

AIA International Limited

**Consolidated Financial Statements
For the year ended 31 December 2021**





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Report of Directors

The directors of AIA International Limited (the “Company”) have the pleasure of presenting their report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021.

Principal Activities

The Company is a limited liability company incorporated in Bermuda and managed in Hong Kong. The address of the Company’s registered office in Bermuda is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company also has a principal place of business in Hong Kong at 1/F, AIA Hong Kong Tower, 734 King’s Road, Quarry Bay, Hong Kong from where its largest business is managed. The Company and its subsidiaries are principally engaged in life and general insurance business as well as in administration service for retirement schemes.

Insurance Operations

Net premiums and fee income for the year ended 31 December 2021 were US\$16,046 million (2020: US\$16,615 million), representing a 3 per cent decrease over the preceding year. Benefits amounting to US\$15,071 million (2020: US\$18,000 million) were accrued to policyholders and beneficiaries during the year.

Investments

Investment income derived from insurance and other business operations, which comprise interest, dividends and rent, amounted to US\$3,939 million (2020: US\$3,662 million), representing a 8 per cent increase over the preceding year. Investment experience amounting to gains of US\$2,207 million (2020: gains of US\$4,948 million) was recognised during the year.

Details of the Company’s investment in subsidiaries are set out in note 38 to the consolidated financial statements.

Related Parties Transactions

Details of the related party transactions undertaken by the Company during the year ended 31 December 2021, in the ordinary course of business are set out in note 36 to the consolidated financial statements.

Directors’/ Controllers’ Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance in relation to the Company’s business to which the Company, any of the Company’s subsidiaries or any of its holding companies or any subsidiaries of its holding company was a party and in which a director or controller of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Payments made to Directors / Controllers

Payments made to directors and controllers of the Company during the year ended 31 December 2021 are included in notes 7 and 35 to the financial statements. Apart from the above, there were no properties transferred, payments made, loans advanced to or obligations assumed by or for a director or controller of the Company or any of his nominees or associates during the year.

Transfer to Reserves

Profits attributable to shareholders, before dividends, of US\$3,053 million (2020: US\$2,919 million) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of US\$800 million was approved and declared by the Board on 6 December 2021.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

Charitable Donations

Charitable donations made by the Company and its subsidiaries during the year amounted to US\$0.8 million (2020: US\$0.8 million) and US\$1.2 million (2020: US\$0.3 million), respectively.



Report of Directors (continued)

Reinsurance Arrangements

Material reinsurance arrangements subsisting at the end of the year or at any time during the year are as follows:

Life, Accident and Health Insurance:

The Company has material outward reinsurance arrangements with AIA Reinsurance Limited, an affiliate of the Company. For new business, directly written or assumed through inward reinsurance, the Company manages its retention limit generally less than US\$5 million per life through external reinsurance. Material outward reinsurance treaties exist with a number of highly rated external reinsurers. The Company has catastrophic loss protection through a catastrophe reinsurance treaty, whose lead reinsurer is AXIS Specialty Limited.

General Insurance:

The catastrophe reinsurance arrangement led by AXIS Specialty Limited covers Personal Accident and Travel Accident business.

Directors

The directors who held office during the year and up to the date of this report were:

Mr. Mitchell David New

Mr. Garth Brian Jones

Mr. Wing Shing Chan

Mr. Richard Owen Sumner

Mr. Timothy Carrick Faries

Mr. Shelby Ross Weldon

Mr. Clive Vincent Anderson (Alternate Director to Mr. Mitchell David New and Garth Brian Jones)

Mr. Dick Poon (Alternate Director to Mr. Wing Shing Chan)

In accordance with Bye-Law 39 of the Company's Bye-Laws, all remaining directors will retire from the Board, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Controllers

The controllers of the Company during the year and up to the date of this report were:

AIA Group Limited ("AIAGL")

AIA Company Limited

Mr. Lee Yuan Siong

Mr. Wing Shing Chan

Mr. Wai Cheong Fung (became controller with effect from 29 January 2021)



Report of Directors (continued)

Directors' / Controllers' Interests in Arrangements to Acquire Shares or Debentures

During the year ended 31 December 2021, the following equity-linked schemes of AIAGL, the ultimate holding company of the Company, subsisted at the end of the year or any time during the year which enabled certain directors and controllers of the Company, to acquire benefits by means of the acquisition or the award of shares in AIAGL, or their equivalent cash value (collectively the "Plans").

(a) Restricted Share Unit Schemes

The restricted share unit scheme adopted by AIAGL on 28 September 2010 with a term of 10 years ("2010 RSU Scheme") was terminated with effect from 31 July 2020. AIAGL adopted a new restricted share unit scheme on 1 August 2020 with a term of 10 years ("2020 RSU Scheme", together with the 2010 RSU Scheme, "RSU Schemes") in place of and under substantially the same terms as the 2010 RSU Scheme.

The objectives of the RSU Schemes are to align the interests of scheme participants with those of AIAGL's shareholders and reward the creation of sustainable value through the grant of AIAGL's shares to participants when rigorous performance conditions have been achieved.

Under the 2020 RSU Scheme, AIAGL may grant restricted share unit(s) ("RSU(s)") to employees, directors (excluding independent non-executive directors) or officers of AIAGL or any of its subsidiaries giving them a conditional right upon the vesting of the RSUs to obtain AIAGL shares or equivalent value in cash. Following the termination of the 2010 RSU Scheme, no further RSUs can be granted thereunder, however, it shall remain in full force and effect for all RSUs granted prior to its termination.

(b) Share Option Schemes

The share option scheme adopted by AIAGL on 28 September 2010 with a term of 10 years ("2010 SO Scheme") was terminated with effect from 29 May 2020. AIAGL adopted a new share option scheme with effect from 29 May 2020 with a term of 10 years ("2020 SO Scheme", together with the 2010 SO Scheme, "SO Schemes") in place of and under substantially the same terms as the 2010 SO Scheme. The objectives of the SO Schemes are to align the interests of scheme participants with those of AIAGL's shareholders by allowing participants to share in the long-term, sustainable value created for AIAGL's shareholders.

Under the 2020 SO Scheme, AIAGL may grant share option(s) ("SO(s)") to employees, directors (excluding independent non-executive directors) or officers of AIAGL or any of its subsidiaries giving them a conditional right upon the exercising of the SOs to obtain AIAGL shares or equivalent value in cash. Following the termination of the 2010 SO Scheme, no further SOs can be granted thereunder, however, it shall remain in full force and effect for all SOs granted prior to its termination.

(c) Employee Share Purchase Plans

The employee share purchase plan adopted by AIAGL on 25 July 2011 with a term of 10 years ("2011 ESPP") was terminated with effect from 31 October 2020. AIAGL adopted a new employee share purchase plan on 1 August 2020 with a term of 10 years ("2020 ESPP", together with the 2010 ESPP, "ESPPs") in place of and under substantially the same terms as the 2011 ESPP. The objectives of ESPPs are to facilitate and encourage long-term AIAGL share ownership by employees and to encourage employee retention.

Under the 2020 ESPP, eligible employees of AIAGL or any of its subsidiaries may elect to purchase AIAGL's shares, giving such employees a conditional right through the grant of matching restricted stock purchase units ("RSPUs") to obtain AIAGL shares. Following the termination of the 2010 ESPP Schemes, no further RSPUs can be granted thereunder, however it shall remain in full force and effect for all RSPUs granted prior to its termination.



Report of Directors (continued)

Directors' / Controllers' Interests in Arrangements to Acquire Shares or Debentures (continued)

During the year ended 31 December 2021, Mr. Mitchell David New, Mr. Garth Brian Jones, Mr. Wing Shing Chan, Mr. Richard Owen Sumner, Mr. Lee Yuan Siong and Mr. Wai Cheong Fung, directors and/or controllers of the Company, had interests in one or more of the Plans and had acquired benefits by means of the acquisition of shares of AIAGL pursuant to one or more of the Plans.

Apart from the above, at no time during the year was the Company or the Company's subsidiaries or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the directors or controllers of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Events after the reporting date

Details of significant events occurring after the reporting date are set out in note 39 to the consolidated financial statements.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment, and a resolution of this effect will be proposed at the forthcoming annual general meeting.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'M. New', written over a horizontal line.

Mitchell David New

Chairman

20 April 2022

Independent Auditor's Report

To the Member of AIA International Limited

(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of AIA International Limited (the “Company”) and its subsidiaries (the “Group”), which are set out on pages 10 to 89, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the Report of Directors on pages 3 to 6, but does not include the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

To the Member of AIA International Limited (Continued)

(incorporated in Bermuda with limited liability)

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report
To the Member of AIA International Limited (Continued)
(incorporated in Bermuda with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

The logo for PricewaterhouseCoopers, written in a blue, cursive script.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 20 April 2022



Consolidated Income Statement

US\$'000	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Revenue			
Premiums and fee income	4	17,099,070	17,806,667
Premiums ceded to reinsurers		(1,053,068)	(1,191,853)
Net premiums and fee income		16,046,002	16,614,814
Investment return	6	6,145,931	8,609,582
Other operating revenue	6	14,240	11,103
Total revenue		22,206,173	25,235,499
Expenses			
Insurance and investment contract benefits		15,840,861	18,747,632
Insurance and investment contract benefits ceded		(770,121)	(747,772)
Net insurance and investment contract benefits		15,070,740	17,999,860
Commission and other acquisition expenses		2,232,543	2,234,623
Operating expenses		1,053,617	981,756
Finance costs		31,299	33,313
Other expenses		427,603	394,873
Total expenses	7	18,815,802	21,644,425
Profit before share of profit from associates		3,390,371	3,591,074
Share of losses from associates	11	(11,317)	(13,925)
Profit before tax		3,379,054	3,577,149
Tax expense	8	(319,570)	(673,265)
Net profit		3,059,484	2,903,884
<i>Net profit attributable to:</i>			
Shareholders of AIA International Limited		3,052,551	2,918,886
Non-controlling interests		6,933	(15,002)



Consolidated Statement of Comprehensive Income

US\$'000	Note	Year ended 31 December 2021	Year ended 31 December 2020
Net profit		3,059,484	2,903,884
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses)/gains on available for sale financial assets (net of tax of: 2021: US\$347.5m; 2020: US\$(1.8)m) ⁽²⁾		(1,854,653)	3,369,891
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: 2021: US\$12.2m; 2020: US\$12.0m) ⁽²⁾		(1,560,171)	(898,297)
Foreign currency translation adjustments		(277,104)	244,524
Cash flow hedges		(502)	6,859
Share of other comprehensive income/(expenses) from associates	11	47,985	(16,462)
Subtotal		(3,644,445)	2,706,515
Items that will not be reclassified subsequently to profit or loss:			
Revaluation gains/(losses) on property held for own use (net of tax of: 2021: US\$(1.4)m; 2020: US\$(1.2)m)		7,485	(17,137)
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: 2021: US\$(0.7)m; 2020: US\$0.1m)		6,799	(4,850)
Subtotal		14,284	(21,987)
Total other comprehensive (expense)/income		(3,630,161)	2,684,528
Total comprehensive (expense)/income		(570,677)	5,588,412
<i>Total comprehensive (expense)/income attributable to:</i>			
Shareholders of AIA International Limited		(576,477)	5,602,844
Non-controlling interests		5,800	(14,432)

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\$(4,710.7)m relates to the fair value losses (2020: US\$6,525.0m related to the fair value gains) on available for sale financial assets and US\$1,572.5m (2020: US\$910.4m) relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year.



Consolidated Statement of Financial Position

US\$'000	Notes	As at 31 December 2021	As at 31 December 2020
Assets			
Intangible assets	10	894,483	743,275
Investments in associates	11	610,496	558,964
Property, plant and equipment	12	1,016,960	1,017,105
Investment property	13	2,935,768	2,948,074
Reinsurance assets	14	798,578	721,020
Deferred acquisition and origination costs	15	11,865,273	11,878,734
Financial investments:	16		
Loans and deposits		2,161,753	1,889,908
Available for sale			
Debt securities		92,510,344	92,859,232
At fair value through profit or loss			
Debt securities		2,112,399	1,522,795
Equity shares		12,602,915	11,170,308
Interests in investment funds		20,325,167	15,377,722
Derivative financial instruments	17	1,038,447	91,800
		130,751,025	122,911,765
Deferred tax assets	8	18,513	384
Current tax recoverable		17,518	21,069
Other assets	19	2,294,991	2,544,124
Cash and cash equivalents	21	1,847,931	1,416,762
Total assets		153,051,536	144,761,276
Liabilities			
Insurance contract liabilities	22	113,944,257	105,454,948
Investment contract liabilities	23	5,635,848	5,893,215
Loans due to ultimate holding company	25	829,000	829,000
Notes due to ultimate holding company	25	770,000	243,500
Obligations under repurchase agreements		40,067	-
Derivative financial instruments	17	847,926	492,395
Provisions	27	33,796	38,722
Deferred tax liabilities	8	1,647,085	2,006,721
Current tax liabilities		80,328	103,910
Other liabilities	28	2,774,273	2,139,268
Total liabilities		126,602,580	117,201,679



Consolidated Statement of Financial Position (continued)

US\$'000	Notes	As at 31 December 2021	As at 31 December 2020
Equity			
Issued share capital	29	7,800	3,600
Share premium and capital contribution	29	2,844,985	2,583,596
Other reserves	29	9,092	10,787
Retained earnings		19,262,371	17,009,820
Fair value reserve	29	4,321,186	7,679,712
Foreign currency translation reserve	29	(610,154)	(325,870)
Property revaluation reserve	29	405,371	397,886
Others		7,209	912
Amounts reflected in other comprehensive income		4,123,612	7,752,640
<i>Total equity attributable to:</i>			
Shareholders of AIA International Limited		26,247,860	27,360,443
Non-controlling interests	30	201,096	199,154
Total equity		26,448,956	27,559,597
Total liabilities and equity		153,051,536	144,761,276

Approved and authorised for issue by the Board of Directors on 20 April 2022.


