AND DIVIDENDS

UFSG increased by 11 per cent to US\$3,049 million from strong growth in our in-force portfolio, partly offset by lower expected investment returns that reflect both the lower levels of interest rates and changes made to our long-term economic assumptions at the end of 2019. Free surplus invested in writing new business reduced by 4 per cent to US\$703 million as the overall decrease in new business volumes was largely offset by the resulting acquisition expense overruns and the lower proportion of participating products sold in Hong Kong.

Free surplus before the payment of the shareholder dividend was US\$13,223 million at 30 June 2020 compared with US\$14,917 million at 31 December 2019. The movement includes negative investment variances of US\$3,899 million reflecting the reduction in government bond yields on regulatory reserves, most notably in the United States and Thailand, and the decline in equity markets during the first half, particularly in Thailand.

After the payment of the shareholder dividend of US\$1,452 million, free surplus was US\$11,771 million at 30 June 2020, demonstrating the Group's financial resilience.

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

The Hong Kong Insurance Authority (HKIA) is introducing a GWS framework which includes an assessment of the capital position of the Group, referred to as the Group LCSM. Under our current understanding of the likely application of the GWS framework to the Group, AIA's published group-level total available capital and minimum capital requirement will be calculated as the sum of the available capital and minimum capital requirement according to the local regulatory requirements for each of the relevant supervised entities of the Group, including the net asset value for the listed holding company. On this basis at 30 June 2020, the Group LCSM surplus above the Group minimum capital requirement was US\$36,968 million with a Group LCSM cover ratio of 350 per cent excluding any contribution from medium-term notes.

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

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

EVENTS AFTER THE REPORTING PERIOD

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

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

OUTLOOK

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

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

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

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

New Business Performance

VONB, ANP AND MARGIN BY SEGMENT

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | | | Six months ended 30 June 2019 | | | VONB Change | |
|---|----------------------------------|----------------|--------------|----------------------------------|----------------|--------------|--------------|--------------|
| | VONB | VONB Margin | ANP | VONB | VONB Margin | ANP | YoY CER | YoY AER |
| Hong Kong | 306 | 51.0% | 565 | 945 | 68.0% | 1,367 | (68)% | (68)% |
| Thailand | 199 | 63.9% | 312 | 215 | 66.8% | 321 | (7)% | (7)% |
| Singapore | 127 | 59.3% | 214 | 173 | 64.8% | 267 | (24)% | (27)% |
| Malaysia | 81 | 50.5% | 159 | 130 | 65.4% | 198 | (36)% | (38)% |
| Mainland China | 594 | 81.8% | 726 | 702 | 93.2% | 753 | (13)% | (15)% |
| Other Markets ⁽¹⁾ | 240 | 39.7% | 603 | 224 | 41.8% | 537 | 10% | 7% |
| Subtotal | 1,547 | 59.3% | 2,579 | 2,389 | 68.9% | 3,443 | (34)% | (35)% |
| Adjustment to reflect consolidated reserving and capital requirements | (50) | n/m | n/m | (39) | n/m | n/m | n/m | n/m |
| After-tax value of unallocated Group Office expenses | (77) | n/m | n/m | (75) | n/m | n/m | n/m | n/m |
| Total before non-controlling interests | 1,420 | 54.4% | 2,579 | 2,275 | 65.6% | 3,443 | (37)% | (38)% |
| Non-controlling interests ⁽¹⁾ | (10) | n/m | n/m | – | n/m | n/m | n/m | n/m |
| Total | 1,410 | 54.4% | 2,579 | 2,275 | 65.6% | 3,443 | (37)% | (38)% |

Note:

(1) In the first half of 2020, ANP and VONB for Other Markets included the results from our 49 per cent shareholding in Tata AIA Life Insurance Company Limited (Tata AIA Life). The contributions to ANP and VONB amounted to US\$110 million and US\$34 million respectively. The total reported VONB for the Group in the first half of 2020 excludes VONB attributable to non-controlling interests of US\$10 million. For the first half of 2019, ANP and VONB have not been restated and do not include any contribution from Tata AIA Life or a deduction for the amount attributable to non-controlling interests. As disclosed in our Interim Report 2019, the VONB attributable to non-controlling interests for the first half of 2019 was US\$15 million.

VONB of US\$1,410 million decreased by 37 per cent compared with the first half of 2019. As some markets eased containment measures and our businesses adopted new remote capabilities for customer meetings and sales, we increased total ANP in May from the April low that coincided with the peak of containment measures and achieved very strong double-digit month-on-month growth in June. AIA China delivered year-on-year growth in both ANP and VONB for the second quarter on a like-for-like basis⁽¹⁾ as containment measures in Mainland China were progressively eased and this momentum has continued into July.

VONB from our agency distribution channel declined by 29 per cent and accounted for 78 per cent of the Group's total VONB in the first half of 2020. Our partnership distribution channel reported a 49 per cent drop in VONB, driven primarily by a significant reduction in VONB from our retail IFA channel in Hong Kong. This was due to minimal Mainland Chinese visitors to Hong Kong following the introduction of quarantine measures in early February.

ANP decreased by 24 per cent to US\$2,579 million and VONB margin reduced to 54.4 per cent. PVNBP margin decreased to 9 per cent. The decreases in margin resulted from a combination of product and geographical mix shifts and the impact of acquisition expense overruns. Within the overall product mix shift, an increased proportion of traditional protection business, where margin remained stable, was more than offset by shifts to lower-margin deferred annuities in Hong Kong and to participating products in Mainland China, as our agents focused on additional sales to existing customers.

Mainland China was the largest contributor to the Group's VONB in the first half of 2020, despite reporting a 13 per cent reduction in VONB as modest year-on-year growth in the second quarter on a like-for-like basis⁽¹⁾ moderated the decline in the first quarter. VONB margin decreased by 11.5 pps to 81.8 per cent, reflecting a shift in product mix as we successfully generated new sales of long-term participating business from our existing customers. VONB margin for our traditional protection products remained at a similar level to the first half of 2019 and these products contributed nearly 80 per cent of VONB.

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

Thailand reported a 7 per cent decline in VONB for the first half, but sales momentum began to recover with ANP from the agency channel in June more than double the result in May as government restrictions eased. VONB margin remained broadly stable despite lower Thai government bond yields, due to increased sales of critical illness and medical riders.

VONB in Singapore reduced by 24 per cent in the first half of 2020 as growth in the first quarter of 2020 was offset by the reduction in second quarter sales after containment measures were implemented. VONB margin decreased by 5.5 pps, mainly from acquisition expense overruns and a higher proportion of single premium unit-linked business.

Malaysia reported a 36 per cent reduction in VONB as the decline in new business sales during the peak of the movement restrictions in April was partly offset by strong double-digit month-on-month growth across all distribution channels in May and June. VONB margin declined by 14.9 pps to 50.5 per cent due to a higher mix of group insurance business and acquisition expense overruns.

Other Markets delivered VONB growth of 10 per cent in the first half of 2020, including the contribution from Tata AIA Life⁽²⁾. Excluding Tata AIA Life, VONB declined by 6 per cent. Strong VONB growth from our businesses in Vietnam and Taiwan (China) was offset by second quarter reductions in Australia (including New Zealand), the Philippines and Indonesia due to containment measures imposed by local authorities.

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

Note:

(2) In the first half of 2020, ANP and VONB for Other Markets included the results from our 49 per cent shareholding in Tata AIA Life. The contributions to ANP and VONB amounted to US\$110 million and US\$34 million respectively. For the first half of 2019, ANP and VONB have not been restated and do not include any contribution from Tata AIA Life.

EV Equity

EV OPERATING PROFIT

EV operating profit was US\$3,878 million for the first half of 2020, a reduction of 13 per cent mainly driven by the decline in VONB, resulting in a lower annualised operating ROEV of 12.9 per cent. Operating variances remained positive at US\$389 million, including positive medical claims experience driven by lower incidences of non-critical claims. Since our initial public offering (IPO) in 2010, operating variances have cumulatively added more than US\$3.0 billion to EV.

EV OPERATING EARNINGS PER SHARE – BASIC

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|---|----------------------------------|----------------------------------|--------------|------------|
| EV operating profit (US\$ millions) | 3,878 | 4,523 | (13)% | (14)% |
| Weighted average number of ordinary shares (millions) | 12,055 | 12,036 | n/a | n/a |
| Basic EV operating earnings per share (US cents) | 32.17 | 37.58 | (13)% | (14)% |

EV OPERATING EARNINGS PER SHARE – DILUTED

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|---|----------------------------------|----------------------------------|--------------|------------|
| EV operating profit (US\$ millions) | 3,878 | 4,523 | (13)% | (14)% |
| Weighted average number of ordinary shares ⁽¹⁾ (millions) | 12,074 | 12,065 | n/a | n/a |
| Diluted EV operating earnings per share⁽¹⁾ (US cents) | 32.12 | 37.49 | (13)% | (14)% |

Note:

(1) Diluted EV operating earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units (RSPUs) and restricted stock subscription units (RSSUs) granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 40 to the financial statements in our Annual Report 2019.

EV MOVEMENT

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

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

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

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | | |
|---|-------------------------------|---------------|---------------|
| | ANW | VIF | EV |
| 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 |

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

EV EQUITY

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

Note:

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

EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements are shown below. The interest rate sensitivities apply a 50 basis points movement in current government bond yields, our long-term assumptions for investment returns and the risk discount rates.

The discount rate used to calculate the regulatory insurance liabilities in Hong Kong for our long-term US-dollar denominated liabilities makes reference to the current yield on long-dated US government bond yields. The 30-year US government bond yield at 30 June 2020 was 1.41 per cent, a significant decline compared with the equivalent yield of 2.39 per cent at 31 December 2019. A 50 basis points change in interest rates from these two starting yields represents a higher proportionate movement as at 30 June 2020 compared with 31 December 2019. While this has increased the sensitivity of the Group's EV to a 50 basis points change in interest rates, the resulting movements remain small. The sensitivity analysis shown for VONB assumes that we take no action to reprice products in reaction to the changed investment conditions.

| US\$ millions, unless otherwise stated | EV as at 30 June 2020 | VONB for the six months ended 30 June 2020 | EV as at 31 December 2019 | VONB for the six months ended 30 June 2019 |
|---|--------------------------------------|---|--|---|
| Central value | 59,574 | 1,410 | 61,985 | 2,275 |
| Impact of equity price changes | | | | |
| 10 per cent increase in equity prices | 919 | n/a | 968 | n/a |
| 10 per cent decrease in equity prices | (914) | n/a | (967) | n/a |
| Impact of interest rate changes | | | | |
| 50 basis points increase in interest rates | 1,589 | 102 | 719 | 79 |
| 50 basis points decrease in interest rates | (1,905) | (159) | (797) | (107) |

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

IFRS Profit

OPAT⁽¹⁾ BY SEGMENT

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|-------------------------------------|-------------------------------------|------------|------------|
| Hong Kong ⁽²⁾ | 1,005 | 935 | 7% | 7% |
| Thailand | 478 | 528 | (9)% | (9)% |
| Singapore | 303 | 281 | 11% | 8% |
| Malaysia | 148 | 167 | (9)% | (11)% |
| Mainland China | 640 | 537 | 22% | 19% |
| Other Markets ⁽³⁾ | 333 | 388 | (13)% | (14)% |
| Group Corporate Centre ⁽³⁾ | 26 | – | n/m | n/m |
| Total | 2,933 | 2,836 | 5% | 3% |

Notes:

- (1) Attributable to shareholders of the Company only excluding non-controlling interests.
- (2) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to the Interim Condensed Consolidated Financial Statements for additional information.
- (3) Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

OPAT increased by 5 per cent to US\$2,933 million demonstrating the quality and resilience of our geographically diverse and growing in-force portfolio of protection and long-term savings business. Recurring premiums accounted for close to 90 per cent of total premiums received in the first half. Significant positive claims experience offset negative lapse experience in Thailand and the effect of reduced yields on new fixed income investments and lower expected long-term equity returns in the first half.

Mainland China delivered very strong growth with a 22 per cent increase in OPAT, primarily from our growing in-force portfolio and favourable claims experience.

Hong Kong's OPAT increased by 7 per cent, driven by earnings growth from our large in-force portfolio and significantly lower medical claims, partly offset by reduced investment income from lower bond yields and the reduction in our long-term investment return assumptions made at the end of 2019.

Thailand reported a 9 per cent reduction in OPAT as positive claims experience was more than offset by negative lapse experience from weaker consumer sentiment and lower equity returns.

OPAT in Singapore increased by 11 per cent, from growth in our in-force portfolio and improved medical claims experience.

Malaysia's OPAT declined by 9 per cent as underlying growth was offset by a one-off provision ahead of an industry-wide initiative to identify and pay accumulated unreported death claims. Excluding this provision, Malaysia's OPAT grew by 9 per cent, supported by positive claims experience.

OPAT in Other Markets declined by 13 per cent as Australia recorded a reduction of US\$42 million primarily due to lower recovery rates for income protection claimants. Growth in Taiwan (China) and Vietnam broadly offset lower OPAT from Indonesia, the Philippines and South Korea.

Average shareholders' allocated equity grew by 9 per cent compared with the same period last year. This growth resulted in a decline in annualised operating ROE of 60 bps to 13.2 per cent.

TWPI BY SEGMENT

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|---|--|----------------------------------|--------------------|------------|
| Hong Kong | 6,136 | 6,104 | 1% | 1% |
| Thailand | 1,981 | 1,929 | 3% | 3% |
| Singapore | 1,502 | 1,456 | 6% | 3% |
| Malaysia | 1,049 | 1,063 | 2% | (1)% |
| Mainland China | 3,001 | 2,561 | 21% | 17% |
| Other Markets | 3,257 | 3,292 | 3% | (1)% |
| Total | 16,926 | 16,405 | 5% | 3% |

TWPI increased by 5 per cent to US\$16,926 million compared with the first half of 2019. Recurring premiums accounted for close to 90 per cent of total premiums received in the first half.

IFRS OPERATING PROFIT INVESTMENT RETURN

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|---|--|----------------------------------|--------------------|------------|
| Interest income | 3,420 | 3,223 | 8% | 6% |
| Expected long-term investment return for equities and real estate | 1,129 | 1,102 | 4% | 2% |
| Total | 4,549 | 4,325 | 7% | 5% |

IFRS operating profit investment return increased by 7 per cent to US\$4,549 million compared with the first half of 2019. The growth was primarily driven by the increase in the size of our investment portfolio, partly offset by reduced yields on new fixed income investments and lower expected equity returns in the first half.

OPERATING EXPENSES

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|-------------------------------------|-------------------------------------|------------|------------|
| Operating expenses | 1,242 | 1,168 | 9% | 6% |

Operating expenses grew by 9 per cent to US\$1,242 million. The expense ratio was 7.3 per cent compared with 7.1 per cent in the first half of 2019 as a result of lower new business volumes and the inclusion of the business acquired from CBA in Australia in the second half of 2019.

NET PROFIT⁽¹⁾⁽³⁾

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|-------------------------------------|-------------------------------------|--------------|--------------|
| OPAT ⁽³⁾ | 2,933 | 2,836 | 5% | 3% |
| Short-term fluctuations in investment return related to equities and real estate, net of tax ⁽²⁾⁽³⁾ | (1,290) | 696 | n/m | n/m |
| Reclassification of revaluation losses/(gains) for property held for own use, net of tax ⁽²⁾⁽³⁾ | 61 | (114) | n/m | n/m |
| Corporate transaction related costs, net of tax | (37) | (30) | n/m | n/m |
| Implementation costs of new accounting standards, net of tax | (22) | (24) | n/m | n/m |
| Other non-operating investment return and other items, net of tax ⁽³⁾ | 552 | (5) | n/m | n/m |
| Total | 2,197 | 3,359 | (34)% | (35)% |

Notes:

- (1) Attributable to shareholders of the Company only excluding non-controlling interests.
- (2) Short-term fluctuations in investment return include the revaluation gains and losses for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
- (3) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to the Interim Condensed Consolidated Financial Statements for additional information.