Wing Shing Chan
Director


Garth Brian Jones
Director



Consolidated Statement of Changes in Equity

US\$'000	Notes	Share capital, share premium and capital contribution	Other reserves	Retained earnings	Other comprehensive income			Others	Non- controlling interests	Total equity
					Fair value reserve	Foreign currency translation reserve	Property revaluation reserve			
Balance at 1 January 2021		2,587,196	10,787	17,009,820	7,679,712	(325,870)	397,886	912	199,154	27,559,597
Net profit		-	-	3,052,551	-	-	-	-	6,933	3,059,484
Fair value losses on available for sale financial assets ⁽²⁾		-	-	-	(1,854,653)	-	-	-	-	(1,854,653)
Fair value gains on available for sale financial assets transferred to income on disposal and impairment ⁽²⁾		-	-	-	(1,560,171)	-	-	-	-	(1,560,171)
Foreign currency translation adjustments		-	-	-	-	(275,971)	-	-	(1,133)	(277,104)
Cash flow hedges		-	-	-	-	-	-	(502)	-	(502)
Share of other comprehensive income/(expense) from associates		-	-	-	56,298	(8,313)	-	-	-	47,985
Revaluation gains on property held for own use		-	-	-	-	-	7,485	-	-	7,485
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	6,799	-	6,799
Total comprehensive income/(expense) for the year		-	-	3,052,551	(3,358,526)	(284,284)	7,485	6,297	5,800	(570,677)
Dividends	9	-	-	(800,000)	-	-	-	-	(3,858)	(803,858)
Share-based compensation		-	(1,695)	-	-	-	-	-	-	(1,695)
Capital contribution	29	265,589	-	-	-	-	-	-	-	265,589
Balance at 31 December 2021		2,852,785	9,092	19,262,371	4,321,186	(610,154)	405,371	7,209	201,096	26,448,956

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\$(4,710.7)m relates to the fair value losses on available for sale financial assets and US\$1,572.5m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year.



Consolidated Statement of Changes in Equity (continued)

US\$'000	Notes	Share capital, share premium and capital contribution	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		2,492,155	8,524	14,290,934	5,212,284	(557,528)	415,023	(1,097)	217,457	22,077,752
Net profit		-	-	2,918,886	-	-	-	-	(15,002)	2,903,884
Fair value gains on available for sale financial assets ⁽²⁾		-	-	-	3,369,891	-	-	-	-	3,369,891
Fair value gains on available for sale financial assets transferred to income on disposal and impairment ⁽²⁾		-	-	-	(898,297)	-	-	-	-	(898,297)
Foreign currency translation adjustments		-	-	-	-	243,954	-	-	570	244,524
Cash flow hedges		-	-	-	-	-	-	6,859	-	6,859
Share of other comprehensive expense from associates		-	-	-	(4,166)	(12,296)	-	-	-	(16,462)
Revaluation losses on property held for own use		-	-	-	-	-	(17,137)	-	-	(17,137)
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	(4,850)	-	(4,850)
Total comprehensive income/(expense) for the year		-	-	2,918,886	2,467,428	231,658	(17,137)	2,009	(14,432)	5,588,412
Dividends	9	-	-	(200,000)	-	-	-	-	(3,871)	(203,871)
Share-based compensation		-	2,263	-	-	-	-	-	-	2,263
Capital contribution	29	95,041	-	-	-	-	-	-	-	95,041
Balance at 31 December 2020		2,587,196	10,787	17,009,820	7,679,712	(325,870)	397,886	912	199,154	27,559,597

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\$6,525.0m relates to the fair value gains on available for sale financial assets and US\$910.4m relates to the fair value gains on available for sale financial assets transferred to income on disposal during the year.



Consolidated Statement of Cash Flows

US\$'000	Notes	Year ended 31 December 2021	Year ended 31 December 2020
Cash flows from operating activities			
Profit before tax		3,379,054	3,577,149
Adjustments for:			
Financial investments		(14,746,750)	(15,952,849)
Insurance and investment contract liabilities, and deferred acquisition and origination costs		11,907,327	14,550,869
Obligations under repurchase agreements		40,067	-
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items		(3,079,719)	(3,612,417)
Operating cash items:			
Interest received		3,375,888	3,125,229
Dividends received		436,201	340,872
Interest paid		(16,227)	(28,203)
Tax paid		(304,500)	(574,794)
Net cash provided by operating activities		991,341	1,425,856
Cash flows from investing activities			
Payments for intangible assets	10	(145,852)	(85,116)
Payments for investment property and property, plant and equipment	12, 13	(23,123)	(21,261)
Net cash used in investing activities		(168,975)	(106,377)
Cash flows from financing activities			
Repayments of notes due to ultimate holding company		(273,500)	(820,000)
Repayments of loans due to ultimate holding company		-	(20,000)
Payments for lease liabilities ⁽¹⁾		(71,481)	(80,943)
Dividends paid during the year		(3,858)	(3,871)
Net cash used in financing activities		(348,839)	(924,814)
Net increase in cash and cash equivalents		473,527	394,665
Cash and cash equivalents at beginning of the year		1,321,724	892,558
Effect of exchange rate changes on cash and cash equivalents		(38,746)	34,501
Cash and cash equivalents at end of the year		1,756,505	1,321,724

Note:

(1) The total cash outflow for leases for the year ended 31 December 2021 was US\$72.7m (2020: US\$84.3m).

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

US\$'000	Note	As at 31 December 2021	As at 31 December 2020
Cash and cash equivalents in the consolidated statement of financial position	21	1,847,931	1,416,762
Bank overdrafts		(91,426)	(95,038)
Cash and cash equivalents in the consolidated statement of cash flows		1,756,505	1,321,724



Notes to the Consolidated Financial Statements and Material Accounting Policy Information

1. Corporate information

The principal activities of AIA International Limited (the “Company”) or AIA International Limited and its subsidiaries (the “Group”) are 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, and engaging in administration service for retirement schemes.

The Company was incorporated in Bermuda with limited liability on 16 January 1959 and registered in Hong Kong as a non-Hong Kong company under Part XI of the predecessor Hong Kong Companies Ordinance, Cap 32 (now Part 16 of the Hong Kong Companies Ordinance (Cap. 622)) on 31 August 1984. At the reporting date, the Company was a wholly-owned subsidiary of AIA Company Limited (“AIA Co.”), whose ultimate holding company was AIA Group Limited (“AIA GL”), a company incorporated in Hong Kong and 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 are collectively known as “AIA” or “AIA Group”.

The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Group conducts business through branches and subsidiaries in Hong Kong, South Korea, Macau, New Zealand, Taiwan (China), Indonesia, Vietnam and Cambodia.

2. Material accounting policy information

2.1 Basis of preparation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared using the historical cost convention, as modified by the revaluation of available for sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss, derivative financial instruments, property held for own use and investment properties, all of which are carried at fair value.

The presentation currency of the Group is the US Dollar. The consolidated financial statements are presented in thousands of US Dollars (US\$’000) unless otherwise stated.

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows.

(a) The following standard and amendments are effective for the financial year ended 31 December 2021, 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, an expected credit losses model replaces the incurred loss impairment model under International Accounting Standards 39 (IAS 39).

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity’s risk management strategies. The IASB made further changes to two areas of IFRS 9. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at FVOCI if the cash flow represents solely payments of principal and interest and the financial assets are held within a business model of “hold to collect” or “hold to collect and sell”. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss. The Group is conducting a detailed assessment of the new standard.

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



2. Material accounting policy information (continued)

2.1 Basis of preparation and statement of compliance (continued)

(a) The following standard and amendments are effective for the financial year ended 31 December 2021, but the Group has elected to apply the temporary exemption described further below: (continued)

- 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. On 9 December 2021, the IASB issued the amendment of IFRS 17 relating to the presentation of comparative information of financial assets on initial application of IFRS 17. The amendment adds a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of IFRS 17. The overlay allows all financial assets to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9.
- The Group performed an initial eligibility assessment and met the IFRS 9 requirements for the deferral approach and accordingly has decided to apply IFRS 9 to annual reporting periods beginning 1 January 2023. As the Group has not previously applied any versions of IFRS 9 and the Group’s activities are predominantly connected with insurance at its annual reporting date that immediately precedes 1 April 2016, based on the eligibility assessment that the total carrying amount of liabilities connected with insurance of US\$56,680 million as at 30 November 2015 is greater than 90% of the total carrying amount of all its liabilities. Liabilities connected with insurance included liabilities within the scope of IFRS 4 and investment contract liabilities measured at fair value through profit or loss of US\$5,107 million. Subsequent to the initial eligibility assessment, there has been no change in the Group’s activities that requires a reassessment of the eligibility assessment. Additional information on financial assets in relation to the election of the deferral approach is illustrated per below:

Financial assets of the Group are separated into the following two groups:

- financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) in accordance with IFRS 9 and are not held for trading or managed on fair value basis; and
- all financial assets other than those specified in (i).



2. Material accounting policy information (continued)

2.1 Basis of preparation and statement of compliance (continued)

- (a) The following standard and amendments are effective for the financial year ended 31 December 2021, but the Group has elected to apply the temporary exemption described further below: (continued)

The following tables show the fair value and change in fair value of these two groups of financial assets:

US\$'000	Fair value as at 31 December 2021			Change in fair value for the year ended 31 December 2021		
	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total
Debt securities	92,580,909	2,041,834	94,622,743	(4,708,684)	(92,515)	(4,801,199)
Other financial assets	3,758,922 ⁽¹⁾	33,175,111 ⁽²⁾	36,934,033	-	883,684	883,684
Total⁽³⁾	96,339,831	35,216,945	131,556,776	(4,708,684)	791,169	(3,917,515)

US\$'000	Fair value as at 31 December 2020			Change in fair value for the year ended 31 December 2020		
	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total	Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	Others	Total
Debt securities	92,930,754	1,451,273	94,382,027	6,572,578	42,529	6,615,107
Other financial assets	3,182,742 ⁽¹⁾	26,187,437 ⁽²⁾	29,370,179	-	4,154,278	4,154,278
Total⁽³⁾	96,113,496	27,638,710	123,752,206	6,572,578	4,196,807	10,769,385

Notes:

(1) Balance of other financial assets qualifying as SPPI includes loans and deposits, other receivables, accrued investment income and cash and cash equivalents.

(2) Balance predominantly represents equity shares and interests in investment funds, derivative financial instruments and cash equivalent.

(3) Certain financial assets included within the consolidated financial statements, including policy loans under loans and deposits, reinsurance receivables and insurance receivables under other receivables of US\$2,461m (2020: US\$2,527m) are not included since they will be accounted for under IFRS 17 where its adoption is in parallel with IFRS 9.

The financial assets presented above that met SPPI criteria and not held for trading or managed on fair value basis are primarily debt securities. Additional information on the credit quality analysis of these debt securities is provided in note 16.



2. Material accounting policy information (continued)

2.1 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 ended 31 December 2021 and have no material impact to the Group:
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform Phase 2; and
 - Amendment to IFRS 16, Covid-19-Related Rent Concessions.
- (c) The following relevant new amendments to standards have been issued and are required for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The Group has early adopted the amendments during the financial year ended 31 December 2021:
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies.
- The amendments to IAS 1, Presentation of Financial Statements, require the Group to disclose material accounting policy information rather than significant accounting policies. The amendments to IFRS Practice Statement 2, Making Materiality Judgements, provide guidance and examples on the application of materiality to accounting policies disclosures so as to help identifying accounting policies disclosures that provide material information to users of the financial statements. As a result the Group has refined the accounting policies disclosures to the consolidated financial statements to disclose material accounting policy information. Apart from the changes to the accounting policies disclosures in this note, the adoption of the amendments does not change any of the existing accounting policies application and has no financial impact to the Group.
- (d) The following relevant new amendments to standards have been issued but are not effective for the financial year ended 31 December 2021 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:
- Amendments to IAS 1, Classification of Liabilities as Current or Non-Current (2023);
 - Amendments to IAS 8, Definition of Accounting Estimates (2023);
 - Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction (2023);
 - Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use (2022);
 - Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract (2022);
 - Amendment to IAS 41, Taxation in Fair Value Measurements (2022);
 - Amendment to IFRS 1, First-time Adoption of International Financial Reporting Standards (2022);
 - Amendments to IFRS 3, Reference to the Conceptual Framework (2022); and
 - Amendment to IFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021 (2022).
- (e) The following relevant new standard has been issued but is not effective for the financial year ended 31 December 2021 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 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. On 9 December 2021, the IASB amended IFRS 17 to add a transition option to address the possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. The implementation of IFRS 17 is progressing well. The Group is assessing the impacts on the Group's consolidated financial statements.

The material accounting policies adopted in the preparation of the Group's consolidated financial statements are set out below. These policies have been applied consistently in all periods presented.



2. Material accounting policy information (continued)

2.2 Insurance and investment contracts

Consistent accounting policies for the measurement and recognition of insurance and investment contracts have been adopted throughout the Group, except that in a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction (see note 2.2.3).

Product classification

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. Some insurance and investment contracts, referred to as traditional participating life business, have discretionary participation features (DPF), which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does for insurance contracts. The Group refers to such contracts as traditional participating life business.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39, *Financial Instruments: Measurement and Recognition*, and, if the contract includes an investment management element, IFRS 15, *Revenue from Contracts with Customers*, are applied. IFRS 4 permits the continued use of previously applied accounting policies for insurance contracts and investment contracts with DPF, and this basis has been adopted by the Group in accounting for such contracts. Once a contract has been classified as an insurance or investment contract, reclassification is not subsequently performed unless the terms of the agreement are later amended.

Certain contracts with DPF supplement the amount of guaranteed benefits due to policyholders. These contracts are distinct from other insurance and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Customers may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the Company, fund or other entity that issues the contract.

In some jurisdictions traditional participating life business is written in a participating fund which is distinct from the other assets of the company or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by regulation. Other participating business with distinct portfolios refers to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time. The current policyholder participation ratio applied for recognition and measurement of the insurance contract liabilities for other participating business with distinct portfolios of the Company is 70% - 90% in Hong Kong.

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business without distinct portfolios.



2. Material accounting policy information (continued)

2.2 Insurance and investment contracts (continued)

Product classification (continued)

The Group's products may be divided into the following main categories:

Policy type		Description of benefits payable	Basis of accounting for:	
			Insurance contract liabilities ⁽¹⁾	Investment contract liabilities
Traditional participating life	Participating funds and other participating business with distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities The timing of dividend and bonus declarations is at the discretion of the insurer. For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends. For other participating business with distinct portfolios, the allocation of benefits from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time.	Insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders, assuming all performance would be declared as a dividend based upon current policyholder participation. In addition, deferred profit liabilities for limited payment contracts are recognised.	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
	Other participating business without distinct portfolios	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Insurance contract liabilities make provision for the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised.	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
Non-participating life, annuities and other protection products		Benefits payable are not at the discretion of the insurer	Insurance contract liabilities reflect the present value of future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised	Investment contract liabilities are measured at amortised cost
Universal life		Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Not applicable as such contracts generally contain significant insurance risk
Unit-linked		These may be primarily savings products or may combine savings with an element of protection	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value)

Note:

(1) In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction.

In the notes to the consolidated financial statements, unit-linked contracts are presented together with pension contracts for disclosure purposes.

The basis of accounting for insurance and investment contracts is discussed in notes 2.2.1 and 2.2.2 below.



2. Material accounting policy information (continued)

2.2 Insurance and investment contracts (continued)

2.2.1 Insurance contracts and investment contracts with DPF

Premiums

Premiums from life insurance contracts, including participating policies and annuity policies with life contingencies, are recognised as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognise profits over the estimated life of the policies. For limited pay contracts, premiums are recognised in profit or loss when due, with any excess profit deferred and recognised in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from insurance contracts with investment features but with sufficient insurance risk to be considered insurance contracts, such as universal life, and certain unit-linked contracts, are accumulated as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration, and surrenders during the period.

Upfront fees are recognised over the estimated life of the contracts to which they relate. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Unearned revenue liability

Unearned revenue liability represents upfront fees and other non-level charges that have been collected and released to the consolidated income statement over the estimated life of the business. A separate liability for accumulation value is established.

Deferred profit liability

Deferred profit liability arising from traditional insurance contracts represents excess profits that have been collected and released to the consolidated income statement over the estimated life of the business. A separate liability for future policy benefits is established.

Deferred acquisition costs

The costs of acquiring new insurance contracts, including commissions and distribution costs, underwriting and other policy issue expenses which vary with and are primarily related to the production of new business or renewal of existing business, are deferred as an asset. Deferred acquisition costs are assessed for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. Deferred acquisition costs are assessed for recoverability at least annually thereafter. Future investment income is also taken into account in assessing recoverability. To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in the consolidated income statement.

Deferred acquisition costs for life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

Deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. The interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

In a limited number of cases where the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction, acquisition costs deemed recoverable are included as a component of insurance contract liabilities, and are therefore deferred and amortised over the life of the corresponding policies.

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortised using the same methodology and assumptions used to amortise acquisition costs when:

- the sales inducements are recognised as part of insurance contract liabilities;
- they are explicitly identified in the contract on inception;
- they are incremental to amounts credited on similar contracts without sales inducements; and
- they are higher than the expected ongoing crediting rates for periods after the inducement.

Unbundling

The deposit component of an insurance contract is unbundled when both of the following conditions are met:

- the deposit component (including any embedded surrender option) can be measured separately (i.e. without taking into account the insurance component); and
- the Group's accounting policies do not otherwise require the recognition of all obligations and rights arising from the deposit component.



2. Material accounting policy information (continued)

2.2 Insurance and investment contracts (continued)

2.2.1 Insurance contracts and investment contracts with DPF (continued)

Bifurcation

To the extent that certain of the Group's insurance contracts include embedded derivatives that are not clearly and closely related to the host contract, these are bifurcated from the insurance contracts and accounted for as derivatives.

Benefits and claims

Insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the period, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the period, whether reported or not, related handling costs, a reduction for recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, and are included in operating expenses.

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

Insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies.

Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders.

For contracts with an explicit account balance, such as universal life and unit-linked contracts, insurance contract liabilities are equal to the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges.

Settlement options are accounted for as an integral component of the underlying insurance or investment contract unless they provide annuitisation benefits, in which case an additional liability is established to the extent that the present value of expected annuitisation payments at the expected annuitisation date exceeds the expected account balance at that date. Where settlement options have been issued with guaranteed rates less than market interest rates, the insurance or investment contract liability does not reflect any provision for subsequent declines in market interest rates unless a deficiency is identified through liability adequacy testing.

The Group accounts for insurance contract liabilities for participating business written in participating funds and other participating business with distinct portfolios by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.2 above. The Group accounts for other participating business without distinct portfolios by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

Liability adequacy testing

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Liability adequacy testing is performed for each geographical market.

For traditional life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on acquired insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of deferred acquisition cost and value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortised balance for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

For universal life and investment contracts with DPF, deferred acquisition costs, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, deferred acquisition costs are written down.

Financial guarantees

Financial guarantees are regarded as insurance contracts. Liabilities in respect of such contracts are recognised when loss is incurred.



2. Material accounting policy information (continued)

2.2 Insurance and investment contracts (continued)

2.2.2 Investment contracts

Investment contracts do not contain sufficient insurance risk to be considered insurance contracts and are accounted for as a financial liability, other than investment contracts with DPF which are excluded from the scope of IAS 39 and are accounted for as insurance contracts.

Revenue from these contracts consists of various charges (policy fees, handling fees, management fees and surrender charges) made against the contract for the cost of insurance, expenses and early surrender. First year charges are amortised over the life of the contract as the services are provided.

Investment contract fee revenue

Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognised as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

When part of the fee received from a policyholder is expected to be refunded in the future, the related fee is not recognised as a revenue and a sales inducement liability is established which forms part of the investment contract liabilities.

Origination and other "upfront" fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is recorded at amortised cost, these fees are amortised and recognised over the expected term of the policy as an adjustment to the effective yield. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are amortised and recognised as the services are provided.

Deferred origination costs

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortised over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

The costs of acquiring new investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortised cost of the related investment contract liabilities.

Investment contract liabilities

Deposits received in respect of investment contracts are not accounted for through the consolidated income statement, except for the investment income and fees attributable to those contracts, but are accounted for directly through the consolidated statement of financial position as an adjustment to the investment contract liability, which reflects the account balance.

The majority of the Group's contracts classified as investment contracts are unit-linked contracts, with measurement directly linked to the underlying investment assets. These represent investment portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) with changes recognised in profit or loss. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described under "Investment contract fee revenue" above.

Non unit-linked investment contract liabilities are carried at amortised cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front-end fees, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount. At each reporting date, the unearned revenue liability is determined as the value of the future best estimate cash flows discounted at the effective interest rate. Any adjustment is immediately recognised as income or expense in the consolidated income statement.

The amortised cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

Deferred fee income liability

Deferred fee income liability represents upfront fees and other non-level charges that have been collected and released to the consolidated income statement over the estimated life of the business. A separate liability for accumulation value is established.



2. Material accounting policy information (continued)

2.2 Insurance and investment contracts (continued)

2.2.3 Insurance and investment contracts

Reinsurance

The Group cedes reinsurance in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies.

Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the consolidated income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

The upfront premium rebate received on reinsurance contracts is a reinsurance liability. This liability is initially recognised as a reduction in deferred acquisition and origination costs up to the carrying value of associated deferred acquisition costs or associated value of business acquired, if any, with any excess being recognised in other liabilities. This reinsurance liability is released in line with the release of the underlying insurance contracts. Change in this reinsurance liability during the period is recognised as insurance and investment contract benefits ceded.

Value of business acquired (VOBA)

The VOBA in respect of a portfolio of long-term insurance contracts and investment contracts with DPF, either directly or through the purchase of a subsidiary, is recognised as an asset. If this results from the acquisition of an investment in a joint venture or an associate, the VOBA is held within the carrying amount of that investment. In all cases, the VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated income statement.

Shadow accounting

Shadow accounting is applied to insurance and certain investment contracts with discretionary participation feature where financial assets backing insurance and investment contract liabilities are classified as available for sale. Shadow accounting is applied to deferred acquisition costs, VOBA, deferred origination costs and the contract liabilities for investment contracts with DPF to take into account the effect of unrealised gains or losses on insurance liabilities or assets that are recognised in other comprehensive income in the same way as for a realised gain or loss recognised in the consolidated income statement. Such assets or liabilities are adjusted with corresponding charges or credits recognised directly in shareholders' equity as a component of the related unrealised gains and losses.

Insurance contracts (including investment contracts with DPF) liabilities measured with reference to statutory requirements

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction. The insurance contract liabilities of those countries are predominately measured at the net present value of future receipts from and payments to policyholders. The discount rate applied reflects the current market rate. The excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of service provided to the policyholder. The movement in insurance contract liabilities recognised in the profit or loss reflects the planned release of this margin.

Other assessments and levies

The Group is potentially subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance or investment contract liabilities but are included under "Provisions" in the consolidated statement of financial position.



2. Material accounting policy information (continued)

2.3 Financial instruments

2.3.1 Classification of and designation of financial instruments

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss comprise two categories:

- financial assets or liabilities designated at fair value through profit or loss upon initial recognition; and
- financial assets or liabilities classified as held for trading.

Management designates financial assets and liabilities at fair value through profit or loss if this eliminates a measurement inconsistency or if the related assets and liabilities are actively managed on a fair value basis, including:

- financial assets held to back unit-linked contracts and participating funds;
- other financial assets managed on a fair value basis; consisting of the Group's equity portfolio and investments held by the Group's fully consolidated investment funds; and
- compound instruments containing an embedded derivative, where the embedded derivative would otherwise require bifurcation.

Financial assets and liabilities classified as held for trading include financial assets acquired principally for the purpose of selling them in the near future and those that form part of a portfolio of financial assets in which there is evidence of short-term profit taking, as well as derivative assets and liabilities.

Dividend income from equity instruments designated at fair value through profit or loss is recognised in investment income in the consolidated income statement, generally when the security becomes ex-dividend. Interest income is recognised on an accrued basis. For all financial assets designated at fair value through profit or loss, changes in fair value are recognised in investment experience.

Transaction costs in respect of financial assets and liabilities at fair value through profit or loss are expensed as they are incurred.

Available for sale financial assets

Financial assets, other than those at fair value through profit or loss, and loans and receivables, are classified as available for sale.

The available for sale category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Group's debt securities (other than those backing participating funds and unit-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs. For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the consolidated income statement using the effective interest method.

Unrealised gains and losses on securities classified as available for sale are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary available for sale investments, such as debt securities are calculated as if they were carried at amortised cost and so are recognised in the consolidated income statement as investment experience. For impairments of available for sale financial assets, reference is made to the section "Impairment of financial assets".

Changes in the fair value of securities classified as available for sale, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income and accumulated in a separate fair value reserve within equity. Impairment losses and relevant foreign exchange gains and losses are recognised in the consolidated income statement.

Realised gains and losses on financial assets

Realised gains and losses on available for sale financial assets are determined as the difference between the sale proceeds and its original cost or amortised cost as appropriate. Amortised cost is determined by specific identification.

Recognition of financial instruments

Purchases and sales of financial instruments are recognised on the trade date, which is the date at which the Group commits to purchase or sell the assets.

Derecognition and offset of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Group is exposed to changes in the fair value of the asset.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.



2. Material accounting policy information (continued)

2.3 Financial instruments (continued)

2.3.1 Classification of and designation of financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from loans and receivables is recognised in investment income in the consolidated income statement using the effective interest method.

Term deposits

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Certain of these balances are subject to regulatory or other restriction as disclosed in note 16. Deposits are stated at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments held for cash management purposes, which have maturities at acquisition of three months or less, or are convertible into known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include cash received as collateral for derivative transactions, and repo and reverse repo transactions, as well as cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products. Cash and cash equivalents are measured at amortised cost using the effective interest method.

2.3.2 Fair values of non-derivative financial instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, having regard to the specific characteristics of the asset or liability concerned, assuming that the transfer takes place in the most advantageous market to which the Group has access. The fair values of financial instruments traded in active markets (such as financial instruments at fair value through profit or loss and available for sale securities) are based on quoted market prices at the date of the consolidated statement of financial position. The quoted market price used for financial assets held by the Group is the current bid price, which is considered to be the price within the bid-ask spread that is most representative of the fair value in the circumstances. The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions at the date of each consolidated statement of financial position. The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place between market participants at the date of the consolidated statement of financial position.

Financial instruments carried at fair value are measured using a fair value hierarchy described in note 18.

2.3.3 Impairment of financial assets

General

Financial assets are assessed for impairment on a regular basis. The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that objective evidence of impairment does not exist for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Available for sale financial instruments

When a decline in the fair value of an available for sale asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss already recognised directly in other comprehensive income is recognised in current period profit or loss.