IFRS NON-OPERATING MOVEMENT

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

MOVEMENT IN SHAREHOLDERS' ALLOCATED EQUITY⁽¹⁾

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Year ended 31 December 2019 | Six months ended 30 June 2019 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|
| Opening shareholders' allocated equity | 42,845 | 37,277 | 37,277 |
| Retrospective adjustments for change in accounting policies | 433 | 1,130 | 1,130 |
| Opening shareholders' allocated equity, as adjusted | 43,278 | 38,407 | 38,407 |
| Net profit | 2,197 | 5,979 | 3,359 |
| Purchase of shares held by employee share-based trusts | (6) | (21) | (24) |
| Dividends | (1,452) | (1,961) | (1,448) |
| Revaluation (losses)/gains on property held for own use | (65) | 154 | 124 |
| Foreign currency translation adjustments | (710) | 603 | 356 |
| Other capital movements | 67 | 117 | 100 |
| Total movement in shareholders' allocated equity | 31 | 4,871 | 2,467 |
| Closing shareholders' allocated equity | 43,309 | 43,278 | 40,874 |
| Average shareholders' allocated equity | 44,488 | 40,638 | 40,602 |

Note:

(1) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to the Interim Condensed Consolidated Financial Statements for additional information.

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

Shareholders' allocated equity increased by 5 per cent before the payment of the final shareholder dividend for 2019 as OPAT more than offset the effect of movements in capital markets. Net profit was US\$2,197 million, the depreciation of local currencies against our US dollar reporting currency was US\$710 million and the payment of dividends to shareholders was US\$1,452 million. Shareholders' allocated equity, after the payment of the shareholder dividend and the effect of exchange rates, was US\$43,309 million at 30 June 2020.

Average shareholders' allocated equity grew by 9 per cent compared with the same period last year.

Sensitivities to foreign exchange rate, interest rate and equity price movements are included in note 23 to the Interim Condensed Consolidated Financial Statements.

IFRS Earnings per Share (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders increased by 5 per cent to 24.33 US cents in the first half of 2020.

Basic EPS based on IFRS net profit attributable to shareholders, was 18.22 US cents in the first half of 2020. This figure includes mark-to-market movements from our equity and investment property portfolios which is the reason for the reduction of 34 per cent compared with the first half of 2019.

IFRS EPS – BASIC

| | Net Profit ⁽¹⁾⁽³⁾ | | OPAT ⁽¹⁾⁽³⁾ | |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
| Profit (US\$ millions) | 2,197 | 3,359 | 2,933 | 2,836 |
| Weighted average number of ordinary shares (millions) | 12,055 | 12,036 | 12,055 | 12,036 |
| Basic earnings per share (US cents) | 18.22 | 27.91 | 24.33 | 23.56 |

IFRS EPS – DILUTED

| | Net Profit ⁽¹⁾⁽³⁾ | | OPAT ⁽¹⁾⁽³⁾ | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
| Profit (US\$ millions) | 2,197 | 3,359 | 2,933 | 2,836 |
| Weighted average number of ordinary shares ⁽²⁾ (millions) | 12,074 | 12,065 | 12,074 | 12,065 |
| Diluted earnings per share⁽²⁾ (US cents) | 18.20 | 27.84 | 24.29 | 23.51 |

Notes:

- (1) Attributable to shareholders of the Company only excluding non-controlling interests.
- (2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 40 to the financial statements in our Annual Report 2019.
- (3) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to the Interim Condensed Consolidated Financial Statements for additional information.

Capital

FREE SURPLUS GENERATION

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

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

UFSG increased by 11 per cent to US\$3,049 million from strong growth in our in-force portfolio, partly offset by lower expected investment returns that reflect both the lower levels of interest rates and changes made to our long-term economic assumptions at the end of 2019.

Free surplus invested in writing new business reduced by 4 per cent to US\$703 million as the overall decrease in new business volumes was largely offset by the resulting acquisition expense overruns and the lower proportion of participating products sold in Hong Kong.

Free surplus before the payment of the shareholder dividend was US\$13,223 million at 30 June 2020 compared with US\$14,917 million at 31 December 2019. The movement includes negative investment variances of US\$3,899 million reflecting the reduction in government bond yields on regulatory reserves, most notably in the United States and Thailand, and a decline in equity markets during the first half, particularly in Thailand.

After the payment of the shareholder dividend of US\$1,452 million, free surplus was US\$11,771 million at 30 June 2020 demonstrating the Group's financial resilience.

The following table summarises the change in free surplus:

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 |
|---|--|----------------------------------|
| Opening free surplus | 14,917 | 14,751 |
| Underlying free surplus generation | 3,049 | 2,804 |
| Free surplus used to fund new business | (703) | (750) |
| Unallocated Group Office expenses | (91) | (115) |
| Finance costs and other capital movements | (50) | (13) |
| Free surplus before investment variances and dividends | 17,122 | 16,677 |
| Investment return variances and other items | (3,899) | 848 |
| Free surplus before dividends | 13,223 | 17,525 |
| Dividends | (1,452) | (1,448) |
| Closing free surplus | 11,771 | 16,077 |

WORKING CAPITAL AND NET FUNDS TO GROUP CORPORATE CENTRE

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

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

Given the timing of regulatory reporting and board governance cycles, local remittances for 2020 will be heavily weighted to the second half of the year. In particular, remittances from Mainland China are planned for the second half to align with the incorporation of our new wholly-owned subsidiary in Shanghai. Working capital benefited from net remittances of US\$649 million and positive market movements on fixed income investments and others of US\$543 million. Positive remittances from Other Markets were offset by capital contributions to Australia and New Zealand resulting from industry-wide changes to local regulatory capital requirements.

In the first half of 2019, remittances of US\$1,853 million included a one-off remittance from Thailand due to the timing of required regulatory approvals, as previously highlighted in our Interim Report 2019.

We raised US\$1,055 million from issuances under our Global Medium-term Note and Securities Programme and we made interim payments of US\$536 million for the acquisition of The Colonial Mutual Life Assurance Society Limited (CMLA).

While our financial position remains resilient, persistent low levels of government bond yields could slow free surplus emergence and remittances from some of our businesses.

The movements in working capital are summarised as follows:

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

Note:

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

IFRS Balance Sheet

CONSOLIDATED STATEMENT OF FINANCIAL POSITION⁽¹⁾

| US\$ millions, unless otherwise stated | As at 30 June 2020 | As at 31 December 2019 | Change AER |
|---|-----------------------|---------------------------|---------------|
| Assets | | | |
| Financial investments | 238,951 | 233,363 | 2% |
| Investment property | 4,556 | 4,834 | (6)% |
| Cash and cash equivalents | 5,950 | 3,941 | 51% |
| Deferred acquisition and origination costs | 26,205 | 26,328 | – |
| Other assets | 15,542 | 15,666 | (1)% |
| Total assets | 291,204 | 284,132 | 2% |
| Liabilities | | | |
| Insurance and investment contract liabilities | 210,140 | 204,454 | 3% |
| Borrowings | 6,886 | 5,757 | 20% |
| Other liabilities | 16,923 | 18,526 | (9)% |
| Less total liabilities | 233,949 | 228,737 | 2% |
| Equity | | | |
| Total equity | 57,255 | 55,395 | 3% |
| Less non-controlling interests | 451 | 448 | 1% |
| Total equity attributable to shareholders of AIA Group Limited | 56,804 | 54,947 | 3% |
| Shareholders' allocated equity | 43,309 | 43,278 | – |

MOVEMENT IN SHAREHOLDERS' EQUITY⁽¹⁾

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

Note:

(1) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation. Please refer to note 28 to the Interim Condensed Consolidated Financial Statements for additional information.

TOTAL INVESTMENTS

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

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

UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS

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

POLICYHOLDER AND SHAREHOLDER INVESTMENTS

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

ASSETS

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

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

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

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

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

Government bonds, other government and government agency bonds represented 42 per cent of fixed income investments at 30 June 2020, compared with 44 per cent at 31 December 2019. Corporate bonds and structured securities accounted for 53 per cent of fixed income investments at 30 June 2020, compared with 50 per cent at 31 December 2019. The average credit rating of our fixed income portfolio excluding government bonds remained stable at A- compared to the position at 31 December 2019. Our corporate bond portfolio is well diversified with over 1,500 issuers with an average holding size of US\$57 million. At 30 June 2020, bonds rated at BBB- amounted to US\$9 billion, equivalent to 5 per cent of our total bond portfolio, and we held US\$3.5 billion of bonds rated below investment grade or not rated, representing 2 per cent of our total bond portfolio. Less than US\$600 million of our bonds, representing 0.3 per cent of our total bond portfolio, were downgraded to below investment grade and we did not experience asset impairments in the first half of 2020, reflecting the overall quality of our investment portfolio.

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

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

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

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

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

LIABILITIES

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

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

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

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

Details of commitments and contingencies are included in note 26 to the Interim Condensed Consolidated Financial Statements.

Regulatory Capital

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

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

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

AIA CO. SOLVENCY POSITION

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

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

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

GROUP SOLVENCY POSITION

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

On this basis at 30 June 2020, the Group LCSM surplus above the Group minimum capital requirement was US\$36,968 million with a Group LCSM cover ratio of 350 per cent excluding any contribution from medium-term notes.

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

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

We believe that the free surplus on a consolidated basis provides a more representative view of the capital position from the shareholder perspective. The table below shows a reconciliation between the Group LCSM surplus and free surplus.

RECONCILIATION BETWEEN GROUP LCSM SURPLUS AND FREE SURPLUS

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

Notes:

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

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

LOCAL SOLVENCY REQUIREMENTS

The Group's individual branches and subsidiaries are also subject to supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 30 June 2020.

Regulatory Developments

The International Association of Insurance Supervisors (IAIS), a standard setting body for insurers, adopted a *global 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 this *global framework* as insurance groups which meet certain minimum requirements in the jurisdictions in which they operate throughout the world and with regards to the size of their business. The Group has been designated an IAIG in accordance with these criteria.

Further to our prior disclosures, the HKIA has been developing a GWS framework to align with international standards to supervise Hong Kong domiciled IAIGs. Legislation setting out the GWS framework was enacted on 17 July 2020 and is to be supplemented further with subsidiary legislation. The GWS framework is intended to commence in early 2021 and is reflective of the requirements of the *global framework*.

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

The GWS framework provides for detailed group capital requirements which are expected to be specified in the subsidiary legislation. It is anticipated that the GWS solvency framework will be based on a "Summation Approach". The Group's published group-level available and required capital will be calculated based on a summing up of the available and required capital according to the local regulatory requirements for the relevant supervised entities of the Group, also known as Group LCSM.

It is also expected that the HKIA will adopt standards that will provide for conforming subordinated debt in the rules relating to group-wide capital and solvency. Under the *global framework*, liabilities such as subordinated debt may in certain circumstances be given credit for regulatory purposes as capital. This will be a change from the existing framework.

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

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

Accounting Standards Developments

On 25 June 2020, the effective date of IFRS 17 was deferred to 1 January 2023 and the temporary exemption applying IFRS 9 for insurers using IFRS standards was extended to 1 January 2023.

Global Medium-term Note (GMTN) and Securities Programme

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

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

Credit Ratings

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

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

Dividends

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

BUSINESS REVIEW

Summary and Key Business Highlights

In the first half of 2020, our businesses worked tirelessly throughout the pandemic to ensure that we continued to provide uninterrupted service for our customers while supporting our agents and distribution partners. Although initially impacted by social distancing measures and mobility restrictions, our markets have seen very strong month-on-month growth in VONB as local authorities began to relax these restrictions.

DISTRIBUTION AND MARKETING

To support our Premier Agency, we developed new digital support capabilities that saw widespread adoption across the Group, including non face-to-face customer meetings and remote signatures. We also rapidly deployed digital solutions for recruitment, training and sales management, which helped deliver a strong double-digit increase in new recruits while maintaining our consistent focus on quality. Remote sales capability is now available in all our agency businesses and complements our proven model for face-to-face advice to provide an enhanced customer experience. We also worked closely with our partners across the region to adapt swiftly to the challenging operating environment by strengthening our digital capabilities to engage, connect with and serve customers remotely during the first half. In particular, many of our exclusive and strategic bancassurance partners have adopted new digital leads generation and sales models where insurance specialists are able to directly engage with prospective customers online.

Beyond enhancing our sales processes, we introduced new measures to allow customers to submit claims digitally and speed up processing time. We made a number of enhancements to AIA Vitality to encourage members to stay focused on their health during restrictions with new ideas to exercise and build mental resilience as well as discounts on meal delivery services.

GEOGRAPHICAL MARKETS

AIA China became the largest contributor to the Group's VONB in the first half of 2020 and delivered modest year-on-year growth in VONB for the second quarter on a like-for-like basis⁽¹⁾. This positive momentum continued into July. AIA China was our first market to launch a completely digital sales process for agents, and our successful roll-out of online recruitment seminars supported very strong double-digit growth in new recruits during the first half.

AIA Hong Kong experienced a significant decrease in VONB as the overall number of Mainland Chinese visitors to Hong Kong reduced to minimal levels after the implementation of mandatory quarantine requirements since early February. We saw encouraging early signs of recovery in new business for our domestic customer segment in May and June during a period when social distancing measures were temporarily relaxed.

VONB for **AIA Thailand** declined in the first half overall as double-digit growth in VONB for our market-leading agency force in the first quarter was offset by lower volumes in the second quarter as a result of containment measures implemented in late March. Sales momentum improved in June as restrictions were gradually eased. Our strategic bancassurance partnership with Bangkok Bank Public Company Limited (Bangkok Bank) delivered positive growth in ANP for the first half.

Strong VONB growth for **AIA Singapore's** agency in the first quarter was offset by reduced second quarter sales after the implementation of local containment measures. We launched an end-to-end remote sales capability for our agency in April that continued to be widely used with more than 80 per cent of agency cases closed on the platform even as restrictions eased in June.

AIA Malaysia saw a reduction in VONB in the first half but achieved strong double-digit month-on-month increases in VONB in both agency and partnership distribution for May and June as mobility restrictions eased. We also maintained our leadership position in employee benefits and delivered strong VONB growth from this segment in the first half of 2020.

In **Other Markets**, strong VONB growth in Vietnam and Taiwan (China) was offset by Australia (including New Zealand), the Philippines and Indonesia as these markets were heavily impacted by COVID-19 containment measures. We have achieved very strong month-on-month VONB growth in May and June for this segment as measures have been gradually relaxed in some markets.

Notes:

- (1) As mentioned in our Interim Report 2019, in the second quarter of 2019, the Ministry of Finance and State Administration of Taxation of the People's Republic of China announced a tax rule change that increased the tax deductibility of commissions in China retroactively from 2018 tax year onwards. The effect of the tax rule change on policies issued in the three months ended 31 March 2019, which amounted to US\$36 million, was reported in the VONB for the three months ended 30 June 2019. Excluding this amount from the VONB for the three months ended 30 June 2019, VONB in the second quarter of 2020 for AIA China increased on a like-for-like basis.

Distribution

AGENCY

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

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

VONB fell by 29 per cent in the first half of 2020 to US\$1,194 million, accounting for 78 per cent of the Group's total VONB. ANP decreased by 22 per cent to US\$1,708 million and VONB margin declined to 69.9 per cent, which was largely driven by changes in product mix and acquisition expense overruns that reflected the sudden large reduction in new business volumes.

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

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

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

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

PARTNERSHIPS

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

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

Total VONB from partnerships declined by 49 per cent to US\$335 million in the first half of 2020, driven primarily by a significant reduction in VONB from our retail IFA channel in Hong Kong. ANP from partnerships decreased by 28 per cent to US\$871 million and VONB margin declined to 38.4 per cent, primarily reflecting a change in geographical mix.

We worked closely with our partners across the region to adapt swiftly to the challenging operating environment by strengthening our digital capabilities to engage, connect with and serve customers remotely during the first half.