If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Where, following the recognition of an impairment loss in respect of an available for sale debt security, the asset suffers further falls in value, such further falls are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.



2. Material accounting policy information (continued)

2.3 Financial instruments (continued)

2.3.3 Impairment of financial assets (continued)

Loans and receivables

For loans and receivables, impairment is considered to have taken place if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount is decreased through a charge to profit or loss. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognised as an impairment loss in profit or loss.

2.3.4 Derivative financial instruments

Derivative financial instruments primarily include foreign exchange and interest rate contracts that derive their value mainly from underlying foreign exchange rates and interest rates. All derivatives are initially recognised in the consolidated statement of financial position at their fair value, which represents their cost excluding transaction costs, which are expensed, giving rise to a day one loss. They are subsequently remeasured at their fair value, with movements in this value recognised in profit or loss. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative instruments for economic hedging

Whilst the Group enters into derivative transactions to provide economic hedges under the Group's risk management framework, it adopts hedge accounting to these transactions only in limited circumstances. This is either because the transactions would not meet the specific IFRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. Where hedge accounting does not apply, these transactions are treated as held for trading and fair value movements are recognised immediately in investment experience.

Cash flow hedge

The Group has, in a limited number of cases, designated certain derivatives as hedges of interest rate risk associated with the cash flows of highly probable forecast transactions such as forecast purchases of debt securities. To the extent these hedges are effective, the change in fair value of the derivatives designated as hedging instruments is recognised in the cash flow hedge reserve in other comprehensive income within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss when the hedged item affects profit or loss. In respect of a forecast purchase of a debt security classified as available for sale, the cash flows are expected to affect profit or loss when the coupons from the purchased bonds are recognised, or on disposal of the security. The application of hedge accounting is discontinued when one of the following situations occurs: when a derivative designated as the hedging instrument expires or is sold, terminated or exercised prior to the occurrence of the forecast transaction, when the hedge is no longer highly effective or expected to be highly effective, or when the Group revokes the designation of the hedging relationship. In these situations, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. This amount is reclassified to profit or loss when the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the entire amount is reclassified immediately to profit or loss.

Embedded derivatives

Embedded derivatives are derivatives embedded within other non-derivative host financial instruments to create hybrid instruments. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss, the embedded derivative is bifurcated and carried at fair value as a derivative in accordance with IAS 39.

2.4 Presentation of the consolidated statement of financial position

The Group's insurance and investment contract liabilities and related assets are realised and settled over periods of several years, reflecting the long-term nature of the Group's products. Accordingly, the Group presents the assets and liabilities in its consolidated statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Group regards its intangible assets, investments in associates, property, plant and equipment, investment property and deferred acquisition and origination costs as non-current assets as these are held for the longer-term use of the Group.



3. Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, and revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

Items that are considered particularly sensitive to changes in estimates and assumptions, and the relevant accounting policies are those which relate to product classification, insurance contract liabilities (including liabilities in respect of investment contracts with DPF), deferred acquisition and origination costs, liability adequacy testing, fair value measurement, and impairment of goodwill and other intangible assets.

3.1 Product classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.2.

3.2 Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

The Group calculates the insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, policyholder dividends (for other participating business without distinct portfolios), surrenders and expenses set at the policy inception date. These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by geographical market, year of issuance and product. Mortality, morbidity, surrender and expense assumptions are based on actual experience by each geographical market, modified to allow for variations in policy form. The Group exercises significant judgement in making appropriate assumptions.

For contracts with an explicit account balance, such as universal life and unit-linked contracts, insurance contract liabilities represent the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges. Significant judgement is exercised in making appropriate estimates of gross profits which are based on historical and anticipated future experiences, these estimates are regularly reviewed by the Group.

The Group accounts for insurance contract liabilities for participating business written in participating funds and other participating business with distinct portfolios by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.2. Establishing these liabilities requires the exercise of significant judgement. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The Group accounts for other participating business without distinct portfolios by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction. The insurance contract liabilities of those countries are predominately measured at the net present value of future receipts from and payments to policyholders. The discount rate applied reflects the current market rate. Significant judgement is exercised in making appropriate assumptions of the cash flows.

The judgements exercised in the valuation of insurance contract liabilities (including investment contracts with DPF) affect the amounts recognised in the consolidated financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.2, 22 and 24.



3. Critical accounting estimates and judgements (continued)

3.3 Deferred acquisition and origination costs

The judgements exercised in the deferral and amortisation of acquisition and origination costs affect amounts recognised in the consolidated financial statements as deferred acquisition and origination costs and insurance and investment contract benefits.

As noted in note 2.2.1, deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As noted in note 2.2.1, deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. As noted in note 3.2, significant judgement is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

Additional details of deferred acquisition and origination costs are provided in notes 2.2 and 15.

3.4 Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF at least annually. Significant judgement is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed by portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. The Group performs liability adequacy testing separately for each geographical market.

The judgements exercised in liability adequacy testing affect amounts recognised in the consolidated financial statements as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and insurance and investment contract liabilities.

3.5 Fair value measurement

3.5.1 Fair value of financial assets

The Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgement is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

The degree of judgement used in measuring the fair value of financial assets generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Changes in the fair value of financial assets held by the Group's participating funds and other participating business with distinct portfolios affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the proportion of the net assets of the participating funds and other participating business with distinct portfolios that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon policyholder participation as described in note 2.2. Both of the foregoing changes are reflected in the consolidated income statement, except for those relating to other participating business with distinct portfolios which recognise a portion of an amount due to changes in fair value of available for sale financial assets and properties held for own use that are recognised in other comprehensive income.

Changes in the fair value of financial assets held to back the Group's unit-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in the consolidated income statement.

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 18 and 32.

3.5.2 Fair value of property held for own use and investment property

The Group uses independent professional valuers to determine the fair value of properties on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. In most cases, current use of the properties is considered to be the highest and best use for determining the fair value. Different valuation techniques may be adopted to reach the fair value of the properties. Under the Market Data Approach, records of recent sales and offerings of similar property are analysed and comparisons are made for factors such as size, location, quality and prospective use. For investment properties, the discounted cash flow approach may be used by reference to net rental income allowing for reversionary income potential to estimate the fair value of the properties. On some occasions, the cost approach is used as well to calculate the fair value which reflects the cost that would be required to replace the service capacity of the property.

Further details of the fair value measurement of property held for own use and investment property are provided in note 18.



3. Critical accounting estimates and judgements (continued)

3.6 Impairment of goodwill and other intangible assets

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units or groups of cash-generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). The determination of the recoverable amount requires significant judgement regarding the selection of appropriate valuation techniques and assumptions. Further details of the impairment of goodwill during the year are provided in note 10.

4. Premiums and fee income

Included in premium and fee income of US\$79m (2020: US\$91m) is fee income for investment contracts without DPF that refers to fees charged for the provision of investment management services for investment contracts without DPF, which usually vary with the amounts being managed, and the release of deferred fee income. For the investment management service fee charged, revenue is recognised as services are provided and the fees are deducted from the customers' account balances.

Generally, a customer can cancel an investment contract without DPF at any time after contract inception, subject to a surrender charge which is not a significant component of revenue.

5. Total weighted premium income

For management decision-making and internal performance management purposes, the Group measures business volumes during the year using a performance measure referred to as total weighted premium income (TWPI). TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

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

	Year ended 31 December 2021	Year ended 31 December 2020
US\$'000		
TWPI	16,188,516	17,176,808
First year premiums	1,343,925	1,535,003
Single premiums	3,379,331	2,347,952
Renewal premiums	14,506,658	15,407,010



6. Revenue

Investment return

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Interest income	3,397,747	3,218,894
Dividend income	437,643	334,907
Rental income ⁽¹⁾	103,266	107,807
Investment income	3,938,656	3,661,608
Available for sale		
Net realised gains from debt securities	1,572,496	910,351
Net gains of available for sale financial assets reflected in the consolidated income statement	1,572,496	910,351
At fair value through profit or loss		
Net (losses)/gains of debt securities	(87,169)	59,301
Net gains of equity shares and interests in investment funds	413,929	3,139,192
Net fair value movement on derivatives	469,755	1,015,086
Net gains in respect of financial instruments at fair value through profit or loss	796,515	4,213,579
Net fair value movement of investment property	36,584	(213,722)
Net foreign exchange (losses)/gains	(106,634)	44,650
Other net realised losses	(91,686)	(6,884)
Investment experience	2,207,275	4,947,974
Investment return	6,145,931	8,609,582

Note:

(1) Represents rental income from operating leases contracts in which the Group acts as a lessor.

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

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Foreign exchange gains/(losses)	85,656	(125,344)

Other operating revenue

The balance of other operating revenue largely consists of membership fees.



7. Expenses

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Insurance contract benefits	5,072,971	4,536,035
Change in insurance contract liabilities	10,720,701	13,489,209
Investment contract benefits	47,189	722,388
Insurance and investment contract benefits	15,840,861	18,747,632
Insurance and investment contract benefits ceded	(770,121)	(747,772)
Insurance and investment contract benefits, net of reinsurance ceded	15,070,740	17,999,860
Commission and other acquisition expenses incurred	2,084,767	2,192,970
Deferral and amortisation of acquisition costs	147,776	41,653
Commission and other acquisition expenses	2,232,543	2,234,623
Employee benefit expenses	455,522	475,834
Depreciation	96,928	106,379
Amortisation	25,967	20,408
Other operating expenses ⁽¹⁾	475,200	379,135
Operating expenses	1,053,617	981,756
Investment management expenses and others	339,053	319,571
Depreciation on property held for own use	14,508	13,914
Restructuring and other non-operating costs ⁽²⁾	74,042	61,388
Other expenses	427,603	394,873
Finance costs	31,299	33,313
Total	18,815,802	21,644,425

Other operating expenses include auditors' remuneration of US\$7.6m (2020: US\$4.9m).

Notes:

(1) Includes payments for short-term leases of US\$1.2m (2020: US\$3.3m).

(2) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of corporate transaction related costs and implementation costs for new accounting standards.

Depreciation consists of:

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Computer hardware, fixture and fittings and others	28,512	28,963
Right-of-use assets		
Property held for own use	68,115	77,014
Fixtures and fittings and others	301	402
Total	96,928	106,379

Finance costs may be analysed as:

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Obligations under repurchase agreements	73	46
Other loans	27,806	28,867
Lease liabilities	3,420	4,400
Total	31,299	33,313



7. Expenses (continued)

Employee benefit expenses consist of:

	Year ended 31 December 2021	Year ended 31 December 2020
US\$'000		
Wages and salaries	384,708	402,580
Share-based compensation	9,083	16,053
Pension costs - defined contribution plans	21,166	18,809
Pension costs - defined benefit plans	2,650	4,983
Other employee benefit expenses	37,915	33,409
Total	455,522	475,834

8. Income tax

	Year ended 31 December 2021	Year ended 31 December 2020
US\$'000		
Tax charged in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	163,141	149,665
Current income tax – overseas	120,758	394,918
Deferred income tax on temporary differences	35,671	128,682
Total	319,570	673,265

Corporate income tax

The provision for Hong Kong Profits Tax is calculated at 16.5 per cent (2020: 16.5 per cent). Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below.

	Year ended 31 December 2021	Year ended 31 December 2020
Hong Kong	16.5%	16.5%
Macau	12%	12%
South Korea	27.5%	27.5%
New Zealand	28%	28%
Taiwan (China)	20%	20%
Indonesia	22%	22%
Vietnam	20%	20%

The table above reflects the principal rate of corporate income tax, as at the end of the year. The rates reflect the enacted or substantively enacted corporate tax rates throughout the year in each jurisdiction.

AIA Korea is currently subject to an effective corporate income tax of 27.5 per cent, which includes an Accumulated Earnings Tax. Based on current regulations, the corporate income tax rate will revert to 24.2 per cent from 1 January 2023.

Starting from 2020 onwards, the Indonesian government enacted a change in the corporate income tax rate from 25 per cent to 22 per cent.



8. Income tax (continued)

Withholding tax on dividends

In some jurisdictions where the Group operates, dividends remitted by subsidiaries to the Group are subject to withholding tax. The Group recognises deferred tax liabilities in respect of unremitted earnings of operations in jurisdictions where withholding tax charge would be incurred upon dividend distribution. The withholding tax rates in the relevant jurisdictions are set out below:

	Year ended 31 December 2021	Year ended 31 December 2020
South Korea	10%	10%
Indonesia	5%	5%

	Year ended 31 December 2021	Year ended 31 December 2020
US\$'000		

Income tax reconciliation

Profit before income tax	3,379,054	3,577,149
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	593,923	603,380
Reduction in tax payable from:		
Life insurance tax ⁽¹⁾	(323,851)	(313,419)
Exempt investment income	(18,102)	(11,973)
Change in tax rate and law	-	(8,346)
	(341,953)	(333,738)
Increase in tax payable from:		
Disallowed expenses	7,305	20,504
Amounts under-provided in prior years	1,945	111,233
Unrecognised deferred tax assets	2,034	1,954
Provision for uncertain tax position ⁽²⁾	414	192,332
Withholding taxes	18,161	11,468
Others	37,741	66,132
	67,600	403,623
Total income tax expense	319,570	673,265

Notes:

- (1) Life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.
- (2) Provisions for uncertain tax positions relate to situations where the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities. Provisions are recognised based on management's judgement and best estimate in relation to the probability or likelihood of certain outcomes arising, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.



8. Income tax (continued)

The movement in net deferred tax liabilities during the year may be analysed as set out below:

US\$'000	Net deferred tax (liability)/asset at 1 January	(Charged)/ Credited to the consolidated income statement	Credited / (Charged) to other comprehensive income			Net deferred tax (liability)/asset at year-end
			Fair value reserve ⁽¹⁾	Foreign exchange	Others	
31 December 2021						
Revaluation of financial instruments	(576,349)	62,996	340,317	5,475	-	(167,561)
Deferred acquisition costs	(959,473)	39,589	-	35,616	-	(884,268)
Insurance and investment contract liabilities	(400,985)	(19,438)	-	25,777	-	(394,646)
Withholding taxes	(77,340)	(19,794)	-	5,948	-	(91,186)
Provision for expenses	27,812	(13,215)	-	(1,284)	1	13,314
Losses available for offsetting against future taxable income	111,067	(43,219)	-	(2,638)	-	65,210
Others	(131,069)	(42,590)	-	5,590	(1,366)	(169,435)
Total	(2,006,337)	(35,671)	340,317	74,484	(1,365)	(1,628,572)

US\$'000	Net deferred tax (liability)/asset at 1 January	Credited/ (Charged) to the consolidated income statement	Credited / (Charged) to other comprehensive income			Net deferred tax (liability)/asset at year end
			Fair value reserve ⁽¹⁾	Foreign exchange	Others	
31 December 2020						
Revaluation of financial instruments	(492,989)	(101,346)	14,620	3,366	-	(576,349)
Deferred acquisition costs	(899,890)	(22,609)	-	(36,974)	-	(959,473)
Insurance and investment contract liabilities	(323,180)	(37,352)	-	(40,453)	-	(400,985)
Withholding taxes	(73,411)	(2,668)	-	(1,261)	-	(77,340)
Provision for expenses	35,039	(8,048)	-	719	102	27,812
Losses available for offsetting against future taxable income	37,971	69,195	-	3,901	-	111,067
Others	(99,479)	(25,854)	-	(4,070)	(1,666)	(131,069)
Total	(1,815,939)	(128,682)	14,620	(74,772)	(1,564)	(2,006,337)

Note:

- (1) Of the fair value reserve deferred tax (credit)/charge of US\$(340.3)m for the year ended 31 December 2021 (2020: US\$(14.6)m), US\$(328.0)m (2020: US\$(2.6)m) relates to fair value losses on available for sale financial assets and US\$(12.3)m (2020: US\$12.0m) relates to fair value losses on available for sale financial assets transferred to income on disposal and impairment.

The principal temporary differences arise from the basis of recognition of insurance and investment contract liabilities, revaluation of certain financial assets and liabilities including derivative contracts, deferred acquisition costs and the future taxes arising on the surplus in life funds where the relevant local tax regime is distributions-based.

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The Group has not recognised deferred tax assets of US\$11m (2020: US\$28m) on tax losses and the temporary difference on insurance and investment contract liabilities arising from different accounting and statutory/tax reserving methodology for certain branches and subsidiaries on the basis that they have histories of tax losses and there is insufficient evidence that future profits will be available.

The Group has not provided deferred tax liabilities of US\$110m (2020: US\$121m) in respect of unremitted earnings of operations in South Korea from which a withholding tax charge would be incurred upon distribution as the Group does not consider it probable that this portion of accumulated earnings will be remitted in the foreseeable future.

The Group has unused tax losses carried forward in Cambodia, Hong Kong, Macau, New Zealand and Taiwan (China). The tax losses of Hong Kong and New Zealand can be carried forward indefinitely. The tax losses of Macau, Cambodia and Taiwan (China) are due to expire within the year ending 2024, 2026 and 2030 respectively.



9. Dividends

Dividends to shareholders of the Group attributable to the year:

	Year ended 31 December 2021	Year ended 31 December 2020
US\$'000		
Interim dividend declared of 123.08 US Dollar per share (2020: 66.67 US Dollar per share)	800,000	200,000
No final dividend proposed after the reporting date (2020: Nil)	-	-
Total	800,000	200,000

Interim dividends on ordinary shares are recognised when they have been approved by directors. Final dividends on ordinary shares are recognised when they have been approved by shareholders.

Dividends were settled upon issuance of promissory notes during the year ended 31 December 2021 and 2020. These promissory notes are presented as notes due to ultimate holding company on the Group's Statement of Financial Position. Further information relating to interest rates and the maturity profile of these promissory notes are presented in note 32.

10. Intangible assets

US\$'000	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 January 2020	235,539	173,481	506,464	915,484
Additions	-	37,060	114	37,174
Disposals	-	(7,604)	-	(7,604)
Foreign exchange movements	14,711	4,367	(940)	18,138
At 31 December 2020	250,250	207,304	505,638	963,192
Additions ⁽¹⁾	-	64,767	238,069	302,836
Disposals and derecognition	-	(3,063)	(122,616)	(125,679)
Foreign exchange movements	(11,183)	(5,694)	359	(16,518)
At 31 December 2021	239,067	263,314	621,450	1,123,831
Accumulated amortisation				
At 1 January 2020	(4,201)	(95,376)	(76,245)	(175,822)
Amortisation charge for the year	-	(20,180)	(26,967)	(47,147)
Disposal	-	4,898	-	4,898
Foreign exchange movements	58	(1,997)	93	(1,846)
At 31 December 2020	(4,143)	(112,655)	(103,119)	(219,917)
Amortisation charge for the year	-	(25,789)	(25,337)	(51,126)
Disposals and derecognition	-	21	33,609	33,630
Foreign exchange movements	58	3,755	4,252	8,065
At 31 December 2021	(4,085)	(134,668)	(90,595)	(229,348)
Net book value				
At 31 December 2020	246,107	94,649	402,519	743,275
At 31 December 2021	234,982	128,646	530,855	894,483

Note:

(1) During the year, the Company's parent company, AIA Co., reached an agreement with The Bank of East Asia, Limited (BEA) to acquire BEA Life Limited (subsequently renamed as AIA Everest Life Company Limited) and enter into an exclusive, long-term bancassurance partnership for a 15-year period. The agreement provided for a consideration of approximately US\$655m to BEA. As part of this transaction, the Company further entered into a local agreement with BEA for distributing its products in Hong Kong. The Company capitalised US\$237m as an intangible asset with a corresponding increase of US\$38m and US\$199m in other liabilities and capital contribution, respectively, as a result of these agreements.



10. Intangible assets (continued)

Intangible assets in this note exclude deferred acquisition and origination costs, which are separately disclosed with further details provided in note 15.

The Group holds other intangible assets for its long-term use and, accordingly, the annual amortisation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

Impairment tests for goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill arises primarily in respect of the Group's insurance businesses in Indonesia of US\$71m (2020: US\$72m) and New Zealand of US\$164m (2020: US\$174m). Goodwill is tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). If the recoverable amount of the unit (group of units) exceeds the carrying amount of the unit (group of units), the goodwill allocated to that unit (group of units) shall be regarded as not impaired. The recoverable amount is the value in use of the cash-generating unit (group of units) unless otherwise stated.

Value in use is determined by calculating as an actuarially determined appraisal value, based on embedded value of the business and the present value of expected future new business of the cash-generating unit (group of units). The present value of expected future new business is based on financial budgets approved by management, typically covering a three-year period unless otherwise stated. These financial budgets reflect management's best estimate of future profit based on historical experience and best estimate operating assumptions such as premium and expenses. Further, the present value of expected future new business beyond this initial three-year period are extrapolated using a perpetual growth rate, which typically does not exceed the long-term expected Gross Domestic Product (GDP) growth of the geographical area in which the cash flows supporting the goodwill are generated.

The key assumptions used in the embedded value calculations include risk discount rate, investment returns, mortality, morbidity, persistency, expenses and inflation. The present value of expected future new business is calculated based on a combination of indicators which include, among others, taking into account recent production mix, business strategy, market trends and risk associated with the future new business projections. The risk discount rates that are used in the value-in-use of in-force business and present value of expected future new business ranges from 9.1 per cent to 13.0 per cent (2020: 8.6 per cent to 13.0 per cent) and the perpetual growth rates for future new business cash flows of 3 per cent was used, where applicable, to extrapolate the present value of expected future new business beyond the initial three year period, the rate was determined by reference to the long-term expected GDP growth of the geographical area in which the cash flows supporting the goodwill are generated. The Group may apply alternative methods to estimate the value of future new business if the described method is not appropriate under the circumstances.

11. Investments in associates

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Unlisted shares	610,496	558,964

Associates are entities over which the Group has significant influence, but which it does not control or joint control. Generally, it is presumed that the Group has significant influence if it has between 20 per cent and 50 per cent of voting rights.

Investments in associates are accounted for using the equity method of accounting. Goodwill arising on associates is included within the carrying value of those investments. These are held for their long-term contribution to the Group's performance, therefore all amounts are expected to be realised more than 12 months after the end of the reporting period.

The Group's interests in its principal associates are as follows:

				Group's interest % As at 31 December 2021	As at 31 December 2020
	Place of incorporation	Principal activity	Type of shares held		
AIA Company (Trustee) Limited	Hong Kong	Trusteeship	Ordinary	20%	20%
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	49%	49%



11. Investments in associates (continued)

Aggregated financial information of associates

The investments in the associates are measured using the equity method. The following table analyses, in aggregate, the carrying amount and share of profit and other comprehensive income of these associates.

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Carrying amount in the statement of financial position	610,496	558,964
Loss from continuing operations	(11,317)	(13,925)
Other comprehensive income/(expenses)	47,985	(16,462)
Total comprehensive income/(expenses)	36,668	(30,387)

12. Property, plant and equipment

US\$'000	Property held for own use	Computer hardware	Fixtures and fittings	Total
Cost or revaluation				
At 1 January 2020	1,092,294	58,705	157,599	1,308,598
Additions	48,661	12,110	13,274	74,045
Disposals	(35,984)	(2,658)	(22,150)	(60,792)
Net transfers from investment property	(1,086)	-	-	(1,086)
Decrease from valuation	(54,290)	-	-	(54,290)
Foreign exchange movements	7,706	766	(184)	8,288
At 31 December 2020	1,057,301	68,923	148,539	1,274,763
Additions	60,625	11,374	14,482	86,481
Disposals	(69,336)	(1,544)	(9,362)	(80,242)
Net transfers from investment property	10,236	-	-	10,236
Increase from valuation	14,667	-	-	14,667
Foreign exchange movements	(9,661)	(1,570)	(2,079)	(13,310)
At 31 December 2021	1,063,832	77,183	151,580	1,292,595
Accumulated depreciation				
At 1 January 2020	(54,934)	(42,875)	(105,833)	(203,642)
Depreciation charge for the year	(90,877)	(9,541)	(19,875)	(120,293)
Disposals	30,806	2,150	19,943	52,899
Revaluation adjustment	13,754	-	-	13,754
Foreign exchange movements	(1,198)	(370)	1,192	(376)
At 31 December 2020	(102,449)	(50,636)	(104,573)	(257,658)
Depreciation charge for the year	(82,625)	(10,169)	(18,642)	(111,436)
Disposals	65,242	1,451	8,473	75,166
Revaluation adjustment	14,324	-	-	14,324
Foreign exchange movements	981	1,141	1,847	3,969
At 31 December 2021	(104,527)	(58,213)	(112,895)	(275,635)
Net book value				
At 31 December 2020	954,852	18,287	43,966	1,017,105
At 31 December 2021	959,305	18,970	38,685	1,016,960



12. Property, plant and equipment (continued)

The Group leases various properties, computer hardware, fixtures, fittings and other small items as a lessee. These leases, except for short-term leases and leases of low-value assets, are recognised as right-of-use assets and lease liabilities at the date at which the leased assets are available for use by the Group. Right-of-use assets are presented as a component of property, plant and equipment or investment property while lease liabilities are presented as a component of other liabilities (see notes 28). The depreciation charge for right-of-use assets, by class of underlying asset, and finance cost on lease liabilities are disclosed in note 7. Assets and liabilities arising from a lease are initially measured on a present value basis. A maturity analysis of the Group's lease liabilities is disclosed in note 32.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Right-of-use assets in relation to leases are reported within property, plant and equipment. The carrying amount of right-of-use assets, by class of underlying asset, is set out below:

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Property held for own use	654,293	640,509
Fixtures and fittings and others	1,516	1,842
Total	655,809	642,351

Additions to right-of-use assets for the year ended 31 December 2021 were US\$61m (2020: US\$50m).

Properties held for own use and right-of-use assets with respect to the Group's interest in leasehold land and land use rights associated with property held for own use are carried at fair value at the reporting date less accumulated depreciation. The fair value at the reporting date is determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 18. All other property, plant and equipment and right-of-use assets in relation to other leased property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

During the year, no expenditure (2020: nil) recognised in the carrying amount of property held for own use was in the course of its construction. Increase from revaluation on property held for own use of US\$29m (2020: Decrease of US\$41m) were taken to other comprehensive income, of which US\$20m was related to right-of-use assets (2020: US\$30m).

If property held for own use (excluding right-of-use assets) were stated on a historical cost basis, the carrying value would be US\$152m (2020: US\$162m). Similarly, stated on a historical basis the carrying value of the right-of-use assets related to the Group's interest in leasehold land and land use rights associated with property held for own use would be US\$526m (2020: US\$521m). The Group holds property, plant and equipment for its long-term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.



13. Investment property

US\$'000	Total
Fair value	
At 1 January 2020	3,131,663
Additions and capitalised subsequent expenditures	635
Disposal	(330)
Net transfers to property, plant and equipment	1,086
Fair value losses	(213,722)
Foreign exchange movements	28,742
At 31 December 2020	2,948,074
Additions and capitalised subsequent expenditures	523
Disposal	(36)
Net transfers to property, plant and equipment	(10,236)
Fair value gains	36,584
Foreign exchange movements	(39,141)
At 31 December 2021	2,935,768

Investment property, including land and buildings, is initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. The fair value at the reporting date are determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 18.