VONB from our bancassurance channel declined by 13 per cent in the first half despite the temporary prohibition of in-branch bancassurance sales in many of our markets, which demonstrated the resilience of our exclusive and strategic partnerships. Face-to-face sales resumed when restrictions were gradually relaxed in June, and VONB from our bancassurance channel more than doubled from May. Many of our exclusive and strategic partners are adopting new digital leads generation and sales models where insurance specialists are able to directly engage with prospective customers online. For example, our strategic partnership with Bank of the Philippine Islands (BPI) in the Philippines was one of our first bancassurance partnerships to implement an analytics-driven digital leads generation process, and more than 150,000 sales leads were generated via digital-led campaigns and passed to our insurance specialists in the second quarter.

VONB from our intermediated channels (including IFAs, brokers, private banks and specialist advisers) declined by 70 per cent, primarily driven by the significant reduction in VONB from our retail IFA channel in Hong Kong due to the extremely low levels of Mainland Chinese visitors to Hong Kong in the first half.

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

Notes:

Throughout the Distribution section:

VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.

Marketing

AIA's purpose to help our customers live Healthier, Longer, Better Lives underpins everything the Group represents, and it has recently become even more relevant and powerful in the context of the COVID-19 pandemic. This purpose is at the core of our efforts both to transform people's lives for the better and to drive AIA's sustainable long-term growth.

SUPPORTING OUR CUSTOMERS

AIA is a trusted partner for our customers, particularly during difficult times, and the pandemic has caused uncertainty and significant stress for many individuals. Our primary goal has been to provide uninterrupted service and support to our customers in these extraordinary circumstances, ensuring that we continue to pay claims. All of our businesses have moved with speed to provide innovative and wide-ranging support to our customers. These efforts are aimed at delivering valued health and wellness resources, much-needed flexibility during movement restrictions and, most importantly, peace of mind for our customers. We have achieved this despite a large number of our employees working from home and while our agents and other distributors were adapting to non-face-to-face interaction with customers.

Our businesses have introduced new services, many involving the deployment of remote communications and sales solutions to allow for virtual interactions with customers unable or reluctant to meet in person. Across our markets these innovative arrangements have enabled our customers to purchase insurance solutions even when containment measures prevented them from leaving home.

We also worked with our partners to provide complimentary medical advice, case management and rehabilitation services to affected customers. Beyond enhancing our sales processes, we introduced new measures to allow customers to submit claims digitally and to speed up the entire claims process. Where customers have had difficulty in paying their premiums we have extended grace periods to prevent involuntary policy lapses. For new policies, we have waived the usual waiting period before claims can be made, specifically for claims related to COVID-19.

More broadly, we have taken steps to support our communities in several of our markets during the pandemic by offering free protection to selected medical staff, donating to hospitals and charitable organisations and offering complimentary or enhanced coverage.

HEALTH AND WELLNESS

Our research shows that consumer attitudes and behaviours are shifting, with greater health awareness, new appreciation of the need for insurance protection and increasing expectations of the role that companies should play in helping to respond to societal challenges. The pandemic is accelerating these trends, reflected in our focus on being a lifelong partner to our customers.

Our wellness programmes, including AIA Vitality, remain core to our health and wellness customer proposition. With a total membership of 1.7 million as at 30 June 2020, these programmes have played a crucial role in empowering our customers to build physical and mental resilience during the movement restrictions. We made a number of enhancements to AIA Vitality across our markets to further encourage members to stay focused on their well-being with new ideas for exercise and staying healthy. These included the AIA Vitality@home online hub, which provides informative content on how to keep fit and eat well at home, maintain mental wellness and enjoy better sleep. We also encouraged members to participate in webinars on topics including healthy cooking at home and stress management.

We have adjusted AIA Vitality rewards to take account of pandemic-related restrictions, with discounts on meal delivery services and home delivery of farm-fresh produce. Other benefits, such as movie tickets and cashback on flights, could not be claimed due to containment measures and travel restrictions, so we extended the time that customers have to redeem them.

AMPLIFYING OUR BRAND

Our marketing activities in the first half of the year focused on sharing informative and engaging content on social media around health and wellness. Working with our key sponsorship partners, we have been able to connect with people on a meaningful basis and show our gratitude to frontline and healthcare workers.

In May, AIA launched a new film series featuring our Global Ambassador, David Beckham, and key figures from Tottenham Hotspur Football Club (Spurs), including head coach, José Mourinho. The series focuses on the importance of behavioural change to improve health and wellness, including getting enough sleep, spending time with family and friends, eating well and doing exercise. This is the first time we have brought together our two long-term partners, and the campaign was AIA's most successful to date, with more than 95 million people reached by the end of June.

Geographical Markets

MAINLAND CHINA

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|----------------------------------|----------------------------------|------------|------------|
| VONB | 594 | 702 | (13)% | (15)% |
| VONB margin | 81.8% | 93.2% | (11.5) pps | (11.4) pps |
| ANP | 726 | 753 | 0% | (4)% |
| TWPI | 3,001 | 2,561 | 21% | 17% |
| OPAT | 640 | 537 | 22% | 19% |

COVID-19 Situation Overview

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

Financial Highlights

AIA China reported a 13 per cent reduction in VONB to US\$594 million in the first half of 2020 as modest year-on-year growth in the second quarter on a like-for-like basis⁽¹⁾ moderated the decline in the first quarter. This positive momentum continued into July. ANP was flat at US\$726 million, supported by growth in the second quarter as social distancing measures and movement controls were progressively lifted across the country from March onwards. VONB margin decreased by 11.5 pps to 81.8 per cent, reflecting a shift in product mix as we successfully generated new sales of long-term participating savings products from our existing customers. VONB margin for our traditional protection products remained at a similar level to the first half of 2019 and these products contributed nearly 80 per cent of VONB. OPAT grew by 22 per cent to US\$640 million, primarily from our growing in-force portfolio and favourable claims experience.

Business Highlights

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

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

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

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

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

Notes:

- (1) As mentioned in our Interim Report 2019, in the second quarter of 2019, the Ministry of Finance and State Administration of Taxation of the People’s Republic of China announced a tax rule change that increased the tax deductibility of commissions in China retroactively from 2018 tax year onwards. The effect of the tax rule change on policies issued in the three months ended 31 March 2019, which amounted to US\$36 million, was reported in the VONB for the three months ended 30 June 2019. Excluding this amount from the VONB for the three months ended 30 June 2019, VONB in the second quarter of 2020 for AIA China increased on a like-for-like basis.

HONG KONG

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|----------------------------------|----------------------------------|------------|------------|
| VONB | 306 | 945 | (68)% | (68)% |
| VONB margin | 51.0% | 68.0% | (17.0) pps | (17.0) pps |
| ANP | 565 | 1,367 | (59)% | (59)% |
| TWPI | 6,136 | 6,104 | 1% | 1% |
| OPAT ⁽¹⁾ | 1,005 | 935 | 7% | 7% |

Note:

- (1) After the change in accounting policy for Hong Kong participating business. The comparative information has been adjusted to conform to current period presentation.

COVID-19 Situation Overview

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

Financial Highlights

AIA Hong Kong reported a 68 per cent reduction in VONB and a 59 per cent decline in ANP in the first half of 2020, although we saw encouraging early signs of recovery in new business sales for our domestic customer segment in May and June during a period when social distancing restrictions were temporarily relaxed. Since the implementation of the mandatory quarantine requirements, new business sales to our Mainland Chinese visitor customers have effectively stopped, while a general reluctance to meet face-to-face caused a significant double-digit decline in ANP from our domestic customer segment. VONB margin decreased by 17.0 pps to 51.0 per cent, reflecting a shift to lower margin products including additional sales of deferred annuities that qualify for tax deductions to existing customers, reduced profitability from participating products due to lower US dollar bond yields and acquisition expense overruns. OPAT increased by 7 per cent, driven by earnings growth from our large in-force portfolio and significantly lower medical claims, partly offset by investment experience resulting from lower bond yields and the reduction in long-term investment return assumptions made at the end of 2019.

Business Highlights

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

The decrease in sales volumes from our exclusive partnership with Citibank, N.A. (Citibank) was more moderate than our agency business, although VONB for partnerships saw a larger decline overall because of the effect of the reduction in Mainland Chinese visitors on the retail IFA channel.

In addition to developing new digital tools to mitigate business disruption for our agency and distribution partners, AIA Hong Kong also enhanced our online customer portals and launched a series of initiatives to support our customers and our local communities. In the first half of 2020, we provided additional life and hospitalisation cover for all our in-force customers and contributed free COVID-19 cover on diagnosis for all cleaning service professionals in Hong Kong and Macau.

THAILAND

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|----------------------------------|----------------------------------|------------|------------|
| VONB | 199 | 215 | (7)% | (7)% |
| VONB margin | 63.9% | 66.8% | (2.9) pps | (2.9) pps |
| ANP | 312 | 321 | (3)% | (3)% |
| TWPI | 1,981 | 1,929 | 3% | 3% |
| OPAT | 478 | 528 | (9)% | (9)% |

COVID-19 Situation Overview

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

Financial Highlights

AIA Thailand reported a 7 per cent reduction in VONB for the first half, although sales momentum began to recover in June with ANP from the agency channel more than double the result in May as government restrictions eased. VONB margin remained broadly stable despite lower Thai government bond yields, due to increased sales of critical illness and medical riders. We reported a 9 per cent reduction in OPAT as positive claims experience was more than offset by negative lapses experience from weaker consumer sentiment and lower equity returns.

Business Highlights

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

Our strategic bancassurance partnership with Bangkok Bank delivered positive ANP growth in the first half despite some temporary branch closures due to COVID-19 restrictions during the second quarter. We recorded a single-digit decline in VONB for this channel overall from the effect of lower government bond yields.

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

SINGAPORE

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|----------------------------------|----------------------------------|------------|------------|
| VONB | 127 | 173 | (24)% | (27)% |
| VONB margin | 59.3% | 64.8% | (5.5) pps | (5.5) pps |
| ANP | 214 | 267 | (17)% | (20)% |
| TWPI | 1,502 | 1,456 | 6% | 3% |
| OPAT | 303 | 281 | 11% | 8% |

COVID-19 Situation Overview

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

Financial Highlights

AIA Singapore reported a 24 per cent reduction in VONB as growth in the first quarter of 2020 was offset by the reduction in second quarter sales after containment measures were implemented. Sales momentum has progressively improved since April as restrictions gradually eased and business activities began to normalise. For the first half, ANP declined by 17 per cent and VONB margin decreased by 5.5 pps, mainly from acquisition expense overruns and a higher proportion of single premium unit-linked business. OPAT in Singapore increased by 11 per cent, from growth in our in-force portfolio and improved medical claims experience.

Business Highlights

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

Our exclusive bancassurance partnership with Citibank has historically served onshore and offshore customers. In the first half of 2020, our offshore customer segment was particularly affected by border controls that were implemented in January. Combined with domestic containment measures for our onshore customers, our partnership distribution recorded a double-digit decline in VONB for the second quarter.

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

MALAYSIA

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|----------------------------------|----------------------------------|------------|------------|
| VONB | 81 | 130 | (36)% | (38)% |
| VONB margin | 50.5% | 65.4% | (14.9) pps | (14.9) pps |
| ANP | 159 | 198 | (17)% | (20)% |
| TWPI | 1,049 | 1,063 | 2% | (1)% |
| OPAT | 148 | 167 | (9)% | (11)% |

COVID-19 Situation Overview

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

Financial Highlights

AIA Malaysia reported VONB of US\$81 million, a 36 per cent reduction compared with the first half of 2019. The decline in new business sales during the peak of the MCO restrictions in April was partly offset by strong double-digit month-on-month growth across all distribution channels in May and June. ANP reduced by 17 per cent, while VONB margin declined by 14.9 pps to 50.5 per cent due to a higher mix of group insurance business and acquisition expense overruns. AIA Malaysia's OPAT declined by 9 per cent as underlying growth was offset by a one-off provision ahead of an industry-wide initiative to identify and pay accumulated unreported death claims. Excluding this provision, OPAT grew by 9 per cent, supported by positive claims experience.

Business Highlights

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

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

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

OTHER MARKETS

| US\$ millions, unless otherwise stated | Six months ended 30 June 2020 | Six months ended 30 June 2019 | YoY CER | YoY AER |
|--|----------------------------------|----------------------------------|------------|------------|
| VONB ⁽¹⁾ | 240 | 224 | 10% | 7% |
| VONB margin ⁽¹⁾ | 39.7% | 41.8% | (1.8) pps | (2.1) pps |
| ANP ⁽¹⁾ | 603 | 537 | 15% | 12% |
| TWPI | 3,257 | 3,292 | 3% | (1)% |
| OPAT ⁽²⁾ | 333 | 388 | (13)% | (14)% |

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

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

Financial Highlights

Other Markets delivered VONB growth of 10 per cent in the first half of 2020, including the contribution from Tata AIA Life⁽¹⁾. Excluding Tata AIA Life, VONB declined by 6 per cent. Strong VONB growth from our businesses in Vietnam and Taiwan (China) was offset by second quarter reductions in Australia (including New Zealand), the Philippines and Indonesia due to containment measures imposed by local authorities. Excluding Tata AIA Life, ANP declined by 6 per cent and VONB margin was stable.

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

OPAT declined by 13 per cent as Australia recorded a reduction of US\$42 million in OPAT, primarily due to lower recovery rates for income protection claimants. Growth in Taiwan (China) and Vietnam was offset by lower OPAT from Indonesia, the Philippines and South Korea.

Business Highlights

Australia & New Zealand: Our business in Australia and New Zealand delivered positive growth in ANP, although VONB was lower due to acquisition expense overruns. Our long-term bancassurance partnerships with Commonwealth Bank of Australia (CBA) and ASB Bank Limited (ASB) generated a one-off significant contribution to VONB as both CBA and ASB purchased mortality cover on behalf of its existing home loan customers in the first half of 2020.

Cambodia: Our Cambodian business focused on executing its multi-channel distribution strategy. New business sales volumes were flat in the first half as the overall economy contracted. We have continued to extend our distribution reach through geographical expansion outside of Phnom Penh for our agency channel and additional branches with our strategic bank partners.

India: Tata AIA Life delivered strong VONB growth from both agency and partnership channels in the first half of 2020. We maintained our leading position in the pure retail protection market, and Tata AIA Life's agency force remained among the most productive in the industry. Over 95 per cent of new policies were submitted digitally from April to the end of the first half, which helped our business maintain continued ANP growth despite the implementation of stringent containment measures.

Indonesia: The first half of 2020 was heavily affected by the government restrictions imposed from mid-March due to COVID-19 and VONB was significantly lower than in the first half of 2019. The decline was moderated by year-on-year growth in VONB from our exclusive partnership with Bank Central Asia (BCA) as we increased the number of active in-branch insurance specialists. Agency sales activities fell significantly compared with the previous year as remote sale of unit-linked products only became available from late May.

Myanmar: Our focus in Myanmar has been on establishing a strong foundation for future growth and continuing to spread awareness of the AIA brand. Over the first half of 2020, we have built a strong pipeline of new agents who have demonstrated strong growth in month-on-month new business sales.

Philippines: Our operations in the Philippines reported a double-digit decline in VONB for both agency and bancassurance channels as a direct result of the nationwide lockdown after the government declared a State of Calamity in mid-March, which continues to remain strictly in force as of July. In the second quarter, we introduced new digital capabilities that enabled remote sales without a face-to-face meeting, which have helped sustain sales volumes during the second quarter.

South Korea: VONB growth from our direct marketing business in the first half was more than offset by lower sales from our agency business. The strong second quarter performance in our direct marketing channel was supported by an uplift in VONB margin as we repriced several key products. We continued to work with our strategic partners, SK Telecom and SK C&C, exploring new ways to incorporate data analytics and digital marketing capabilities and integrate our protection propositions into the SK Telecom online and mobile ecosystem.

Sri Lanka: VONB from our business in Sri Lanka was greatly reduced due to the strict containment measures, resulting in negative VONB growth in the first half of 2020. We continued to provide efficient customer service during the mandatory curfew by quickly adopting new remote working capabilities and digital tools.