The Group leases out its investment property under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every one to five years to reflect market rentals. There were no material contingent rentals earned as income for the period. Rental income generated from investment property amounted to US\$103.3m (2020: US\$107.8m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US\$15.2m (2020: US\$14.3m).

The Group owns investment property in the form of freehold land outside Hong Kong and leasehold land. Leasehold land which is held for long-term rental or capital appreciation or both that is not occupied by the Group is classified as investment property. They are leased out under operating leases and are initially recognised as right-of-use assets at cost, with changes in fair values in subsequent periods recognised in the consolidated income statement. The Group does not hold freehold land in Hong Kong.

The future undiscounted lease payments under operating leases that the Group expects to receive in future periods may be analysed as follows:

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Leases of investment property classified as operating leases		
Expiring no later than one year	77,639	72,958
Expiring later than one year and no later than two years	57,033	58,189
Expiring later than two years and no later than three years	47,121	33,205
Expiring later than three years and no later than four years	18,292	27,213
Expiring later than four years and no later than five years	2,619	4,550
Expiring after five years or more	1,942	2,951
Total undiscounted lease receipts	204,646	199,066



14. Reinsurance assets

US\$'000	Note	As at 31 December 2021	As at 31 December 2020
Amounts recoverable from reinsurers		353,482	265,642
Ceded insurance and investment contract liabilities	22	445,096	455,378
Total⁽¹⁾		798,578	721,020

Note:

(1) Including US\$608m (2020: US\$534m) which is expected to be recovered within 12 months after the end of the reporting period.

15. Deferred acquisition and origination costs

US\$'000	As at 31 December 2021	As at 31 December 2020
Carrying amount		
Deferred acquisition costs on insurance contracts	11,686,154	11,676,086
Deferred origination costs on investment contracts	179,119	202,648
Total	11,865,273	11,878,734
Movements in the year		
At beginning of financial year	11,878,734	11,964,905
Deferral and amortisation of acquisition and origination costs	(104,630)	(19,293)
Foreign exchange movements	(181,404)	144,490
Impact of assumption changes	(43,146)	(22,203)
Other movements	315,719	(189,165)
At end of financial year	11,865,273	11,878,734

Deferred acquisition and origination costs are expected to be recoverable over the mean term of the Group's insurance and investment contracts, and liability adequacy testing is performed at least annually to confirm their recoverability. Accordingly, the annual amortisation charge, which varies with investment performance for certain universal life and unit-linked products, approximates to the amount which is expected to be realised within 12 months after the end of the reporting period.



16. Financial investments

The following tables analyse the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Unit-linked Investments and Policyholder and Shareholder Investments. The investment risk in respect of Unit-linked Investments is generally wholly borne by our customers, and does not directly affect the profit for the year before tax. Furthermore, unit-linked contract holders are responsible for allocation of their policy values amongst investment options offered by the Group. Although profit for the year before tax is not affected by Unit-linked Investments, the investment return from such financial investments is included in the Group's profit for the year before tax, as the Group has elected the fair value option for all Unit-linked Investments with corresponding changes in insurance and investment contract liabilities for unit-linked contracts. Policyholder and Shareholder Investments include all financial investments other than Unit-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

Policyholder and shareholder investments are further categorised as participating funds, other participating business with discretionary expected sharing with policyholders and underlying distinct investment portfolios ("Other participating business with distinct portfolios") and other policyholder and shareholder. Other participating business with distinct portfolios refers to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.

The reason for separately analysing financial investments held by participating funds and other participating business with distinct portfolios is that participating funds are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends and for other participating business with distinct portfolios it is, as explained above, expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected the fair value option for debt securities, equity shares and interests in investment funds of participating funds. For other participating business with distinct portfolio, the Group has elected the fair value option for equity shares and interests in investment funds and the available for sale classification for the majority of debt securities. The Group's accounting policy is to record an insurance liability for the proportion of net assets of the participating funds and other participating business with distinct portfolio that would be allocated to policyholders assuming all performance would be declared as a dividend based upon policyholder participation as at the date of the consolidated statement of financial position as described in note 2.3. As a result, the Group's net profit before tax for the year is impacted by the proportion of investment return that would be allocated to shareholders as described above.

Other policyholder and shareholder investments are distinct from unit-linked investments, participating funds and other participating business with distinct portfolios as there is not any direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders or it is not expected that the policyholder will receive at the discretion of the insurer additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected to apply the fair value option for equity shares and interests in investment funds in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Group's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Group's accounting policy for insurance and certain investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments either is not allocated to participating contracts or varies from the best estimates, it will impact the Group's profit before tax.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available for sale.

Debt securities

In compiling the tables, external ratings have been used in accordance with the Group's credit risk assessment framework. Where external ratings are not readily available an internal rating methodology has been adopted, if applicable.

Credit risk limits are set according to the Group's credit risk assessment framework, which define the relative risk level of a debt security.

External ratings		Internal ratings	Reported as
Standard and Poor's and Fitch	Moody's		
AAA	Aaa	1	AAA
AA+ to AA-	Aa1 to Aa3	2+ to 2-	AA
A+ to A-	A1 to A3	3+ to 3-	A
BBB+ to BBB-	Baa1 to Baa3	4+ to 4-	BBB
BB+ and below	Ba1 and below	5+ and below	Below investment grade



16. Financial investments (continued)

Debt securities (continued)

Debt securities by type comprise the following:

US\$'000	Policyholder and shareholder				Subtotal	Unit-linked FVTPL	Consolidated investment funds ⁽⁷⁾ FVTPL	Total
	Participating funds and other participating business with distinct portfolios ⁽⁶⁾ FVTPL	AFS	Other policyholder and shareholder FVTPL	AFS				
31 December 2021								
Government bonds⁽¹⁾								
South Korea	-	-	-	7,270,806	7,270,806	282,723	-	7,553,529
Other	354,758	-	326,890	1,496,579	2,178,227	143,646	-	2,321,873
Sub-total	354,758	-	326,890	8,767,385	9,449,033	426,369	-	9,875,402
Other government and government agency bonds⁽²⁾								
AAA	4,083	689,181	6,628	86,806	786,698	1,820	73,560	862,078
AA	236	1,272,322	2,280	2,356,417	3,631,255	13,674	62,263	3,707,192
A	-	1,580,103	3,144	1,411,900	2,995,147	-	55,819	3,050,966
BBB	13,242	851,550	49,880	1,294,179	2,208,851	1,668	-	2,210,519
Below investment grade	-	23,258	12,631	264,315	300,204	2,345	-	302,549
Not rated	-	-	-	-	-	-	-	-
Sub-total	17,561	4,416,414	74,563	5,413,617	9,922,155	19,507	191,642	10,133,304
Corporate bonds								
AAA	-	632,946	-	73,840	706,786	8,327	9,431	724,544
AA	-	3,217,951	438	1,635,842	4,854,231	1,010	52,618	4,907,859
A	-	20,234,155	58,929	12,613,132	32,906,216	4,840	395,749	33,306,805
BBB	-	20,987,194	88,464	12,484,989	33,560,647	11,113	30,391	33,602,151
Below investment grade	-	221,884	809	646,568	869,261	110	-	869,371
Not rated	-	-	3,129	-	3,129	7,550	8,973	19,652
Sub-total	-	45,294,130	151,769	27,454,371	72,900,270	32,950	497,162	73,430,382
Structured securities⁽³⁾								
AAA	-	-	-	1,551	1,551	-	-	1,551
AA	-	-	-	135,482	135,482	-	-	135,482
A	-	-	-	505,169	505,169	-	-	505,169
BBB	-	-	246	520,385	520,631	-	-	520,631
Below investment grade	-	-	-	937	937	-	-	937
Not rated	11,558	-	7,424	903	19,885	-	-	19,885
Sub-total	11,558	-	7,670	1,164,427	1,183,655	-	-	1,183,655
Total⁽⁴⁾⁽⁵⁾	383,877	49,710,544	560,892	42,799,800	93,455,113	478,826	688,804	94,622,743

Notes:

- (1) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2021, 93 per cent are rated as investment grade.
- (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\$4,936m are restricted due to local regulatory requirements.
- (5) AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9 amounted to US\$92,207m with 98 per cent are rated as investment grade.
- (6) Nil balance for participating funds for the year ended.
- (7) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.



16. Financial investments (continued)

Debt securities (continued)

Debt securities by type comprise the following:

	Policyholder and shareholder				Subtotal	Unit-linked FVTPL	Consolidated investment funds FVTPL	Total
	Participating funds and other participating business with distinct portfolios ⁽⁶⁾		Other policyholder and shareholder					
US\$'000	FVTPL	AFS	FVTPL	AFS				
31 December 2020								
Government bonds ⁽¹⁾								
South Korea	-	-	-	8,225,209	8,225,209	311,438	-	8,536,647
Other	421,090	-	347,203	1,442,833	2,211,126	112,097	-	2,323,223
Sub-total	421,090	-	347,203	9,668,042	10,436,335	423,535	-	10,859,870
Other government and government agency bonds ⁽²⁾								
AAA	4,934	1,295,590	7,132	58,194	1,365,850	-	-	1,365,850
AA	311	1,027,780	3,201	2,939,215	3,970,507	13,953	-	3,984,460
A	-	1,545,314	3,234	1,340,394	2,888,942	-	-	2,888,942
BBB	19,087	1,046,391	53,865	1,235,502	2,354,845	2,656	-	2,357,501
Below investment grade	1,376	18,789	3,001	304,583	327,749	2,323	-	330,072
Not rated	-	-	-	-	-	358	-	358
Sub-total	25,708	4,933,864	70,433	5,877,888	10,907,893	19,290	-	10,927,183
Corporate bonds								
AAA	-	351,574	-	203,540	555,114	9,398	-	564,512
AA	-	2,427,737	-	1,970,520	4,398,257	492	-	4,398,749
A	15,234	18,953,561	40,702	12,833,728	31,843,225	12,262	-	31,855,487
BBB	-	20,644,706	100,063	13,194,747	33,939,516	13,399	-	33,952,915
Below investment grade	-	288,937	98	730,852	1,019,887	877	-	1,020,764
Not rated	-	-	3,020	-	3,020	772	-	3,792
Sub-total	15,234	42,666,515	143,883	28,933,387	71,759,019	37,200	-	71,796,219
Structured securities ⁽³⁾								
AAA	-	-	-	2,222	2,222	-	-	2,222
AA	-	-	-	137,108	137,108	-	-	137,108
A	-	-	-	367,954	367,954	-	-	367,954
BBB	-	-	-	249,629	249,629	-	-	249,629
Below investment grade	-	-	-	11,896	11,896	-	-	11,896
Not rated	11,583	-	7,636	10,727	29,946	-	-	29,946
Sub-total	11,583	-	7,636	779,536	798,755	-	-	798,755
Total ⁽⁴⁾⁽⁵⁾	473,615	47,600,379	569,155	45,258,853	93,902,002	480,025	-	94,382,027

Notes:

- (1) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2020, 95 per cent are rated as investment grade.
- (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\$4,180m are restricted due to local regulatory requirements.
- (5) The Group revisited the disclosure for AFS debt securities with contractual terms that give rise to cash flows qualifying as SPPI in accordance with IFRS 9, which amounted to US\$2,492m with 98 per cent are rated as investment grade.
- (6) Nil balance for participating funds for the year ended.



16. Financial investments (continued)

Debt securities (continued)

The Group's debt securities classified at fair value through profit or loss can be analysed as follows:

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Debt securities – FVTPL		
Designated at fair value through profit or loss	2,112,399	1,522,795

Equity shares and interests in investment funds

Equity shares and interests in investment funds by type comprise the following:

	Policyholder and shareholder					
	Participating funds and other participating business with distinct portfolios	Other policyholder and shareholder		Unit-linked	Consolidated investment funds ⁽¹⁾	
US\$'000	FVTPL	FVTPL	Subtotal	FVTPL	FVTPL	Total
31 December 2021						
Equity shares	9,984,163	611,239	10,595,402	1,967,207	40,306	12,602,915
Interests in investment funds	7,687,545	1,950,118	9,637,663	10,685,344	2,160	20,325,167
Total	17,671,708	2,561,357	20,233,065	12,652,551	42,466	32,928,082

	Policyholder and shareholder					
	Participating funds and other participating business with distinct portfolios	Other policyholder and shareholder		Unit-linked	Consolidated investment funds ⁽¹⁾	
US\$'000	FVTPL	FVTPL	Subtotal	FVTPL	FVTPL	Total
31 December 2020						
Equity shares	8,259,142	636,703	8,895,845	2,274,463	-	11,170,308
Interests in investment funds	4,402,807	459,416	4,862,223	10,515,499	-	15,377,722
Total	12,661,949	1,096,119	13,758,068	12,789,962	-	26,548,030

Note:

- (1) Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds are consolidated in the financial statements. Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.



16. Financial investments (continued)

Interests in structured entities

The Group has determined that the investment funds and structured securities, such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities that the Group has interest in are structured entities.

The following table summarises the Group's interest in unconsolidated structured entities:

	As at 31 December 2021		As at 31 December 2020	
	Investment funds	Structured securities ⁽¹⁾	Investment funds	Structured securities ⁽¹⁾
US\$'000				
Available for sale debt securities ⁽²⁾	2,112,448	1,164,427	2,038,630	779,536
Debt securities at fair value through profit or loss	-	19,228	-	19,219
Interests in investment funds at fair value through profit or loss	20,325,167	-	15,377,722	-
Total	22,437,615	1,183,655	17,416,352	798,755

Notes:

(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.

(2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

The Group's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities. In addition, the Group receives management fees and trustee fees in respect of providing trustee, management and administrative services to certain retirement scheme funds and investment funds. These funds are not held and the associated investment risks are not borne by the Group, the Group does not have exposure to loss in these funds.