Taiwan (China): AIA Taiwan delivered strong VONB growth in the first half of 2020, partly driven by the anticipation of an industry-wide repricing exercise in the second half of 2020. We remain focused on offering insurance solutions that meet targeted customer needs for retirement and legacy planning and deepening our relationships with key bank and IFA partners through differentiated campaigns, exclusive training programmes and comprehensive sales support.

Vietnam: AIA Vietnam delivered very strong VONB growth from both agency and bancassurance channels, despite some social distancing measures implemented by the local authorities in the second quarter. Agency growth was primarily driven by an increase in new recruits and a greater number of active agents, while our bancassurance channel also delivered very strong VONB growth, supported by a shift towards higher-margin protection products.

Notes:

- (1) In the first half of 2020, ANP and VONB for Other Markets included the results from our 49 per cent shareholding in Tata AIA Life. The contributions to ANP and VONB amounted to US\$110 million and US\$34 million respectively. For the first half of 2019, ANP and VONB have not been restated and they do not include any contribution from Tata AIA Life.
- (2) Prior to 2020, the Group reflected the withholding tax charge under Group Corporate Centre. Starting from 2020, the Group has enhanced the segment information to present the withholding tax charge in the operating segment where the withholding tax arises. The comparative information has been adjusted to conform to current period presentation.

RISK MANAGEMENT

OVERVIEW

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

The Group's approach to risk management is implemented through our Risk Management Framework ("RMF"), which allows management to identify, measure, report and manage AIA's risk profile whilst ensuring that risk management is integrated within our decision-making.

The Group's RMF is comprised of six components:

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

EXECUTION OF THE RMF

AIA has embedded our RMF into key business processes and decision-making, with the following priority areas:

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

The Group's RMF is described on pages 56 to 63 and note 38 to the financial statements on pages 235 to 242 of the Company's Annual Report 2019.

CORPORATE GOVERNANCE

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2020, with the exception of Code Provision F.1.3, AIA Group Limited (Company) complied with all applicable code provisions set out in the Corporate Governance Code set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules). Code Provision F.1.3 provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Group Company Secretary reports to the Group General Counsel, who is ultimately accountable for the company secretarial function of the Company and who in turn reports directly to the Group Chief Executive.

COMPLIANCE WITH MODEL CODE

The Company has adopted its own Directors' and Chief Executives' Dealing Policy (Dealing Policy) on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers (Model Code) set out in Appendix 10 to the Listing Rules in respect of dealings by the directors of the Company (Directors) and Group Chief Executive in the securities of the Company. All of the Directors (including the Group Chief Executive) confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and the Dealing Policy throughout the six months ended 30 June 2020.

CHANGES IN DIRECTORS' INFORMATION

Changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

| Name of Director | Change(s) |
|---------------------------------|--|
| Ms. Swee-Lian Teo | Appointed as an independent board director of Clifford Capital Holdings Pte. Ltd. with effect from 1 April 2020 |
| Professor Lawrence Juen-Yee Lau | Retired as an independent non-executive director of Hysan Development Company Limited (listed on the Hong Kong Stock Exchange) with effect from 13 May 2020 |
| Mr. John Barrie Harrison | Retired as the Vice Chairman of BW LPG Limited (listed on the Oslo Stock Exchange) and an independent non-executive director of BW Group Limited with effect from 20 May 2020 and 21 May 2020 respectively |
| Mr. Lee Yuan Siong | Appointed as a member of the Hong Kong Academy of Finance with effect from 18 June 2020 |
| Mr. Cesar Velasquez Purisima | Appointed as an independent director of Jollibee Foods Corporation (listed on The Philippine Stock Exchange) with effect from 24 July 2020 |
| Mr. George Yong-Boon Yeo | Ceased to be a member of Vatican Council for the Economy with effect from 31 July 2020 |

Directors' biographies are available on the Company's website.

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

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

As at 30 June 2020, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (SFO)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Interests in the shares and underlying shares of the Company:

| Name of Director | Number of shares or underlying shares | | Percentage of the total number of shares in issue ⁽¹⁾ | Capacity |
|---------------------------------|--|----------|--|---|
| | Long Position (L) | Class | | |
| Mr. Lee Yuan Siong | 3,718,023 (L) ⁽²⁾ | Ordinary | 0.03 | Beneficial owner |
| Mr. Edmund Sze-Wing Tse | 3,360,400 (L) ⁽³⁾ 200,000 (L) ⁽³⁾ | Ordinary | 0.02 <0.01 | Beneficial owner Interest of controlled corporation ⁽⁴⁾ |
| Mr. Chung-Kong Chow | 86,000 (L) ⁽³⁾ | Ordinary | <0.01 | Beneficial owner |
| Mr. Jack Chak-Kwong So | 130,000 (L) ⁽³⁾ | Ordinary | <0.01 | Interest of controlled corporation ⁽⁵⁾ |
| Mr. John Barrie Harrison | 80,000 (L) ⁽³⁾ | Ordinary | <0.01 | Interests held jointly with another person ⁽⁶⁾ |
| Mr. George Yong-Boon Yeo | 50,000 (L) ⁽³⁾ | Ordinary | <0.01 | Beneficial owner |
| Professor Lawrence Juen-Yee Lau | 160,000 (L) ⁽³⁾ | Ordinary | <0.01 | Interest of spouse ⁽⁷⁾ |

Notes:

- (1) Based on 12,091,083,450 shares of the Company in issue as at 30 June 2020.
- (2) The interests included 1,197,133 share options under the Share Option Scheme adopted on 28 September 2010 (2010 SO Scheme), 2,520,262 restricted share units under the Restricted Share Unit Scheme adopted on 28 September 2010 (2010 RSU Scheme), 419 shares of the Company acquired and 209 matching Restricted Stock Purchase Units (RSPUs) awarded under the 2011 Employee Share Purchase Plan (2011 ESPP).
- (3) The interests were in the shares of the Company.
- (4) The 200,000 shares were held by Edmund & Peggy Tse Foundation Limited, one-third interest of which is beneficially held by Mr. Edmund Sze-Wing Tse.
- (5) The 130,000 shares were held by Cyber Project Developments Limited, a company beneficially wholly owned by Mr. Jack Chak-Kwong So.
- (6) The 80,000 shares were jointly held by Mr. John Barrie Harrison and his spouse, Ms. Rona Irene Harrison, as beneficial owners.
- (7) The 160,000 shares were held by Ms. Ayesha Abbas Macpherson, the spouse of Professor Lawrence Juen-Yee Lau, as beneficial owner.

Save as disclosed above, as at 30 June 2020, neither the Directors nor the Chief Executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 30 June 2020, the following persons, other than the Directors or the Chief Executive of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name of Shareholder | Number of shares or underlying shares ⁽¹⁾ | | Class | Percentage of the total number of shares in issue ⁽²⁾ | | Capacity |
|---|---|--|----------|--|--|-------------------------------------|
| | Long Position (L) Short Position (S) Lending Pool (P) | | | Long Position (L) Short Position (S) Lending Pool (P) | | |
| JPMorgan Chase & Co. | 1,156,618,803 (L) 39,877,862 (S) 781,889,092 (P) | | Ordinary | 9.56 (L) 0.32 (L) 6.46 (P) | | Note 3 |
| The Bank of New York Mellon Corporation | 1,080,324,319 (L) 297,441,232 (S) 751,006,878 (P) | | Ordinary | 8.93 (L) 2.46 (L) 6.21 (P) | | Note 4 |
| The Capital Group Companies, Inc. | 970,452,586 (L) | | Ordinary | 8.02 (L) | | Interest of controlled corporations |
| Citigroup Inc. | 779,949,039 (L) 7,739,246 (S) 763,718,210 (P) | | Ordinary | 6.45 (L) 0.06 (S) 6.31 (P) | | Note 5 |
| BlackRock, Inc. | 629,705,868 (L) 2,007,714 (S) | | Ordinary | 5.20 (L) 0.01 (S) | | Interest of controlled corporations |

Notes:

- (1) Amongst the interests and short positions in the shares and underlying shares of the Company set out in the table above, the following interests and short positions were related to derivative interests held by the shareholders of the Company (Shareholders):

| Name of Shareholder | Long Position | | | | Short Position | | | |
|---|--|--|--|--|--|--|--|--|
| | Physically settled listed equity derivatives | Cash settled listed equity derivatives | Physically settled unlisted equity derivatives | Cash settled unlisted equity derivatives | Physically settled listed equity derivatives | Cash settled listed equity derivatives | Physically settled unlisted equity derivatives | Cash settled unlisted equity derivatives |
| JPMorgan Chase & Co. | 15,472,000 | 47,600 | 211,772 | 15,498,417 | 18,999,000 | 4,706,400 | 9,978,319 | 2,218,700 |
| The Bank of New York Mellon Corporation | - | - | - | - | - | - | 297,441,232 | - |
| The Capital Group Companies, Inc. | 16,088,440 | - | - | - | - | - | - | - |
| Citigroup Inc. | 4,923,602 | - | 820,590 | 5,444,768 | 1,387,000 | - | 2,879,453 | 2,972,810 |
| BlackRock, Inc. | - | - | - | 182,000 | - | - | - | 818,114 |

- (2) Based on 12,091,083,450 shares in issue as at 30 June 2020.

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

| Capacity | Number of shares or underlying shares (Long Position) | Number of shares or underlying shares (Short Position) |
|---|--|---|
| Investment manager | 327,100,373 | – |
| Person having a security interest in shares | 3,043,597 | – |
| Interest of controlled corporations | 43,505,677 | 39,877,862 |
| Trustee | 1,080,064 | – |
| Approved lending agent | 781,889,092 | – |

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

| Capacity | Number of shares or underlying shares (Long Position) | Number of shares or underlying shares (Short Position) |
|-------------------------------------|--|---|
| Interest of controlled corporations | 1,080,324,319 | 297,441,232 |

- (5) Citigroup Inc. held the interests and short positions in the following capacities:

| Capacity | Number of shares or underlying shares (Long Position) | Number of shares or underlying shares (Short Position) |
|-------------------------------------|--|---|
| Interest of controlled corporations | 16,230,829 | 7,739,246 |
| Approved lending agent | 763,718,210 | – |

Save as disclosed above, as at 30 June 2020, no person, other than the Directors or the Chief Executive of the Company whose interests are set out in the section entitled “Directors’ and the Chief Executive’s Interests and Short Positions in Shares and Underlying Shares”, had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Save for the purchase of 787,733 shares of the Company under the 2011 ESPP on the Hong Kong Stock Exchange at a total consideration of approximately US\$7 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2020. These share purchases were made by the relevant plan/scheme trustee on the Hong Kong Stock Exchange and the shares are held on trust for the participants of the relevant plan/scheme and therefore were not cancelled.

SHARE-BASED COMPENSATION

LONG-TERM INCENTIVE PLAN

The 2010 RSU Scheme and the 2010 SO Scheme were both adopted by the Company on 28 September 2010, each with a term of 10 years from the date of adoption and expiration date in 2020.

A new restricted share unit scheme (2020 RSU Scheme), under substantially the same terms as the 2010 RSU Scheme, was adopted by the Company on 1 August 2020 in place of the 2010 RSU Scheme. The 2020 RSU Scheme is effective for a period of 10 years from the date of adoption.

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

During the six months ended 30 June 2020, the Company has granted restricted share units under the 2010 RSU Scheme and share options under the 2010 SO Scheme to employees, Directors (excluding Independent Non-executive Directors) and/or officers of the Company and/or its subsidiaries. For further information regarding the 2010 RSU Scheme and the 2010 SO Scheme, please refer to pages 115 to 122 of the Company's Annual Report 2019.

RESTRICTED SHARE UNIT SCHEME

During the six months ended 30 June 2020, the Company granted 13,451,940 restricted share units under the 2010 RSU Scheme. The aggregate number of shares that may underlie all restricted share units granted by the Company (excluding restricted share units that have lapsed or been cancelled) pursuant to the 2010 RSU Scheme shall not exceed 2.5 per cent of the number of shares in issue on the Company's listing date. Since the adoption of the 2010 RSU Scheme on 28 September 2010 and up to 30 June 2020, a cumulative total of 99,419,377 restricted share units have vested under the RSU Scheme, representing approximately 0.825 per cent of the shares in issue as at the Company's listing date. No new shares have been issued under the 2010 RSU Scheme since its adoption.

For the restricted share units granted under the 2010 RSU Scheme during the six months ended 30 June 2020, the Company adopted the same performance measures as the restricted share units granted thereunder in the year ended 31 December 2019. The performance measures for such grants will be assessed over a three-year period starting 1 January 2020.

The table below summarises the movements in restricted share units under the 2010 RSU Scheme during the six months ended 30 June 2020.

| Group Chief Executive and President, Key Management Personnel and other eligible employees and participants | Date of grant (day/month/year) ⁽³⁾ | Date of vesting (day/month/year) ⁽⁴⁾ | Restricted share units outstanding as at 1 January 2020 | Restricted share units granted during the six months ended 30 June 2020 | Restricted share units vested during the six months ended 30 June 2020 | Restricted share units cancelled/lapsed/reclassified during the six months ended 30 June 2020 ⁽⁹⁾ | Restricted share units outstanding as at 30 June 2020 ⁽¹⁰⁾ |
|---|---|---|---|---|--|--|---|
| Group Chief Executive and President | 13/3/2020 | 21/2/2025 ⁽⁵⁾ | – | 206,470 | – | – | 206,470 |
| Mr. Lee Yuan Siong | 13/3/2020 | See note ⁽⁶⁾ | – | 1,893,366 | – | – | 1,893,366 |
| | 25/3/2020 | 25/3/2023 ⁽⁷⁾ | – | 420,426 | – | – | 420,426 |
| Retired Group Chief Executive and President ⁽¹⁾ | 10/3/2017 | 10/3/2020 ⁽⁷⁾ | 267,659 | – | (247,960) | (19,699) | – |
| Mr. Ng Keng Hooi | 31/7/2017 | 1/6/2020 ⁽⁷⁾ | 213,164 | – | (197,476) | (15,688) | – |
| | 15/3/2018 | 15/3/2021 ⁽⁷⁾ | 439,258 | – | – | (439,258) | – |
| | 27/3/2019 | 27/3/2022 ⁽⁷⁾ | 403,768 | – | – | (403,768) | – |
| | 25/3/2020 | 25/3/2023 ⁽⁷⁾ | – | 477,758 | – | (477,758) | – |
| Key Management Personnel (excluding the Group Chief Executive and President, Director) | 10/3/2017 | 10/3/2020 ⁽⁷⁾ | 1,156,660 | – | (1,071,535) | (85,125) | – |
| | 31/7/2017 | 1/6/2020 ⁽⁷⁾ | 311,947 | – | (217,637) | (94,310) | – |
| | 15/3/2018 | 15/3/2021 ⁽⁷⁾ | 1,090,256 | – | – | (109,816) | 980,440 |
| | 12/9/2018 | 12/9/2021 ⁽⁷⁾ | 61,010 | – | – | – | 61,010 |
| | 27/3/2019 | 27/3/2022 ⁽⁷⁾ | 970,244 | – | – | (101,956) | 868,288 |
| | 15/5/2019 | 1/5/2022 ⁽⁷⁾ | 27,182 | – | – | – | 27,182 |
| | 30/12/2019 | 30/12/2022 ⁽⁸⁾ | 445,308 | – | – | – | 445,308 |
| | 25/3/2020 | 25/3/2023 ⁽⁷⁾ | – | 963,062 | – | – | 963,062 |
| Other eligible employees and participants ⁽²⁾ | 10/3/2017 | 10/3/2020 ⁽⁷⁾ | 10,232,397 | – | (9,387,319) | (845,078) | – |
| | 31/7/2017 | 1/6/2020 ⁽⁷⁾ | 28,519 | – | (26,421) | (2,098) | – |
| | 15/3/2018 | 15/3/2021 ⁽⁷⁾ | 8,626,971 | – | (39,300) | 104,177 | 8,691,848 |
| | 29/6/2018 | 15/3/2021 ⁽⁷⁾ | 108,956 | – | – | – | 108,956 |
| | 27/3/2019 | 27/3/2022 ⁽⁷⁾ | 8,334,202 | – | (13,461) | 81,020 | 8,401,761 |
| | 15/5/2019 | 1/5/2022 ⁽⁷⁾ | 16,480 | – | – | – | 16,480 |
| | 25/3/2020 | 25/3/2023 ⁽⁷⁾ | – | 9,459,716 | (54) | 385,058 | 9,844,720 |
| | 10/6/2020 | 10/6/2023 ⁽⁷⁾ | – | 31,142 | – | – | 31,142 |

Notes:

- Mr. Ng Keng Hooi retired as Group Chief Executive and President and from the Board effective 31 May 2020. Mr. Ng's restricted share units outstanding as at 1 June 2020 were reclassified from "Retired Group Chief Executive and President" to "Other eligible employees and participants".
- Include the retired Group Chief Executive and President, Mr. Mark Edward Tucker's restricted share units outstanding as at 1 January 2020.
- The measurement dates (i.e. the dates used to determine the value of the grants for accounting purposes) for grants made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement dates for grants made during the thirteen months ended 31 December 2018 were determined to be 15 March 2018, 29 June 2018 and 12 September 2018. The measurement dates for grants made during the financial year ended 31 December 2019 were determined to be 27 March 2019, 15 May 2019 and 30 December 2019. The measurement dates for grants made during the six months ended 30 June 2020 were determined to be 13 March 2020, 25 March 2020 and 10 June 2020. These measurement dates were determined in accordance with IFRS 2.
- The date of vesting is subject to applicable dealing restrictions.
- Reference is made to the Company's announcement on 22 November 2019. The vesting of these restricted share units is service-based only (i.e. there are no further performance conditions attached except for continued employment). Subject to continued employment, all restricted share units will vest on 21 February 2025.

- (6) Reference is made to the Company's announcement on 22 November 2019. The vesting of these restricted share units is service-based only (i.e. there are no further performance conditions attached except for continued employment). Subject to continued employment, the restricted share units will vest in six equal tranches (i.e., 315,561 units each) on 13 September 2020, 21 February 2021, 21 February 2022, 21 February 2023, 21 February 2024 and 21 February 2025.
- (7) The vesting of these restricted share units is subject to the achievement of performance measures shown on pages 116 and 117 of the Company's Annual Report 2019.
- (8) The vesting of these restricted share units is service-based only (i.e. there are no further performance conditions attached except for continued employment). Subject to continued employment, all restricted share units will vest on 30 December 2022.
- (9) These restricted share units lapsed or were reclassified during the six months ended 30 June 2020. The reclassification of restricted share units was a result of the retirement of Mr. Ng Keng Hooi as Group Chief Executive and President during that period. There were no cancelled restricted share units during the six months ended 30 June 2020.
- (10) Include restricted share units outstanding as at 30 June 2020 that, in accordance with the 2010 RSU Scheme rules, will lapse on or before the respective vesting date.

SHARE OPTION SCHEME

During the six months ended 30 June 2020, the Company granted 5,856,668 share options under the 2010 SO Scheme. Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme on 29 May 2020, no further share options can be granted under the 2010 SO Scheme. However, the 2010 SO Scheme shall remain in full force and effect for all share options granted prior to its termination, and the exercise of such share options shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 SO Scheme and the Listing Rules. During the same period, no share options were granted under the 2020 SO Scheme.

The aggregate number of shares that may be issued upon exercise of all share options granted by the Company (excluding share options that have lapsed) pursuant to the 2010 SO Scheme must not exceed 2.5 per cent of the number of shares in issue on the Company's listing date. Since the adoption of the 2010 SO Scheme on 28 September 2010 and up to 30 June 2020, a cumulative total of 40,464,574 new shares were issued under the 2010 SO Scheme, representing approximately 0.336 per cent of the shares in issue as at the Company's listing date. No share options have been granted to substantial shareholders, or in excess of the individual limit.

Details regarding the valuation of the share options are set out in note 24 to the interim financial statements.

The table below summarises the movements in share options under the 2010 SO Scheme during the six months ended 30 June 2020.

| Group Chief Executive and President, Key Management Personnel and other eligible Employees and participants | Date of grant (day/month/year) ⁽³⁾ | Period during which share options are exercisable (day/month/year) | Share options outstanding as at 1 January 2020 | Share options granted during the six months ended 30 June 2020 | Share options vested during the six months ended 30 June 2020 | Share options cancelled/lapsed/reclassified during the six months ended 30 June 2020 ⁽¹⁸⁾ | Share options exercised during the six months ended 30 June 2020 | Exercise price (HK\$) | Share options outstanding as at 30 June 2020 ⁽¹⁹⁾ | Weighted |
|---|---|--|--|--|---|--|--|-----------------------|--|---|
| | | | | | | | | | | average closing price of shares immediately before the dates on which share options were exercised (HK\$) |
| Group Chief Executive and President | | | | | | | | | | |
| Mr. Lee Yuan Siong | 25/3/2020 | 25/3/2023 – 24/3/2030 ⁽⁴⁾ | – | 1,197,133 | – | – | – | 68.10 | 1,197,133 | n/a |
| Retired Group Chief Executive and President⁽¹⁾ | | | | | | | | | | |
| Mr. Ng Keng Hooi | 5/3/2014 | 5/3/2017 – 4/3/2024 ⁽⁵⁾ | 602,486 | – | – | (602,486) | – | 37.56 | – | n/a |
| | 12/3/2015 | 12/3/2018 – 11/3/2025 ⁽⁶⁾ | 541,692 | – | – | (541,692) | – | 47.73 | – | n/a |
| | 9/3/2016 | 9/3/2019 – 8/3/2026 ⁽⁷⁾ | 851,026 | – | – | (851,026) | – | 41.90 | – | n/a |
| | 10/3/2017 | 10/3/2020 – 9/3/2027 ⁽⁸⁾ | 732,574 | – | 732,574 | (732,574) | – | 50.30 | – | n/a |
| | 31/7/2017 | 1/6/2020 – 30/7/2027 ⁽⁹⁾ | 476,786 | – | 476,786 | (476,786) | – | 61.55 | – | n/a |
| | 15/3/2018 | 15/3/2021 – 14/3/2028 ⁽¹⁰⁾ | 1,105,066 | – | – | (1,105,066) | – | 67.15 | – | n/a |
| | 27/3/2019 | 27/3/2022 – 26/3/2029 ⁽¹¹⁾ | 1,115,158 | – | – | (1,115,158) | – | 76.38 | – | n/a |
| | 25/3/2020 | 25/3/2023 – 24/3/2030 ⁽⁴⁾ | – | 1,360,379 | – | (1,360,379) | – | 68.10 | – | n/a |
| Key Management Personnel (excluding Group Chief Executive and President) | | | | | | | | | | |
| | 1/6/2011 | 1/4/2014 – 31/5/2021 ⁽¹²⁾ | 100,000 | – | – | – | (100,000) | 27.35 | – | 71.60 |
| | 15/3/2012 | 15/3/2015 – 14/3/2022 ⁽¹³⁾ | 544,337 | – | – | – | (350,000) | 28.40 | 194,337 | 70.58 |
| | 11/3/2013 | 11/3/2016 – 10/3/2023 ⁽¹⁴⁾ | 593,011 | – | – | – | – | 34.35 | 593,011 | n/a |
| | 5/3/2014 | 5/3/2017 – 4/3/2024 ⁽⁵⁾ | 527,584 | – | – | – | – | 37.56 | 527,584 | n/a |
| | 12/3/2015 | 12/3/2018 – 11/3/2025 ⁽⁶⁾ | 473,259 | – | – | – | – | 47.73 | 473,259 | n/a |
| | 9/3/2016 | 9/3/2019 – 8/3/2026 ⁽⁷⁾ | 1,413,600 | – | – | – | – | 41.90 | 1,413,600 | n/a |
| | 10/3/2017 | 10/3/2020 – 9/3/2027 ⁽⁸⁾ | 2,430,952 | – | 2,430,952 | – | (233,313) | 50.30 | 2,197,639 | 66.89 |
| | 31/7/2017 | 1/6/2020 – 30/7/2027 ⁽⁹⁾ | 697,732 | – | 525,460 | (172,272) | (119,717) | 61.55 | 405,743 | 71.60 |
| | 15/3/2018 | 15/3/2021 – 14/3/2028 ⁽¹⁰⁾ | 2,627,326 | – | – | (276,267) | – | 67.15 | 2,351,059 | n/a |
| | 12/9/2018 | 12/9/2021 – 11/9/2028 ⁽¹⁵⁾ | 161,951 | – | – | – | – | 63.64 | 161,951 | n/a |
| | 27/3/2019 | 27/3/2022 – 26/3/2029 ⁽¹¹⁾ | 2,575,511 | – | – | (281,589) | – | 76.38 | 2,293,922 | n/a |
| | 15/5/2019 | 1/5/2022 – 14/5/2029 ⁽¹⁶⁾ | 72,856 | – | – | – | – | 78.70 | 72,856 | n/a |
| | 25/3/2020 | 25/3/2023 – 24/3/2030 ⁽⁴⁾ | – | 2,742,235 | – | – | – | 68.10 | 2,742,235 | n/a |
| Other eligible employees and Participants⁽²⁾ | | | | | | | | | | |
| | 1/6/2011 | 1/4/2014 – 31/5/2021 ⁽¹²⁾ | 592,790 | – | – | – | (100,000) | 27.35 | 492,790 | 70.65 |
| | 1/6/2011 | 1/4/2014 – 31/5/2021 ⁽¹⁷⁾ | 324,277 | – | – | – | – | 27.35 | 324,277 | n/a |
| | 15/3/2012 | 15/3/2015 – 14/3/2022 ⁽¹³⁾ | 574,170 | – | – | – | – | 28.40 | 574,170 | n/a |
| | 11/3/2013 | 11/3/2016 – 10/3/2023 ⁽¹⁴⁾ | 438,536 | – | – | – | – | 34.35 | 438,536 | n/a |
| | 5/3/2014 | 5/3/2017 – 4/3/2024 ⁽⁵⁾ | 558,745 | – | – | 602,486 | – | 37.56 | 1,161,231 | n/a |
| | 12/3/2015 | 12/3/2018 – 11/3/2025 ⁽⁶⁾ | 501,480 | – | – | 541,692 | (16,819) | 47.73 | 1,026,353 | 86.65 |
| | 9/3/2016 | 9/3/2019 – 8/3/2026 ⁽⁷⁾ | 482,643 | – | – | 851,026 | (54,772) | 41.90 | 1,278,897 | 74.19 |
| | 10/3/2017 | 10/3/2020 – 9/3/2027 ⁽⁸⁾ | 1,707,433 | – | 1,707,433 | 732,574 | (46,606) | 50.30 | 2,393,401 | 74.90 |
| | 31/7/2017 | 1/6/2020 – 30/7/2027 ⁽⁹⁾ | – | – | – | 476,786 | – | 61.55 | 476,786 | n/a |
| | 15/3/2018 | 15/3/2021 – 14/3/2028 ⁽¹⁰⁾ | 489,354 | – | – | 1,105,066 | – | 67.15 | 1,594,420 | n/a |
| | 27/3/2019 | 27/3/2022 – 26/3/2029 ⁽¹¹⁾ | 476,342 | – | – | 1,115,158 | – | 76.38 | 1,591,500 | n/a |
| | 15/5/2019 | 1/5/2022 – 14/5/2029 ⁽¹⁶⁾ | 9,365 | – | – | – | – | 78.70 | 9,365 | n/a |
| | 25/3/2020 | 25/3/2023 – 24/3/2030 ⁽⁴⁾ | – | 556,921 | – | 1,360,379 | – | 68.10 | 1,917,300 | n/a |

Notes:

- (1) Mr. Ng Keng Hooi retired as Group Chief Executive and President and from the Board effective 31 May 2020. Mr. Ng's share options outstanding as at 1 June 2020 were reclassified from "Retired Group Chief Executive and President" to "Other eligible employees and participants".
- (2) Include the retired Group Chief Executive and President, Mr. Mark Edward Tucker's share options outstanding as at 1 January 2020.
- (3) The measurement date (i.e. the date used to determine the value of the grants for accounting purposes) for grants made during the year ended 30 November 2011 was determined to be 15 June 2011. The measurement date for grants made during the year ended 30 November 2012 was determined to be 15 March 2012. The measurement date for grants made during the year ended 30 November 2013 was determined to be 11 March 2013. The measurement dates for grants made during the year ended 30 November 2014 were determined to be 5 March 2014 and 14 April 2014. The measurement date for grants made during the year ended 30 November 2015 was determined to be 12 March 2015. The measurement date for grants made during the year ended 30 November 2016 was determined to be 9 March 2016. The measurement dates for grants made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement dates for grants made during the thirteen months ended 31 December 2018 were determined to be 15 March 2018 and 12 September 2018. The measurement dates for grants made during the six months ended 30 June 2019 were determined to be 27 March 2019 and 15 May 2019. The measurement date for grant made during the six months ended 30 June 2020 was determined to be 25 March 2020. These measurement dates were determined in accordance with IFRS 2.
- (4) The closing price of the Company's shares immediately before the date on which share options were granted was HK\$63.90. The vesting of share options is service-based only. Subject to continued employment, all share options will vest on 25 March 2023.
- (5) The vesting of share options is service-based only. All share options vested on 5 March 2017.
- (6) The vesting of share options is service-based only. All share options vested on 12 March 2018.
- (7) The vesting of share options is service-based only. All share options vested on 9 March 2019.
- (8) The vesting of share options is service-based only. All share options vested on 10 March 2020.
- (9) The vesting of share options is service-based only. All share options vested on 1 June 2020.
- (10) The vesting of share options is service-based only. Subject to continued employment, all share options will vest on 15 March 2021.
- (11) The vesting of share options is service-based only. Subject to continued employment, all share options will vest on 27 March 2022.
- (12) The vesting of share options is service-based only. All share options vested on 1 April 2014.
- (13) The vesting of share options is service-based only. All share options vested on 15 March 2015.
- (14) The vesting of share options is service-based only. All share options vested on 11 March 2016.
- (15) The vesting of share options is service-based only. Subject to continued employment, all share options will vest on 12 September 2021.
- (16) The vesting of share options is service-based only. Subject to continued employment, all share options will vest on 1 May 2022.
- (17) The vesting of share options is service-based only. One-third of share options vested on 1 April 2014, one-third vested on 1 April 2015, and one third vested on 1 April 2016.
- (18) These share options lapsed or were reclassified during the six months ended 30 June 2020. The reclassification of share options was a result of the retirement of Mr. Ng Keng Hooi as Group Chief Executive and President during the period. There were no cancelled share options during the six months ended 30 June 2020.
- (19) Include share options outstanding as at 30 June 2020 that, in accordance with the 2010 SO Scheme rules, will lapse on or before the end of the respective periods during which the share options are exercisable.

EMPLOYEE SHARE PURCHASE PLAN

The Company adopted the 2011 ESPP on 25 July 2011. Under the 2011 ESPP, eligible employees of the Group may elect to purchase the Company's shares and, after having been in the plan for a period of three years, receive one matching share for each two shares purchased through the grant of matching RSPUs. Each eligible employee's participation level is capped at a maximum purchase in any plan year of 8 per cent of his or her base salary or HK\$9,750 (or local equivalent) per calendar month, whichever is lower. Upon vesting of the matching RSPUs, those employees who are still in employment with the Group will receive one matching share for each RSPU which he or she holds. The matching shares can either be purchased on market by the trustee of the 2011 ESPP or provided to recipients through the issuance of new shares by the Company. The aggregate number of new shares which can be issued by the Company under the 2011 ESPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the date of the adoption of the 2011 ESPP. No new shares have been issued under the 2011 ESPP since its adoption.

In view of the upcoming expiry of the 2011 ESPP, a new employee share purchase plan (2020 ESPP), under substantially the same terms as the 2011 ESPP, was adopted by the Company on 1 August 2020 in place of the 2011 ESPP. The 2020 ESPP is effective for a period of 10 years from the date of adoption.

During the six months ended 30 June 2020, 787,734 matching RSPUs were granted, 32,462 matching RSPUs vested, and no new shares were issued for the RSPUs pursuant to the 2011 ESPP.