Loans and deposits

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Policy loans	1,229,249	1,127,452
Mortgage loans on residential real estate	10,630	15,607
Other loans	118,521	174,388
Allowance for loan losses	(3,661)	(3,883)
Loans	1,354,739	1,313,564
Term deposits	807,014	576,344
Total	2,161,753	1,889,908

Certain term deposits with financial institutions are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within the term deposits classification is US\$261m (2020: US\$247m).



16. Financial investments (continued)

Effect of Inter-bank offered rate (IBOR) reform

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

The Group currently holds a number of financial instrument contracts which reference USD London Interbank Offered Rate (LIBOR) that extend beyond 2021 (collectively “Original Benchmark Interest Rates”) and have not yet transitioned to replacement benchmark interest rates.

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

While the impact of IBOR reform on profit or loss and other comprehensive income is not considered significant to the Group, the following table contains the carrying value of relevant financial instruments that the Group holds at 31 December 2021.

	Carrying value at 31 December 2021 and have yet to transition to a replacement benchmark interest rate
US\$'000	USD LIBOR
Non-derivative financial assets	1,349,958
Net derivative financial liabilities	<u>(50,148)</u>



17. Derivative financial instruments

The Group's derivative exposure was as follows:

US\$'000

US\$'000		Fair value	
	Notional amount	Assets	Liabilities
31 December 2021			
Foreign exchange contracts			
Cross currency swaps	1,223,536	-	(98,899)
Forwards	826,565	26,777	(1,069)
Foreign exchange futures	72,644	-	-
Total foreign exchange contracts	2,122,745	26,777	(99,968)
Interest rate contracts			
Interest rate swaps	687,600	51,317	(6,889)
Other			
Warrants and options	116,206	967	-
Forward contracts	31,720,000	959,386	(741,069)
Netting	(72,644)	-	-
Total	34,573,907	1,038,447	(847,926)
31 December 2020			
Foreign exchange contracts			
Cross currency swaps	1,577,966	10,138	(25,405)
Forwards	712,689	57,878	(149)
Foreign exchange futures	100,247	-	-
Total foreign exchange contracts	2,390,902	68,016	(25,554)
Interest rate contracts			
Interest rate swaps	486,492	13,837	(12,364)
Other			
Warrants and options	115,503	9,947	-
Forward contracts	8,929,000	-	(454,477)
Netting	(100,247)	-	-
Total	11,821,650	91,800	(492,395)



17. Derivative financial instruments (continued)

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

Of the total derivatives, no contract (2020: US\$0.2m) is listed in exchange or dealer markets and all contracts are over-the-counter (“OTC”) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

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

Foreign exchange contracts

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

Interest rate swaps

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

Other derivatives

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

Netting adjustment

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

Collateral under derivative transactions

At 31 December 2021, the Group posted cash collateral of US\$4m (2020: US\$5m), pledged debt securities with carrying value of US\$630m (2020: US\$636m) for liabilities, held cash collateral of US\$472m (2020: US\$5m) and no debt security collateral (2020: US\$8m) 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.



18. Fair value measurement

Fair value of financial instruments

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

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

US\$'000	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
As at 31 December 2021						
Financial investments:	16					
Loans and deposits		-	-	2,161,753	2,161,753	2,160,106
Debt securities		2,112,399	92,510,344	-	94,622,743	94,622,743
Equity shares and interests in investment funds		32,928,082	-	-	32,928,082	32,928,082
Derivative financial instruments	17	1,038,447	-	-	1,038,447	1,038,447
Reinsurance receivables	14	-	-	353,482	353,482	353,482
Other receivables	19	-	-	1,013,203	1,013,203	1,013,203
Accrued investment income	19	-	-	901,912	901,912	901,912
Cash and cash equivalents	21	-	-	1,847,931	1,847,931	1,847,931
Financial assets		36,078,928	92,510,344	6,278,281	134,867,553	134,865,906
	Notes		Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities:						
Investment contract liabilities	23		5,403,867	1,937	5,405,804	5,405,804
Notes due to ultimate holding company	25		-	770,000	770,000	770,000
Loans due to ultimate holding company	25		-	829,000	829,000	829,000
Obligations under repurchase agreements			-	40,067	40,067	40,067
Derivative financial instruments	17		847,926	-	847,926	847,926
Other liabilities	28		-	2,774,273	2,774,273	2,774,273
Financial liabilities			6,251,793	4,415,277	10,667,070	10,667,070



18. Fair value measurement (continued)

Fair value of financial instruments (continued)

US\$'000	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
As at 31 December 2020						
Financial investments:	16					
Loans and deposits		-	-	1,889,908	1,889,908	1,887,960
Debt securities		1,522,795	92,859,232	-	94,382,027	94,382,027
Equity shares and interests in investment funds		26,548,030	-	-	26,548,030	26,548,030
Derivative financial instruments	17	91,800	-	-	91,800	91,800
Reinsurance receivables	14	-	-	265,642	265,642	265,642
Other receivables	19	-	-	1,308,979	1,308,979	1,308,979
Accrued investment income	19	-	-	870,123	870,123	870,123
Cash and cash equivalents	21	-	-	1,416,762	1,416,762	1,416,762
Financial assets		28,162,625	92,859,232	5,751,414	126,773,271	126,771,323
	Notes	Fair value through profit or loss		Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities:						
Investment contract liabilities	23		5,620,122	2,187	5,622,309	5,622,309
Notes due to ultimate holding company	25		-	243,500	243,500	243,500
Loans due to ultimate holding company	25		-	829,000	829,000	829,000
Derivative financial instruments	17		492,395	-	492,395	492,395
Other liabilities	28		-	2,139,268	2,139,268	2,139,268
Financial liabilities			6,112,517	3,213,955	9,326,472	9,326,472

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net positions of foreign currency derivative, is shown in note 32 for the Group's key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

Assets sold under repurchase agreements continue to be recognised and a liability is established for the consideration received. The Group may be required to provide additional collateral based on the fair value of the underlying assets, and such collateral assets remain on the statement of financial position.

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

Fair value measurements on a recurring basis

The Group measures at fair value property held for own use, investment property, financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis.

The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.



18. Fair value measurement (continued)

Fair value measurements on a recurring basis (continued)

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fair value of properties is based on valuation by independent professional valuers.

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the year ended 31 December 2021.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments and properties.

Determination of fair value

Loans and receivables

For loans and advances that are repriced frequently and have not had any significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair values.

Debt securities, equity shares and interests in investment funds

The fair values of equity shares and interests in investment funds are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers, private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor's credit spreads, foreign exchange rates, and credit default rates. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

Derivative financial instruments

The Group values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

When the Group holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Group takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that require the exchange of collateral on the basis of each party's net credit risk exposure). The Group measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.



18. Fair value measurement (continued)

Determination of fair value for financial instruments (continued)

Property held for own use and investment property

The Group engaged external, independent and qualified valuers to determine the fair value of the Group's property at least on an annual basis. The valuation on an open market value basis by independent professional valuer for certain investment property was calculated by reference to net rental income allowing for reversionary income potential. The fair values of other property were derived using the Market Data Approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity. Certain other properties are valued using a combination of these two methods.

The property held for own use and investment property, in most cases, are valued on the basis of the highest and best use of the property that is physically possible, legally permissible and financially feasible. The current use of the property is considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the property in use would be taken into account when they would maximise the fair value of the property; the Group is occupying these properties for operational purposes.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

The carrying amount of amounts receivable from reinsurers is not considered materially different to their fair value.

Fair value of securities sold under repurchase agreements and the associated payables

The contract values of payables under repurchase agreements approximate their fair value as these obligations are short-term in nature.

Other assets

The carrying amount of other financial assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

Investment contract liabilities

For investment contract liabilities the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder, the fair value generally approximates to the fair value of the underlying assets.

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 22. These are not measured at fair value.

Loans/notes due to ultimate holding company and other borrowings

The fair values of loans/notes due to ultimate holding company and other borrowings have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities or prices obtained from brokers.

Other liabilities

The fair values of other unquoted financial liabilities are estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those without stated maturity, where the carrying value approximates to fair value.



18. Fair value measurement (continued)

Fair value hierarchy for fair value measurement on a recurring basis

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three “levels” based on the observability of inputs available in the marketplace used to measure their fair values as discussed below:

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities. The Group considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Group’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Group considers factors specific to the asset or liability.



18. Fair value measurement (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

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

US\$'000

US\$'000	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
31 December 2021				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	-	-	305,015	305,015
Investment property	-	-	2,935,768	2,935,768
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	-	49,699,222	11,322	49,710,544
Other policyholder and shareholder	-	41,574,286	1,225,514	42,799,800
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	232	372,087	11,558	383,877
Other policyholder and shareholder	432	523,757	36,703	560,892
Unit-linked and consolidated investment funds	-	1,167,630	-	1,167,630
Equity shares and interests in investment funds				
Participating funds and other participating business with distinct portfolios	14,967,551	207,758	2,496,399	17,671,708
Other policyholder and shareholder	952,606	1,297,226	311,525	2,561,357
Unit-linked and consolidated investment funds	12,053,989	641,028	-	12,695,017
Derivative financial instruments				
Foreign exchange contracts	-	26,777	-	26,777
Interest rate contracts	-	51,317	-	51,317
Other contracts	-	960,353	-	960,353
Total assets on a recurring fair value measurement basis	27,974,810	96,521,441	7,333,804	131,830,055
% of Total	21.2%	73.2%	5.6%	100.0%
Financial liabilities				
Investment contract liabilities	-	5,403,867	-	5,403,867
Derivative financial instruments				
Foreign exchange contracts	-	99,968	-	99,968
Interest rate contracts	-	6,889	-	6,889
Other contracts	-	741,069	-	741,069
Total liabilities on a recurring fair value measurement basis	-	6,251,793	-	6,251,793
% of Total	0.0%	100.0%	0.0%	100.0%



18. Fair value measurement (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

US\$'000	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
31 December 2020				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	-	-	314,345	314,345
Investment property	-	-	2,948,074	2,948,074
Financial assets				
Available for sale				
Debt securities				
Participating funds and other participating business with distinct portfolios	-	47,591,991	8,388	47,600,379
Other policyholder and shareholder	10,963	44,352,397	895,493	45,258,853
At fair value through profit or loss				
Debt securities				
Participating funds and other participating business with distinct portfolios	247	446,551	26,817	473,615
Other policyholder and shareholder	1,142	545,924	22,089	569,155
Unit-linked	-	480,025	-	480,025
Equity shares and interests in investment funds				
Participating funds and other participating business with distinct portfolios	11,317,848	24,256	1,319,845	12,661,949
Other policyholder and shareholder	729,126	200,330	166,663	1,096,119
Unit-linked	11,567,477	1,222,485	-	12,789,962
Derivative financial instruments				
Foreign exchange contracts	-	68,016	-	68,016
Interest rate contracts	-	13,837	-	13,837
Other contracts	-	9,947	-	9,947
Total assets on a recurring fair value measurement basis	23,626,803	94,955,759	5,701,714	124,284,276
<i>% of Total</i>	<i>19.0%</i>	<i>76.4%</i>	<i>4.6%</i>	<i>100.0%</i>
Financial liabilities				
Investment contract liabilities	-	-	5,620,122	5,620,122
Derivative financial instruments				
Foreign exchange contracts	-	25,554	-	25,554
Interest rate contracts	-	12,364	-	12,364
Other contracts	-	454,477	-	454,477
Total liabilities on a recurring fair value measurement basis	-	492,395	5,620,122	6,112,517
<i>% of Total</i>	<i>0.0%</i>	<i>8.1%</i>	<i>91.9%</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 year ended 31 December 2021, the Group transferred US\$45m (2020: US\$88m) 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 did not transfer any assets from Level 2 to Level 1 during the year ended 31 December 2021 (2020: US\$1m).

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



18. Fair value measurement (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

The tables below set out a summary of changes in the Group's Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended 31 December 2021 and 31 December 2020. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 31 December 2021 and 31 December 2020.

Level 3 assets and liabilities

US\$'000	Property held for own use	Investment property	Debt securities	Equity shares and interests in investment funds	Derivative financial assets/(liabilities)	Investment contracts
At 1 January 2021	314,345	2,948,074	952,787	1,486,508	-	(5,620,122)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(3,740)	36,584	(5,257)	485,844	-	-
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	1,570	(39,141)	1,443	(6,151)	-	-
Transfer to investment property	(7,408)	(10,236)	-	-	-	-
Purchases	252	523	637,255	982,162	-	-
Sales	(4)	(36)	(9,860)	(140,439)	-	-
Settlements	-	-	(291,271)	-	-	-
Transfer out of Level 3	-	-	-	-	-	5,620,122
At 31 December 2021	305,015	2,935,768	1,285,097	2,807,924	-	-
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the year, under investment return	(3,740)	36,584	(45,945)	482,898	-	-

In 2021, the Group has revisited the fair value hierarchy disclosure of its investment contract liabilities. Of the total investment contract liabilities reported, US\$5,620m were valued based on quoted prices of the underlying investments hence they were classified as Level 2.



18. Fair value measurement (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

Level 3 assets and liabilities (continued)

US\$'000	Property held for own use	Investment property	Debt securities	Equity shares and interests in investment funds	Derivative financial assets/(liabilities)	Investment contracts
At 1 January 2020	323,596	3,131,663	1,005,659	1,012,653	-	(5,093,459)
Net movement on investment contract liabilities	-	-	-	-	-	(526,663)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(3,584)	(213,722)	(2,423)	57,068	-	-
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	(5,209)	28,742	7,848	1,848	-	-
Transfer from/(to) investment property	(1,086)	1,086	-	-	-	-
Purchases	628	635	214,468	478,725	-	-
Sales	-	(330)	(287,560)	(63,875)	-	-
Settlements	-	-	(28,622)	-	-	-
Transfer into Level 3	-	-	43,417	89	-	-
At 31 December 2020	314,345	2,948,074	952,787	1,486,508	-	(5,620,122)
Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the year, under investment return	(3,584)	(213,722)	(4,043)	(2,802)	-	-

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 23.