AGENCY SHARE PURCHASE PLAN

The Company adopted the Agency Share Purchase Plan (ASPP) on 23 February 2012 (ASPP Adoption Date). Under the ASPP, certain agents and agency leaders of the Group are selected to participate in the plan. Those agents selected for participation may elect to purchase the Company's shares and, after having been in the plan for a period of three years, receive one matching share for each two shares purchased through the grant of matching restricted stock subscription units (RSSUs). Each eligible agent's participation level is capped at a maximum purchase in any plan year of US\$15,000 (or local equivalent). Upon vesting of the matching RSSUs, those agents who remain with the Group will receive one matching share for each RSSU which he or she holds. The aggregate number of new shares which can be issued by the Company under the ASPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ASPP Adoption Date. Since the ASPP Adoption Date and up to 30 June 2020, a cumulative total of 6,618,875 new shares were issued under the ASPP, representing approximately 0.055 per cent of the shares in issue as at the ASPP Adoption Date.

During the six months ended 30 June 2020, 643,062 matching RSSUs were granted, 1,185,442 matching RSSUs vested, and 1,185,442 new shares (Granted Shares) were issued for RSSUs vested pursuant to the ASPP. The Granted Shares were issued at the subscription price of US\$1.00 each to Computershare Hong Kong Trustees Limited (being the scheme trustee) to hold the same on trust for certain eligible agents upon vesting of their matching RSSUs. The closing price of the Company's shares on the vesting date of 27 April 2020 was HK\$70.95. The proceeds received amounted to approximately US\$1.19 million which were used to fund the administration expenses of the ASPP and to use as general working capital of the Company.

EMPLOYEES

As at 30 June 2020, AIA employed approximately 23,000¹ employees (30 June 2019: approximately 22,000 employees) and the total employee benefit expenses for the six months ended 30 June 2020 amounted to approximately US\$817 million (for the six months ended 30 June 2019: approximately US\$780 million).

We provide our employees with a combination of market competitive financial and non-financial rewards. Our programmes and policies are designed to attract, engage and retain employees and motivate them to help AIA execute its short and long-term business goals.

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

¹ Excludes interns and agents of the Group, and the employees of Tata AIA Life.

CONTENTS

| | |
|---|-----|
| Independent Review Report | 57 |
| Interim Consolidated Income Statement | 58 |
| Interim Consolidated Statement of Comprehensive Income | 59 |
| Interim Consolidated Statement of Financial Position | 60 |
| Interim Consolidated Statement of Changes in Equity | 62 |
| Interim Condensed Consolidated Statement of Cash Flows | 64 |
| Notes to the Unaudited Interim Condensed Consolidated Financial Statements | |
| 1 Corporate information | 65 |
| 2 Basis of preparation and statement of compliance | 65 |
| 3 Exchange rates | 69 |
| 4 Change in group composition | 69 |
| 5 Operating profit after tax | 70 |
| 6 Total weighted premium income and annualised new premiums | 71 |
| 7 Segment information | 73 |
| 8 Investment return | 78 |
| 9 Expenses | 79 |
| 10 Income tax | 81 |
| 11 Earnings per share | 81 |
| 12 Dividends | 83 |
| 13 Intangible assets | 84 |
| 14 Financial investments | 85 |
| 15 Derivative financial instruments | 88 |
| 16 Fair value measurement of financial instruments | 90 |
| 17 Cash and cash equivalents | 96 |
| 18 Insurance and investment contract liabilities | 96 |
| 19 Borrowings | 97 |
| 20 Obligations under repurchase agreements | 98 |
| 21 Share capital and reserves | 99 |
| 22 Group capital structure | 101 |
| 23 Risk management | 102 |
| 24 Share-based compensation | 107 |
| 25 Remuneration of key management personnel | 108 |
| 26 Commitments and contingencies | 109 |
| 27 Events after the reporting period | 110 |
| 28 Effect of adoption of revised accounting policy | 110 |

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



羅兵咸永道

Introduction

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

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
20 August 2020

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

INTERIM CONSOLIDATED INCOME STATEMENT

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

Notes:

- (1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.
- (2) Gross of tax, policyholders' participation and other shadow accounting related movements, US\$4,709m (six months ended 30 June 2019: US\$7,935m) relates to the fair value gains on available for sale financial assets and US\$926m (six months ended 30 June 2019: US\$139m) relates to the fair value gains on available for sale financial assets transferred to income on disposal during the period.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

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

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| US\$m | Notes | Share capital | Employee share-based trusts | Other reserves | Retained earnings | Other comprehensive income | | | | Non-controlling interests | Total equity |
|--|-------|---------------|-----------------------------|-----------------|-------------------|----------------------------|--------------------------------------|------------------------------|-------------|---------------------------|---------------|
| | | | | | | Fair value reserve | Foreign currency translation reserve | Property revaluation reserve | Others | | |
| Balance at 1 January 2020, as previously reported | | 14,129 | (220) | (11,887) | 40,372 | 14,663 | (698) | 1,163 | (14) | 448 | 57,956 |
| Retrospective adjustments for change in accounting policy | 28 | - | - | - | 550 | (2,994) | - | (90) | (27) | - | (2,561) |
| Balance at 1 January 2020, as adjusted | | 14,129 | (220) | (11,887) | 40,922 | 11,669 | (698) | 1,073 | (41) | 448 | 55,395 |
| Net profit | | - | - | - | 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 | 12 | - | - | - | (1,452) | - | - | - | - | - | (1,452) |
| Shares issued under share option scheme and agency share purchase plan | | 6 | - | - | - | - | - | - | - | - | 6 |
| Share-based compensation | | - | - | 47 | - | - | - | - | - | - | 47 |
| Purchase of shares held by employee share-based trusts | | - | (6) | - | - | - | - | - | - | - | (6) |
| Transfer of vested shares from employee share-based trusts | | - | 71 | (71) | - | - | - | - | - | - | - |
| Balance at 30 June 2020 – Unaudited | | 14,135 | (155) | (11,911) | 41,667 | 13,495 | (1,408) | 1,008 | (27) | 451 | 57,255 |

Notes:

- Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.
- Gross of tax, policyholders' participation and other shadow accounting related movements, US\$4,709m relates to the fair value gains on available for sale financial assets and US\$926m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the six months ended 30 June 2020.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

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

Notes:

- (1) Where applicable, amounts are presented net of tax, policyholders' participation and other shadow accounting related movements.
- (2) Gross of tax, policyholders' participation and other shadow accounting related movements, US\$7,935m relates to the fair value gains on available for sale financial assets and US\$139m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the six months ended 30 June 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

Note:

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

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

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

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

2. Basis of preparation and statement of compliance

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

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

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

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

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

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

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

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

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

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

(e) Voluntary change in accounting policy

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

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

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

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

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

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

3. Exchange rates

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

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

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

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

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

4. Change in group composition

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

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

5. Operating profit after tax

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

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

Note:

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

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

6. Total weighted premium income and annualised new premiums

For management decision-making and internal performance management purposes, the Group measures business volumes during the period using a performance measure referred to as total weighted premium income (TWPI). The Group measures new business activity using a performance measure referred to as annualised new premiums (ANP). The presentation of this note is consistent with our reportable segment presentation in note 7.

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

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

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

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

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

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

Note:

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

7. Segment information

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

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

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

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

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

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

7. Segment information (continued)

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

Key operating ratios:

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

Operating profit before tax includes:

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

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

Total assets include:

| | | | | | | | | |
|--|---|---|---|---|---|-----|---|-----|
| Investments in associates and joint ventures | 4 | - | - | 1 | - | 553 | - | 558 |
|--|---|---|---|---|---|-----|---|-----|

7. Segment information (continued)

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

| US\$m | Segment information | Short-term fluctuations in investment return related to equities and real estate | Other non-operating items ⁽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. Segment information (continued)

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

Key operating ratios:

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

Operating profit before tax includes:

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

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

Total assets include:

| | | | | | | | | |
|--|---|---|---|---|---|-----|---|-----|
| Investments in associates and joint ventures | 3 | – | – | 4 | – | 608 | – | 615 |
|--|---|---|---|---|---|-----|---|-----|

7. Segment information (continued)

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

| US\$m | Segment information | Short-term fluctuations in investment return related to equities and real estate | Other non-operating items ⁽¹⁾ | Interim consolidated income statement | |
|--|---------------------|--|--|---------------------------------------|--|
| Six months ended 30 June 2019 | | | | | |
| - Unaudited and as adjusted | | | | | |
| Net premiums, fee income and other operating revenue | 15,768 | – | (2) | 15,766 | Net premiums, fee income and other operating revenue |
| Investment return | 4,325 | 1,797 | 2,388 | 8,510 | Investment return |
| Total revenue | 20,093 | 1,797 | 2,386 | 24,276 | Total revenue |
| Net insurance and investment contract benefits | 13,178 | 981 | 2,236 | 16,395 | Net insurance and investment contract benefits |
| Other expenses | 3,494 | – | 291 | 3,785 | Other expenses |
| Total expenses | 16,672 | 981 | 2,527 | 20,180 | Total expenses |
| Share of profit from associates and joint ventures | – | – | – | – | Share of profit from associates and joint ventures |
| Operating profit before tax | 3,421 | 816 | (141) | 4,096 | Profit before tax |

Note:

(1) Include unit-linked contracts.

8. Investment return

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

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

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

9. Expenses

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

Note:

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

9. Expenses (continued)

Finance costs may be analysed as:

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

Employee benefit expenses consist of:

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

10. Income tax

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

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

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

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

11. Earnings per share

BASIC

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

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

11. Earnings per share (continued)

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 30 June 2020 and 2019, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 24.

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

At 30 June 2020, 9,824,311 share options (30 June 2019: 8,803,510) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

OPERATING PROFIT AFTER TAX PER SHARE

Operating profit after tax (see note 5) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. As of 30 June 2020 and 2019, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 24.

| | Six months ended 30 June 2020 (Unaudited) | Six months ended 30 June 2019 (Unaudited and as adjusted) |
|------------------------------|--|--|
| Basic (US cents per share) | 24.33 | 23.56 |
| Diluted (US cents per share) | 24.29 | 23.51 |

12. Dividends

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

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

Note:

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

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

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

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

13. Intangible assets

| US\$m | Goodwill | Computer software | Distribution and other rights | Total |
|------------------------------------|--------------|-------------------|-------------------------------|--------------|
| Cost | | | | |
| At 1 January 2020 | 1,555 | 687 | 895 | 3,137 |
| Additions | – | 42 | – | 42 |
| Disposals | – | (14) | (2) | (16) |
| Foreign exchange movements | (50) | (12) | (9) | (71) |
| At 30 June 2020 – Unaudited | 1,505 | 703 | 884 | 3,092 |
| Accumulated amortisation | | | | |
| At 1 January 2020 | (4) | (422) | (191) | (617) |
| Amortisation charge for the period | – | (49) | (24) | (73) |
| Disposals | – | 13 | 2 | 15 |
| Foreign exchange movements | – | 9 | 3 | 12 |
| At 30 June 2020 – Unaudited | (4) | (449) | (210) | (663) |
| Net book value | | | | |
| At 31 December 2019 | 1,551 | 265 | 704 | 2,520 |
| At 30 June 2020 – Unaudited | 1,501 | 254 | 674 | 2,429 |

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

14. Financial investments

DEBT SECURITIES

Debt securities by type comprise the following:

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

Notes:

- (1) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates.
- (2) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (3) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (4) Debt securities of US\$8,063m (31 December 2019: US\$8,150m) are restricted due to local regulatory requirements.
- (5) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

14. Financial investments (continued)

EQUITY SECURITIES

Equity securities by type comprise the following:

| US\$m | Policyholder and shareholder | | Subtotal | Unit-linked FVTPL | Consolidated investment funds ⁽¹⁾ FVTPL | Total |
|---------------------------------|---|--|---------------|----------------------|---|---------------|
| | Participating funds and other participating business with distinct portfolios FVTPL | Other policyholder and shareholder FVTPL | | | | |
| 30 June 2020 – Unaudited | | | | | | |
| Equity shares | 11,644 | 5,129 | 16,773 | 5,738 | 557 | 23,068 |
| Interests in investment funds | 6,072 | 1,344 | 7,416 | 16,306 | 1 | 23,723 |
| Total | 17,716 | 6,473 | 24,189 | 22,044 | 558 | 46,791 |
| 31 December 2019 | | | | | | |
| Equity shares | 12,114 | 6,613 | 18,727 | 6,302 | 331 | 25,360 |
| Interests in investment funds | 6,625 | 869 | 7,494 | 17,468 | – | 24,962 |
| Total | 18,739 | 7,482 | 26,221 | 23,770 | 331 | 50,322 |

Note:

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

DEBT AND EQUITY SECURITIES

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

Note:

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

14. Financial investments (continued)

LOANS AND DEPOSITS

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

Note:

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

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

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

15. Derivative financial instruments

The Group's derivative exposure is as follows:

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

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

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

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

15. Derivative financial instruments (continued)

FOREIGN EXCHANGE CONTRACTS

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

INTEREST RATE SWAPS

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

OTHER DERIVATIVES

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

NETTING ADJUSTMENT

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

COLLATERAL UNDER DERIVATIVE TRANSACTIONS

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

16. Fair value measurement of financial instruments

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

16. Fair value measurement of financial instruments (continued)

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

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

| US\$m | Fair value hierarchy | | | Total |
|--|----------------------|----------------|---------------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| 30 June 2020 – Unaudited | | | | |
| Recurring fair value measurement | | | | |
| Financial assets | | | | |
| Available for sale | | | | |
| Debt securities | | | | |
| Participating funds and other participating business with distinct portfolios | – | 41,289 | 170 | 41,459 |
| Other policyholder and shareholder | – | 104,742 | 928 | 105,670 |
| At fair value through profit or loss | | | | |
| Debt securities | | | | |
| Participating funds and other participating business with distinct portfolios | – | 25,225 | 701 | 25,926 |
| Unit-linked contracts and consolidated investment funds | – | 5,895 | 6 | 5,901 |
| Other policyholder and shareholder | 1 | 1,942 | 253 | 2,196 |
| Equity securities | | | | |
| Participating funds and other participating business with distinct portfolios | 14,770 | 1,025 | 1,921 | 17,716 |
| Unit-linked contracts and consolidated investment funds | 22,074 | 259 | 269 | 22,602 |
| Other policyholder and shareholder | 5,284 | 733 | 456 | 6,473 |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | – | 312 | – | 312 |
| Interest rate contracts | – | 686 | – | 686 |
| Other contracts | 7 | 46 | – | 53 |
| Total financial assets on a recurring fair value measurement basis | 42,136 | 182,154 | 4,704 | 228,994 |
| <i>% of Total</i> | <i>18.4</i> | <i>79.5</i> | <i>2.1</i> | <i>100.0</i> |
| Financial liabilities | | | | |
| Investment contract liabilities | | | | |
| | – | – | 10,494 | 10,494 |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | – | 453 | – | 453 |
| Interest rate contracts | – | 442 | – | 442 |
| Other contracts | 9 | 11 | – | 20 |
| Other liabilities | | | | |
| | – | 1,052 | – | 1,052 |
| Total financial liabilities on a recurring fair value measurement basis | 9 | 1,958 | 10,494 | 12,461 |
| <i>% of Total</i> | <i>0.1</i> | <i>15.7</i> | <i>84.2</i> | <i>100.0</i> |

16. Fair value measurement of financial instruments (continued)

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

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

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the six months ended 30 June 2020, the Group transferred US\$121m (year ended 31 December 2019: US\$379m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$1m (year ended 31 December 2019: US\$36m) of assets from Level 2 to Level 1 during the six months ended 30 June 2020.

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

16. Fair value measurement of financial instruments (continued)

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

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

Level 3 financial assets and liabilities

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

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

There are not any differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

16. Fair value measurement of financial instruments (continued)

SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 FAIR VALUE MEASUREMENTS

As at 30 June 2020, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

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

VALUATION PROCESSES

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

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

17. Cash and cash equivalents

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

Note:

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

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

18. Insurance and investment contract liabilities

INSURANCE CONTRACT LIABILITIES

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

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

INVESTMENT CONTRACT LIABILITIES

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

19. Borrowings

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

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

| Issue date | Nominal amount | Interest rate | Tenor at issue | Maturity |
|----------------------------------|----------------|------------------|----------------|-------------------|
| 13 March 2013 ⁽¹⁾ | US\$500m | 3.125% | 10 years | 13 March 2023 |
| 11 March 2014 ⁽¹⁾ | US\$500m | 4.875% | 30 years | 11 March 2044 |
| 11 March 2015 ⁽¹⁾ | US\$750m | 3.200% | 10 years | 11 March 2025 |
| 16 March 2016 ⁽¹⁾ | US\$750m | 4.500% | 30 years | 16 March 2046 |
| 23 May 2017 ⁽²⁾ | US\$500m | 4.470% | 30 years | 23 May 2047 |
| 6 April 2018 ⁽¹⁾ | US\$500m | 3.900% | 10 years | 6 April 2028 |
| 12 April 2018 | HK\$3,900m | 2.760% | 3 years | 12 April 2021 |
| 20 September 2018 ⁽¹⁾ | US\$500m | 3M LIBOR + 0.52% | 3 years | 20 September 2021 |
| 16 January 2019 | HK\$1,300m | 2.950% | 3.5 years | 16 July 2022 |
| 16 January 2019 | HK\$1,100m | 3.680% | 12 years | 16 January 2031 |
| 9 April 2019 ⁽¹⁾ | US\$1,000m | 3.600% | 10 years | 9 April 2029 |
| 7 April 2020 ⁽¹⁾ | US\$1,000m | 3.375% | 10 years | 7 April 2030 |
| 24 June 2020 | A\$90m | 2.950% | 10 years | 24 June 2030 |

Notes:

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

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

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

20. Obligations under repurchase agreements

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

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

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

COLLATERAL

At 30 June 2020 and 31 December 2019, the Group had no pledged debt securities. Cash collateral of US\$5m (31 December 2019: US\$1m) was held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the interim consolidated statement of financial position.

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

21. Share capital and reserves

SHARE CAPITAL

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

Note:

(1) Ordinary shares have no nominal value.

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

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

During the six months ended 30 June 2020, 11,233,639 shares (six months ended 30 June 2019: 13,348,747 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 30 June 2020, 29,416,533 shares (31 December 2019: 39,862,439 shares) of the Company were held by the employee share-based trusts.

21. Share capital and reserves (continued)

RESERVES

Fair value reserve

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

Foreign currency translation reserve

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

Employee share-based trusts

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

Property revaluation reserve

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

Other reserves

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

22. Group capital structure

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

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

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

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

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

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

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

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

23. Risk management

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

CREDIT RISK

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

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

INTEREST RATE RISK

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

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

EQUITY PRICE RISK

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

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

23. Risk management (continued)

SENSITIVITY ANALYSIS

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

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

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

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

FOREIGN EXCHANGE RATE RISK

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

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

23. Risk management (continued)

FOREIGN EXCHANGE RATE RISK (continued)

Foreign exchange rate net exposure

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

23. Risk management (continued)

LIQUIDITY RISK

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

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

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

| US\$m | Total | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years | No fixed maturity ⁽²⁾ |
|--|----------------|-------------------------|---------------------------------------|--|---------------------|----------------------------------|
| 30 June 2020 – Unaudited | | | | | | |
| Financial assets (Policyholder and shareholder investments) | | | | | | |
| Loans and deposits | 9,394 | 2,777 | 1,018 | 526 | 1,762 | 3,311 |
| Other receivables | 2,681 | 2,563 | 73 | 14 | - | 31 |
| Debt securities | 175,251 | 3,168 | 19,484 | 30,794 | 121,805 | - |
| Equity securities | 24,189 | - | - | - | - | 24,189 |
| Reinsurance receivables | 595 | 595 | - | - | - | - |
| Accrued investment income | 1,694 | 1,687 | - | - | - | 7 |
| Cash and cash equivalents | 5,027 | 5,027 | - | - | - | - |
| Derivative financial instruments | 1,013 | 206 | 109 | 187 | 511 | - |
| Subtotal | 219,844 | 16,023 | 20,684 | 31,521 | 124,078 | 27,538 |
| Financial assets (Unit-linked contracts and consolidated investment funds) | 30,208 | - | - | - | - | 30,208 ⁽³⁾ |
| Total | 250,052 | 16,023 | 20,684 | 31,521 | 124,078 | 57,746 |
| Financial and insurance contract liabilities (Policyholder and shareholder investments) | | | | | | |
| Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance) | | | | | | |
| | 151,957 | 3,915 | 14,344 | 15,624 | 118,074 | - |
| Borrowings | 6,886 | 573 | 1,912 ⁽¹⁾ | 2,541 | 1,860 | - |
| Obligations under repurchase agreements | 1,484 | 1,484 | - | - | - | - |
| Other liabilities excluding lease liabilities | 6,198 | 4,319 | 232 | 152 | 176 | 1,319 |
| Lease liabilities | 582 | 180 | 353 | 48 | 1 | - |
| Derivative financial instruments | 905 | 37 | 318 | 235 | 315 | - |
| Subtotal | 168,012 | 10,508 | 17,159 | 18,600 | 120,426 | 1,319 |
| Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds) | 29,486 | - | - | - | - | 29,486 |
| Total | 197,498 | 10,508 | 17,159 | 18,600 | 120,426 | 30,805 |

Note:

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

23. Risk management (continued)

LIQUIDITY RISK (continued)

| US\$m | Total | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years | No fixed maturity ⁽²⁾ |
|--|----------------|----------------------------|--|---|------------------------|-------------------------------------|
| 31 December 2019 – As adjusted | | | | | | |
| Financial assets (Policyholder and shareholder investments) | | | | | | |
| Loans and deposits | 9,383 | 2,657 | 1,048 | 594 | 1,828 | 3,256 |
| Other receivables | 2,598 | 2,488 | 75 | 7 | – | 28 |
| Debt securities | 166,118 | 2,849 | 19,404 | 31,219 | 112,646 | – |
| Equity securities | 26,221 | – | – | – | – | 26,221 |
| Reinsurance receivables | 683 | 683 | – | – | – | – |
| Accrued investment income | 1,644 | 1,635 | – | – | – | 9 |
| Cash and cash equivalents | 3,189 | 3,189 | – | – | – | – |
| Derivative financial instruments | 937 | 167 | 189 | 196 | 385 | – |
| Subtotal | 210,773 | 13,668 | 20,716 | 32,016 | 114,859 | 29,514 |
| Financial assets (Unit-linked contracts and consolidated investment funds) | | | | | | |
| | 31,604 | – | – | – | – | 31,604 ⁽³⁾ |
| Total | 242,377 | 13,668 | 20,716 | 32,016 | 114,859 | 61,118 |
| Financial and insurance contract liabilities (Policyholder and shareholder investments) | | | | | | |
| Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance) | | | | | | |
| | 144,801 | 3,297 | 12,025 | 13,676 | 115,803 | – |
| Borrowings | 5,757 | – | 1,665 ⁽⁴⁾ | 2,233 | 1,859 | – |
| Obligations under repurchase agreements | 1,826 | 1,826 | – | – | – | – |
| Other liabilities excluding lease liabilities | 7,716 | 5,868 | 234 | 162 | 229 | 1,223 |
| Lease liabilities | 605 | 178 | 368 | 55 | 4 | – |
| Derivative financial instruments | 397 | 40 | 165 | 79 | 113 | – |
| Subtotal | 161,102 | 11,209 | 14,457 | 16,205 | 118,008 | 1,223 |
| Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds) | | | | | | |
| | 31,098 | – | – | – | – | 31,098 |
| Total | 192,200 | 11,209 | 14,457 | 16,205 | 118,008 | 32,321 |

Notes:

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

24. Share-based compensation

SHARE-BASED COMPENSATION PLANS

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

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

Following the termination of the 2010 SO Scheme and adoption of the 2020 SO Scheme, no further share options can be granted under the 2010 SO Scheme. However, the 2010 SO Scheme shall remain in full force and effect to any share options granted prior to its termination, and the exercise of such share options shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2010 SO Scheme and the Listing Rules.

VALUATION METHODOLOGY

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

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

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

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

24. Share-based compensation (continued)

RECOGNISED COMPENSATION COST

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

25. Remuneration of key management personnel

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

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

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

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

26. Commitments and contingencies

INVESTMENT AND CAPITAL COMMITMENTS

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

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

CONTINGENCIES

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

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

The Group operates in many jurisdictions across the Asia-Pacific region and in certain of those jurisdictions, the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities, which can result in disputes arising. The Group has made provisions to cover the anticipated outcome of these disputes and differences of interpretation, where the outcomes are probable and where a reliable estimate can be made. While the final outcomes are subject to uncertainties, the Group believes that these matters have been adequately provided for in these financial statements.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$439m at 30 June 2020 (31 December 2019: US\$462m). The liabilities and related reinsurance assets, which totalled US\$2m (31 December 2019: US\$6m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

27. Events after the reporting period

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

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

28. Effect of adoption of revised accounting policy

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

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

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

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

(A) CONSOLIDATED INCOME STATEMENT

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

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

(A) CONSOLIDATED INCOME STATEMENT (continued)

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

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

(A) CONSOLIDATED INCOME STATEMENT (continued)

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

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

(B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

(B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

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

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

(B) CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

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

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

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

(C) OPERATING PROFIT

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

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

(C) OPERATING PROFIT (continued)

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

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

(C) OPERATING PROFIT (continued)

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

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

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

(C) OPERATING PROFIT (continued)

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

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

(D) SEGMENT INFORMATION

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

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

(D) SEGMENT INFORMATION (continued)

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

Total assets include:

| | | | | | | | | |
|--|---|---|---|---|---|-----|---|-----|
| Investments in associates and joint ventures | 3 | - | - | 4 | - | 608 | - | 615 |
|--|---|---|---|---|---|-----|---|-----|

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

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

Note:

(1) Include unit-linked contracts.

**REPORT ON REVIEW OF SUPPLEMENTARY EMBEDDED VALUE INFORMATION
AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED**
(incorporated in Hong Kong with limited liability)



羅兵咸永道

Introduction

We have reviewed the Supplementary Embedded Value Information (“the EV Information”) set out on pages 124 to 146, which comprises the EV consolidated results of AIA Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at and for the six-month period ended 30 June 2020, sensitivity analysis and a summary of significant methodology and assumptions and other explanatory notes. The directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information. Our responsibility is to express a conclusion on this EV Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Basis of Preparation

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 August 2020

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SUPPLEMENTARY EMBEDDED VALUE INFORMATION

Cautionary Statements Concerning Supplementary Embedded Value Information

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

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

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

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

1. HIGHLIGHTS

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

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

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

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

1. HIGHLIGHTS (continued)

Summary of Key Metrics⁽¹⁾ (US\$ millions)

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

Notes:

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

(2) On an annualised basis.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

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

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

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

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

2. EMBEDDED VALUE RESULTS (continued)

2.1 Embedded Value by Business Unit (continued)

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

Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS consolidated financial statements.
- (2) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2019 and Section 4.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

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

| | As at 30 June 2020 (Unaudited) | As at 31 December 2019 (as adjusted) |
|--|---|---|
| IFRS equity attributable to shareholders of the Company | 56,804 | 54,947 |
| Elimination of IFRS deferred acquisition and origination costs assets | (26,205) | (26,328) |
| Difference between IFRS policy liabilities and local statutory policy liabilities | 1,261 | 5,949 |
| Difference between net IFRS policy liabilities and local statutory policy liabilities | (24,944) | (20,379) |
| Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds | 10 | – |
| Elimination of intangible assets | (2,429) | (2,520) |
| Recognition of deferred tax impacts of the above adjustments | 3,321 | 3,008 |
| Recognition of non-controlling interests impacts of the above adjustments | 115 | 90 |
| ANW (Business Unit) | 32,877 | 35,146 |
| Adjustment to reflect consolidated reserving requirements, net of tax | (6,255) | (6,905) |
| ANW (Consolidated) | 26,622 | 28,241 |

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

2. EMBEDDED VALUE RESULTS (continued)

2.3 Breakdown of ANW

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

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

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

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

2. EMBEDDED VALUE RESULTS (continued)

2.4 Earnings Profile

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

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

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

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

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

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business

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

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

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

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

Notes:

- (1) The reported VONB for Other Markets in the six months ended 30 June 2020 includes the Group's share of VONB from Tata AIA Life, which amount to US\$34 million. VONB for the six months ended 30 June 2019 has not been restated and is reported before any contribution from Tata AIA Life.
- (2) The reported VONB for the Group in the six months ended 30 June 2020 excludes the VONB attributable to non-controlling interests of US\$10 million. VONB for the six months ended 30 June 2019 has not been restated and is reported before deducting the amount attributable to non-controlling interests of US\$15 million, as previously disclosed in the Company's Interim Report 2019.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the six months ended 30 June 2020.

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

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

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

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

Notes:

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

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

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

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

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

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of Movement in EV (US\$ millions)

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

Note:

(1) Not meaningful (n/m).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

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

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

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

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

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

The EV profit of US\$(100) million (2019: US\$6,119 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

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

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

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

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

Foreign exchange movements decreased EV by US\$920 million (2019: increase in EV by US\$468 million).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

Operating ROEV (US\$ millions)

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 12.9 per cent (2019: 17.3 per cent) for the six months ended 30 June 2020.

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

Note:

(1) On an annualised basis.

2.7 EV Equity

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

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

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

Note:

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

2. EMBEDDED VALUE RESULTS (continued)

2.8 Free Surplus Generation

Free Surplus Generation (US\$ millions)

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

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

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

Investment return variances and other items amounted to US\$(3,899) million (2019: US\$848 million⁽²⁾), reflecting the effect of short-term fluctuations in current interest rate, equity market and other capital market movements on the Group's investment portfolio and statutory reserves compared with the expected returns and other items including the free surplus impacts arising from other non-operating variances as described in Section 2.6.

Unallocated Group Office expenses amounted to US\$91 million (2019: US\$115 million⁽²⁾).

Notes:

(1) Not meaningful (n/m).

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

3. SENSITIVITY ANALYSIS

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

The sensitivities analysed were:

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

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

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

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

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

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 30 June 2020 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

3. SENSITIVITY ANALYSIS (continued)

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

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

Sensitivity of EV (US\$ millions)

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

Sensitivity of VONB (US\$ millions)

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

4. METHODOLOGY

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

4.1 Capital Requirements

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

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

Notes:

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

Capital Requirements on Consolidation

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

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

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

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

5. ASSUMPTIONS

5.1 Introduction

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

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

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

5.2 Economic Assumptions

Investment Returns

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

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

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

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

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

For Tata AIA Life the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

| Business Unit | Current market 10-year government bond yields referenced in EV calculations (%) | | |
|------------------------------|--|------------------------------|---|
| | As at 30 June 2020 (Unaudited) | As at 31 December 2019 | As at 30 June 2019 (Unaudited) |
| AIA Australia | | | |
| • Australia | 0.87 | 1.37 | 1.32 |
| • New Zealand | 0.93 | 1.65 | 1.57 |
| AIA China | 2.85 | 3.14 | 3.24 |
| AIA Hong Kong ⁽¹⁾ | 0.66 | 1.92 | 2.01 |
| AIA Indonesia | 7.21 | 7.06 | 7.37 |
| AIA Korea | 1.39 | 1.67 | 1.60 |
| AIA Malaysia | 2.87 | 3.31 | 3.64 |
| AIA Philippines | 2.80 | 4.46 | 5.07 |
| AIA Singapore | 0.90 | 1.74 | 2.00 |
| AIA Sri Lanka | 7.20 | 10.07 | 10.33 |
| AIA Taiwan | 0.45 | 0.67 | 0.68 |
| AIA Thailand | 1.28 | 1.49 | 2.16 |
| AIA Vietnam | 2.99 | 3.56 | 4.70 |

Note:

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

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk Discount Rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that the VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

| Business Unit | Risk discount rates assumed in EV calculations (%) | | | Long-term investment returns assumed in EV calculations (%) | | | | | |
|------------------------------|--|--------|-------------|---|-------------|-------------|----------------|--------|-------------|
| | | | | 10-year government bonds | | | Local equities | | |
| | As at | As at | As at | As at | As at | As at | As at | As at | As at |
| | 30 Jun | 31 Dec | 30 Jun | 30 Jun | 31 Dec | 30 Jun | 30 Jun | 31 Dec | 30 Jun |
| 2020 | 2019 | 2019 | 2020 | 2019 | 2019 | 2020 | 2019 | 2019 | |
| | (Unaudited) | | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | | (Unaudited) |
| AIA Australia | | | | | | | | | |
| • Australia | 6.45 | 6.45 | 7.35 | 2.30 | 2.30 | 3.00 | 6.60 | 6.60 | 7.50 |
| • New Zealand | 6.85 | 6.85 | 7.75 | 2.60 | 2.60 | 3.50 | 7.10 | 7.10 | 8.00 |
| AIA China | 9.75 | 9.75 | 9.75 | 3.70 | 3.70 | 3.70 | 9.30 | 9.30 | 9.30 |
| AIA Hong Kong ⁽¹⁾ | 7.00 | 7.20 | 7.50 | 2.20 | 2.70 | 3.00 | 7.00 | 7.50 | 7.80 |
| AIA Indonesia | 13.00 | 13.00 | 13.00 | 7.50 | 7.50 | 7.50 | 12.00 | 12.00 | 12.00 |
| AIA Korea | 8.10 | 8.10 | 8.60 | 2.20 | 2.20 | 2.70 | 6.50 | 6.50 | 7.20 |
| AIA Malaysia | 8.55 | 8.55 | 8.75 | 4.00 | 4.00 | 4.20 | 8.60 | 8.60 | 8.80 |
| AIA Philippines | 11.80 | 11.80 | 11.80 | 5.30 | 5.30 | 5.30 | 10.50 | 10.50 | 10.50 |
| AIA Singapore | 6.60 | 6.90 | 7.10 | 2.20 | 2.50 | 2.70 | 6.70 | 7.00 | 7.20 |
| AIA Sri Lanka | 15.70 | 15.70 | 15.70 | 10.00 | 10.00 | 10.00 | 12.00 | 12.00 | 12.00 |
| AIA Taiwan | 7.55 | 7.55 | 7.85 | 1.30 | 1.30 | 1.60 | 5.90 | 5.90 | 6.60 |
| AIA Thailand | 7.90 | 7.90 | 8.60 | 2.70 | 2.70 | 3.20 | 7.70 | 7.70 | 9.00 |
| AIA Vietnam | 9.80 | 10.80 | 11.80 | 4.00 | 5.00 | 6.00 | 9.30 | 10.30 | 11.30 |

Note:

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

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

5. ASSUMPTIONS (continued)

5.3 Expense Inflation

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

Expense Inflation Assumptions by Business Unit (%)

| Business Unit | As at 30 June 2020 (Unaudited) | As at 31 December 2019 |
|-----------------|---|------------------------------|
| AIA Australia | | |
| • Australia | 2.05 | 2.05 |
| • New Zealand | 2.00 | 2.00 |
| AIA China | 2.00 | 2.00 |
| AIA Hong Kong | 2.00 | 2.00 |
| AIA Indonesia | 3.50 | 3.50 |
| AIA Korea | 3.50 | 3.50 |
| AIA Malaysia | 3.00 | 3.00 |
| AIA Philippines | 3.50 | 3.50 |
| AIA Singapore | 2.00 | 2.00 |
| AIA Sri Lanka | 6.50 | 6.50 |
| AIA Taiwan | 1.20 | 1.20 |
| AIA Thailand | 2.00 | 2.00 |
| AIA Vietnam | 4.00 | 4.00 |
| Tata AIA Life | 7.25 | 7.25 |

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

5. ASSUMPTIONS (continued)

5.4 Taxation

The projections of distributable earnings underlying the values presented in this report are net of corporate income tax, based on current taxation legislation and corporate income tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

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

Local Corporate Income Tax Rates by Business Unit (%)

| Business Unit | As at 30 June 2020 (Unaudited) | As at 31 December 2019 |
|------------------------------|---|------------------------------|
| AIA Australia | | |
| • Australia | 30.0 | 30.0 |
| • New Zealand | 28.0 | 28.0 |
| AIA China | 25.0 | 25.0 |
| AIA Hong Kong | 16.5 | 16.5 |
| AIA Indonesia ⁽¹⁾ | 22.0 | 25.0 |
| AIA Korea ⁽²⁾ | 27.5 | 27.5 |
| AIA Malaysia | 24.0 | 24.0 |
| AIA Philippines | 30.0 | 30.0 |
| AIA Singapore | 17.0 | 17.0 |
| AIA Sri Lanka | 28.0 | 28.0 |
| AIA Taiwan | 20.0 | 20.0 |
| AIA Thailand | 20.0 | 20.0 |
| AIA Vietnam | 20.0 | 20.0 |
| Tata AIA Life | 14.6 | 14.6 |

Notes:

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

(2) From fiscal years 2018 to 2020, AIA Korea is subject to an assumed corporate income tax of 27.5%, which includes an Accumulated Earnings Tax following the subsidiarisation of the branch in AIA Korea. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2021.

The tax assumptions used in the valuation reflect the local corporate income tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

The EV of the Group as at 30 June 2020 is calculated after deducting any expected remittance taxes payable on the anticipated distribution of both the ANW and VIF.

6. EVENTS AFTER THE REPORTING PERIOD

On 19 June 2020, AIA Co. has received approval from the China Banking and Insurance Regulatory Commission (CBIRC) to convert its existing Shanghai branch to a wholly-owned subsidiary. On 9 July 2020, the subsidiary was incorporated in Shanghai to operate AIA's life insurance business in Mainland China once the conversion process is completed. Upon the completion of the conversion process, any future remittances to the Group from this subsidiary will be subject to withholding tax at the applicable tax rate in Mainland China (currently at 5%). EV and VONB from AIA China have been subject to 5% withholding tax from 9 July 2020 onwards.

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

INFORMATION FOR SHAREHOLDERS

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020.

INTERIM DIVIDEND

The board of directors of the Company (Board) has declared an interim dividend of 35.00 Hong Kong cents per share for the six months ended 30 June 2020 (six months ended 30 June 2019: 33.30 Hong Kong cents per share).

The interim dividend will be payable on Thursday, 24 September 2020 to Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 8 September 2020.

Relevant Dates for the 2020 Interim Dividend Payment

| | |
|------------------|-------------------|
| Ex-dividend date | 7 September 2020 |
| Record date | 8 September 2020 |
| Payment date | 24 September 2020 |

RECORD DATE

In order to qualify for the entitlement of the interim dividend, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 8 September 2020.

SHARE REGISTRAR

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

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

ELECTRONIC COMMUNICATIONS

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

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

FORWARD-LOOKING STATEMENTS

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

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

By Order of the Board
Lee Yuan Siong
Executive Director
Group Chief Executive and President

Hong Kong, 20 August 2020

As at the date of this announcement, the Board comprises:

Independent Non-executive Chairman and Independent Non-executive Director:

Mr. Edmund Sze-Wing Tse

Executive Director, Group Chief Executive and President:

Mr. Lee Yuan Siong

Independent Non-executive Directors:

Mr. Jack Chak-Kwong So, Mr. Chung-Kong Chow, Mr. John Barrie Harrison, Mr. George Yong-Boon Yeo, Professor Lawrence Juen-Yee Lau, Ms. Swee-Lian Teo, Dr. Narongchai Akrasanee and Mr. Cesar Velasquez Purisima

GLOSSARY

| | |
|-----------------|---|
| 2010 RSU Scheme | Restricted Share Unit Scheme of the Company adopted on 28 September 2010 (as amended) under which the Company had awarded restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It was terminated with effect from 31 July 2020 prior to the adoption of the 2020 RSU Scheme. |
| 2010 SO Scheme | Share Option Scheme of the Company adopted on 28 September 2010 (as amended), under which the Company had awarded share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It was terminated with effect from 29 May 2020 upon the adoption of the 2020 SO Scheme. |
| 2011 ESPP | Employee Share Purchase Plan of the Company adopted on 25 July 2011 (as amended), a voluntary share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees. It will be terminated with effect from 31 October 2020 following the adoption of the 2020 ESPP. |
| 2020 ESPP | Employee Share Purchase Plan of the Company adopted on 1 August 2020, a voluntary share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees, which is effective for a period of 10 years from the date of adoption. |
| 2020 RSU Scheme | Restricted Share Unit Scheme of the Company adopted on 1 August 2020, under which the Company may award restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It is effective for a period of 10 years from the date of adoption. |
| 2020 SO Scheme | Share Option Scheme of the Company adopted on 29 May 2020, under which the Company may award share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. It is effective for a period of 10 years from the date of adoption. |
| active agent | An agent who sells at least one policy per month. |
| active market | A market in which all the following conditions exist: <ul style="list-style-type: none">• the items traded within the market are homogeneous;• willing buyers and sellers can normally be found at any time; and• prices are available to the public. |

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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| adjusted net worth or ANW | ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis. |
| AER | Actual exchange rates. |
| AIA or the Group | AIA Group Limited and its subsidiaries. |
| AIA Co. | AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company. |
| AIA International | AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company. |
| AIA Vitality | A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa. |
| ALC | The AIA Leadership Centre located in Bangkok, Thailand. |
| amortised cost | The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. |
| annualised new premiums or ANP | ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums. |
| ASPP | Agency Share Purchase Plan, adopted by the Company on 23 February 2012, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents. |

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| available for sale (AFS) financial assets | Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income. |
| bancassurance | The distribution of insurance products through banks or other financial institutions. |
| Board | The board of Directors. |
| CBA | Commonwealth Bank of Australia. |
| CER | Constant exchange rates. Change on constant exchange rates is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for balance sheet items as at the end of the current year and as at the end of the prior year, which is translated using the constant exchange rates. |
| CMLA | The Colonial Mutual Life Assurance Society Limited (including its affiliated companies), one of the largest life insurance providers in Australia. |
| Company | AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299). |
| consolidated investment funds | Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds. |
| Corporate Governance Code | Corporate Governance Code set out in Appendix 14 to the Listing Rules. |
| cost of capital or CoC | CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis. |
| COVID-19 | COVID-19 is the infectious disease caused by a recently identified coronavirus. |

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| Dealing Policy | Directors' and Chief Executives' Dealing Policy of the Company. |
| deferred acquisition costs or DAC | Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. Such assets are tested for recoverability at least annually. |
| deferred origination costs or DOC | Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability. |
| Director(s) | The director(s) of the Company. |
| embedded value or EV | An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis. |
| EPS | Earnings per share. |
| equity attributable to shareholders of the Company on the embedded value basis or EV Equity | EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company. |
| ExCo | The Executive Committee of the Group. |
| fair value through profit or loss or FVTPL | Under IAS 39, Financial Instruments: Recognition and Measurement, financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year. |

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| first half | The six months from 1 January to 30 June. |
| first quarter | The three months from 1 January to 31 March. |
| first year premiums | First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold. |
| free surplus | ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements. |
| group insurance | An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf. |
| Group LCSM | The Group Local Capital Summation Method is the method to be used by the HKIA as a measure of group solvency under the new Group-wide Supervision (GWS) framework. Subject to the final capital rules to be introduced in subsidiary legislation, Group available capital is the sum of available capital of the relevant supervised entities of the designated insurance holding company according to the local regulatory requirements. Group minimum capital requirement (MCR) is the sum of the minimum required capital of those same entities. Adjustments are made to eliminate double counting. The Group LCSM cover ratio is the ratio of Group available capital to the Group MCR. |
| Group LCSM surplus | The difference between the Group available capital and the Group minimum capital requirement. |
| Group Office | Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions. |
| HKFRS | Hong Kong Financial Reporting Standards. |
| HKIA | Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance. |
| HKICPA | Hong Kong Institute of Certified Public Accountants. |
| Hong Kong | The Hong Kong Special Administrative Region (SAR) of the PRC; in the context of our reportable market segments, Hong Kong includes Macau SAR. |
| Hong Kong Companies Ordinance | Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time. |

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| Hong Kong Insurance Ordinance or HKIO | Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. |
| Hong Kong Stock Exchange or HKSE | The Stock Exchange of Hong Kong Limited. |
| IAIS | International Association of Insurance Supervisors. |
| IAS | International Accounting Standards. |
| IASB | International Accounting Standards Board. |
| Insurance Capital Standard or ICS | The risk-based, global insurance capital standard being developed by the International Association of Insurance Supervisors. |
| IFA | Independent financial adviser. |
| IFRS | Standards and interpretations adopted by the IASB comprising: <ul style="list-style-type: none"> • International Financial Reporting Standards; • IAS; and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC). |
| interactive Point of Sale or iPoS | iPoS is a secure, mobile point-of-sale technology that features a paperless sales process from the completion of the customer's financial-needs analysis to proposal generation with electronic biometric signature of life insurance applications on tablet devices. |
| investment experience | Realised and unrealised investment gains and losses recognised in the consolidated income statement. |
| investment income | Investment income comprises interest income, dividend income and rental income. |
| investment return | Investment return consists of investment income plus investment experience. |
| IPO | Initial Public Offering. |
| Listing Rules | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. |

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| Million Dollar Round Table or MDRT | MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards. |
| Model Code | Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. |
| net funds to Group Corporate Centre | In presenting net capital in/(out) flows to reportable market segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable market segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends. |
| n/a | Not available. |
| n/m | Not meaningful. |
| operating profit after tax or OPAT | Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information. |
| operating return on EV or operating ROEV | Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value. |
| operating return on shareholders' allocated equity or operating ROE | Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity. |
| OTC | Over-the-counter. |
| other participating business with distinct portfolios | Business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. |
| Participating funds | Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation. |

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| AIA Philam Life | The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. |
| policyholder and shareholder investments | Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds. |
| pps | Percentage points. |
| PRC | The People's Republic of China. |
| PVNBP margin | VONB excluding pension business, expressed as a percentage of present value of new business premiums (PVNBP). PVNBP margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. |
| regulatory minimum capital | Net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. |
| renewal premiums | Premiums receivable in subsequent years of a recurring premium policy. |
| rider | A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums. |
| Risk-Based Capital or RBC | RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments. |
| RSPUs | Restricted stock purchase units. |
| RSSUs | Restricted stock subscription units. |
| second half | The six months from 1 July to 31 December. |
| second quarter | The three months from 1 April to 30 June. |
| SFO | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time. |
| share(s) | For the Company, shall mean ordinary share(s) in the capital of the Company. |
| Shareholder(s) | Holder(s) of shares of the Company. |

| | |
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| shareholders' allocated equity | Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve. |
| Singapore | The Republic of Singapore; in the context of our reportable market segments, Singapore includes Brunei. |
| single premium | A single payment that covers the entire cost of an insurance policy. |
| solvency | The ability of an insurance company to satisfy its policyholder benefits and claims obligations. |
| solvency ratio | The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations. |
| Sovereign | ASB Group (Life) Limited (renamed AIA Sovereign Limited in July 2018) and its subsidiaries, including Sovereign Assurance Company Limited (subsequently renamed as AIA New Zealand Limited on 2 August 2019), a licensed insurer in New Zealand. |
| Takaful | Islamic insurance which is based on the principles of mutual assistance and risk sharing. |
| Tata AIA Life | Tata AIA Life Insurance Company Limited. |
| total weighted premium income or TWPI | TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums. |
| underlying free surplus generation or UFSG | Underlying free surplus generation represents free surplus generated from the in force business, adjusted for certain non-recurring items. It excludes free surplus used to fund new business, unallocated group office expenses, investment variances and other non-operating items. UFSG for AIA is stated after reflecting consolidated reserving and capital requirements. |
| unit-linked investments | Financial investments held to back unit-linked contracts. |
| unit-linked products | Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges. |

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