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.



18. Fair value measurement (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

Valuation processes

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

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

Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2021 and 31 December 2020 is given below.

US\$'000

US\$'000	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
31 December 2021				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	797,014	115,987	1,247,105	2,160,106
Reinsurance receivables	-	353,482	-	353,482
Other receivables	1,602	958,064	53,537	1,013,203
Accrued investment income	7,201	894,711	-	901,912
Cash and cash equivalents	1,847,931	-	-	1,847,931
Total assets for which the fair value is disclosed	2,653,748	2,322,244	1,300,642	6,276,634
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	-	-	1,937	1,937
Notes due to ultimate holding company	-	770,000	-	770,000
Loans due to ultimate holding company	-	506,000	323,000	829,000
Obligations under repurchase agreements	-	40,067	-	40,067
Other liabilities	91,426	2,626,641	56,206	2,774,273
Total liabilities for which the fair value is disclosed	91,426	3,942,708	381,143	4,415,277

US\$'000

US\$'000	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
31 December 2020				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	566,344	173,792	1,147,824	1,887,960
Reinsurance receivables	-	265,642	-	265,642
Other receivables	3,152	1,269,067	36,760	1,308,979
Accrued investment income	5,196	864,927	-	870,123
Cash and cash equivalents	1,416,762	-	-	1,416,762
Total assets for which the fair value is disclosed	1,991,454	2,573,428	1,184,584	5,749,466



18. Fair value measurement (continued)

Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date (continued)

US\$'000	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
31 December 2020				
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	-	-	2,187	2,187
Notes due to ultimate holding company	-	243,500	-	243,500
Loans due to ultimate holding company	-	506,000	323,000	829,000
Other liabilities	95,038	1,980,748	63,482	2,139,268
Total liabilities for which the fair value is disclosed	95,038	2,730,248	388,669	3,213,955

19. Other assets

US\$'000	As at 31 December 2021	As at 31 December 2020
Accrued investment income	901,912	870,123
Insurance receivables due from insurance and investment contract holders	803,456	1,065,025
Others ⁽¹⁾	589,623	608,976
Total	2,294,991	2,544,124

Note:

(1) Represents, among others, prepayments, other receivables and other deposits.

All amounts other than certain prepayments are generally expected to be recovered within 12 months after the end of the year.

20. Impairment of financial assets

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

Available for sale debt securities

During the year ended 31 December 2021, no impairment losses (2020: nil) were recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2021 was nil (2020: nil).

Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 16 for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 31 December 2021 were US\$9.8m (2020: US\$4.5m).

The Group has a portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short-term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within one year and cover is cancelled if consideration is not received.



21. Cash and cash equivalents

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Cash	1,397,599	1,046,241
Cash equivalents	450,332	370,521
Total⁽¹⁾	1,847,931	1,416,762

Note:

(1) Of cash and cash equivalents, US\$216.3m (2020: US\$316.0m) are held to back unit-linked contracts and US\$75m are held by consolidated investment fund.

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

22. Insurance contract liabilities

The movements of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) and ceded insurance contract liabilities (see note 14) are shown as follows:

US\$'000	Gross	Reinsurance	Net
At 1 January 2020	87,431,109	(294,502)	87,136,607
Valuation premiums and deposits	16,507,051	(835,732)	15,671,319
Liabilities released for policy termination or other policy benefits paid and related expenses	(9,119,981)	696,968	(8,423,013)
Fees from account balances	(960,671)	-	(960,671)
Accretion of interest	2,901,235	(6,087)	2,895,148
Foreign exchange movements	944,756	(16,025)	928,731
Change in net asset values attributable to policyholders	8,058,980	-	8,058,980
Other movements	(307,531)	-	(307,531)
At 31 December 2020	105,454,948	(455,378)	104,999,570
Valuation premiums and deposits	16,657,446	(753,140)	15,904,306
Liabilities released for policy termination or other policy benefits paid and related expenses	(9,870,590)	756,637	(9,113,953)
Fees from account balances	(1,007,483)	-	(1,007,483)
Accretion of interest	3,368,471	(8,833)	3,359,638
Foreign exchange movements	(1,256,396)	15,618	(1,240,778)
Change in net asset values attributable to policyholders	323,279	-	323,279
Other movements	274,582	-	274,582
At 31 December 2021	113,944,257	(445,096)	113,499,161



22. Insurance contract liabilities (continued)

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

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Deferred profit	20,403,655	17,466,325
Unearned revenue	648,264	454,898
Policyholders' share of participating surplus	20,161,138	19,949,515
Liabilities for future policyholder benefits	72,731,200	67,584,210
Total	113,944,257	105,454,948

Business description

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows
Traditional participating life	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer. For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends. For other participating business with distinct portfolios, the allocation of benefits from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time.	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> Investment performance Expenses Mortality Surrenders Morbidity
	Other participating business without distinct portfolios	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> Investment performance Expenses Mortality Surrenders Morbidity
Traditional non-participating life	Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	<ul style="list-style-type: none"> Mortality Morbidity Lapses Expenses
Accident and health	These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	<ul style="list-style-type: none"> Mortality Morbidity Lapses Expenses
Unit-linked	Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	<ul style="list-style-type: none"> Investment performance Lapses Expenses Mortality
Universal life	The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer	Benefits are based on the account balance and death benefit	<ul style="list-style-type: none"> Investment performance Crediting rates Lapses Expenses Mortality



22. Insurance contract liabilities (continued)

Methodology and assumptions

The most significant items to which profit for the year and shareholders' equity are sensitive are market, insurance and lapse risks which are shown in the table below. Indirect exposure indicates that there is a second order impact. For example, whilst the profit for the year attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of unit-linked contracts), there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being 'net neutral', this is because the exposure to market and credit risks is offset by a corresponding movement in insurance contract liabilities.

		Market and credit risk			
		Direct exposure		Indirect exposure	Significant insurance and lapse risks
Type of contract		Insurance and investment contract liabilities	Risks associated with related investment portfolio		
Traditional participating life	Participating funds and other participating business with distinct portfolios	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	Investment performance subject to smoothing through dividend declarations	<ul style="list-style-type: none"> Impact of persistency on future dividends Mortality Morbidity
	Other participating business without distinct portfolios	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	Investment performance subject to smoothing through dividend declarations	<ul style="list-style-type: none"> Impact of persistency on future dividends Mortality Morbidity
Traditional non-participating life		<ul style="list-style-type: none"> Guarantees Asset-liability mismatch risk 	<ul style="list-style-type: none"> Investment performance Asset-liability mismatch risk Credit risk 	Not applicable	<ul style="list-style-type: none"> Mortality Persistency Morbidity
Accident and health		<ul style="list-style-type: none"> Asset-liability mismatch risk 	<ul style="list-style-type: none"> Investment performance Credit risk Asset-liability mismatch risk 	Not applicable	<ul style="list-style-type: none"> Morbidity Persistency
Pension		<ul style="list-style-type: none"> Net neutral Asset-liability mismatch risk 	<ul style="list-style-type: none"> Net neutral Asset-liability mismatch risk 	Performance-related investment management fees	<ul style="list-style-type: none"> Persistency
Unit-linked		<ul style="list-style-type: none"> Net neutral 	<ul style="list-style-type: none"> Net neutral 	Performance-related investment management fees	<ul style="list-style-type: none"> Persistency Mortality
Universal life		<ul style="list-style-type: none"> Guarantees Asset-liability mismatch risk 	<ul style="list-style-type: none"> Investment performance Credit risk Asset-liability mismatch risk 	Spread between earned rate and crediting rate to policyholders	<ul style="list-style-type: none"> Mortality Persistency Withdrawals

The Group is also exposed to foreign exchange rate risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.



22. Insurance contract liabilities (continued)

Methodology and assumptions (continued)

Valuation interest rates

Cash flows of our traditional insurance contracts are discounted using the appropriate long-term investment return assumptions that reflects the expected underlying asset mix. In determining the long-term returns on the fixed income assets, an allowance is made for the risk of default which varies by the credit rating of the underlying asset. The Group has set the equity return and property return assumptions by reference to the long-term return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory. Further, an adjustment is made to the long-term investment return assumptions to provide for the risk of adverse deviation. These assumptions are determined at the policy inception date and remain locked in thereafter, unless a deficiency arises on liability adequacy testing.

As at 31 December 2021 and 31 December 2020, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by territory, year of issuance and products, within the first 20 years are as follows:

	As at 31 December 2021	As at 31 December 2020
Hong Kong	3.00% - 7.50%	3.00% - 7.50%
South Korea	2.01% - 6.50%	2.05% - 6.50%
New Zealand	2.30% - 6.15%	0.85% - 6.15%
Taiwan (China)	1.75% - 6.50%	1.75% - 6.50%
Indonesia	3.02% - 8.61%	3.02% - 8.61%
Vietnam	4.44% - 11.48%	5.53% - 11.48%

23. Investment contract liabilities

	As at 31 December 2021	As at 31 December 2020
US\$'000		
At beginning of financial year	5,893,215	5,413,850
Investment contract benefits	47,189	722,388
Fees charged	(71,955)	(77,802)
Net withdrawals and other movements	(193,745)	(178,450)
Foreign exchange movements	(38,856)	13,229
At end of financial year⁽¹⁾	5,635,848	5,893,215

Note:

(1) Of investment contract liabilities, US\$230m (2020: US\$271m) represents deferred fee income. Movement of deferred fee income of US\$41m represents revenue recognised as a result of performance obligations satisfied during the year.



24. Effect of changes in assumptions and estimates

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

	As at 31 December 2021	As at 31 December 2020
US\$'000		
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 percentage points increase in investment return	53,414	57,829
0.5 percentage points decrease in investment return	(69,951)	(72,572)
10% increase in expenses	(5,707)	(6,305)
10% increase in mortality rates	(41,931)	(43,846)
10% increase in lapse/discontinuance rates	(8,247)	(8,959)

Future policy benefits for the Group's majority traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of these traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group's traditional life products, except for a limited number of cases where statutory requirements are adopted in the applicable jurisdiction.

For interest sensitive insurance contracts, such as universal life products and unit-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US\$54.0m increase (2020: US\$26.7m decrease) in profit.

25. Loans/Notes due to ultimate holding company and other borrowings

Loans/notes due to ultimate holding company and other borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, loans/ notes due to ultimate holding company and other borrowings are stated at amortised cost, and any difference between net proceeds and redemption value is recognised in the income statement over the period of the loans or notes using the effective interest method.

The Group obtained loans from ultimate holding company of US\$439m, US\$323m and US\$67m, which are bearing interest rates of 3.20%, 3.49% and 3.20% respectively. The loan of US\$439m is secured, while the remaining loans are unsecured. All loans due to ultimate holding company are repayable on respective repayment dates.

Notes due to ultimate holding company are unsecured, interest-free and repayable in 2024. The ultimate holding company can request for payment on demand.

On 21 October 2020, the Group has access to a US\$100m revolving three-year credit facility expiring in 2024, following extension of the facility by one year effective 28 July 2021. The revolving credit facility bears floating rate interest. There were no outstanding borrowings under this credit facility as of 31 December 2021 and 2020.



26. Offsetting of financial assets and financial liabilities

Offsetting, enforceable master netting agreements and similar agreements

The following table shows the assets that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year end:

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
US\$'000						
31 December 2021						
Financial assets:						
Derivative assets	1,038,447	-	1,038,447	-	(472,335)	566,112

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
US\$'000						
31 December 2020						
Financial assets:						
Derivative assets	91,800	-	91,800	(8,441)	(5,010)	78,349



26. Offsetting of financial assets and financial liabilities (continued)

Offsetting, enforceable master netting agreements and similar agreements (continued)

The following table shows the liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each year end:

	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral pledged	Net amount
US\$'000						
31 December 2021						
Financial liabilities:						
Derivative liabilities	847,926	-	847,926	(630,456)	(3,498)	213,972
Repurchase agreements	40,067	-	40,067	(40,067)	-	-
Total	887,993	-	887,993	(670,523)	(3,498)	213,972

	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral pledged	Net amount
US\$'000						
31 December 2020						
Financial liabilities:						
Derivative liabilities	492,395	-	492,395	(635,882)	(4,919)	(148,406)
Total	492,395	-	492,395	(635,882)	(4,919)	(148,406)

The Group entered into enforceable master netting agreements for derivative transactions, as well as the repurchase agreements for debt instruments with various counterparties. Except for certain futures contracts executed through clearing house mechanism where the settlement arrangement satisfied the IFRS netting criteria, the transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the IFRS netting criteria. The provision in the master netting agreement and similar agreements enables a party to terminate transactions early and settle at a net amount if a default or termination event occurs.



27. Provisions

US\$'000	Employee benefits	Other	Total
At 1 January 2020	24,791	5,744	30,535
Charged to the consolidated income statement	5,081	3,975	9,056
Charged to other comprehensive income	4,230	-	4,230
Exchange differences	322	140	462
Released during the year	-	(3,983)	(3,983)
Utilised during the year	(1,098)	(36)	(1,134)
Other movements	(445)	1	(444)
At 31 December 2020	32,881	5,841	38,722
Charged to the consolidated income statement	2,748	3,596	6,344
Credited to other comprehensive income	(7,201)	-	(7,201)
Exchange differences	(191)	(121)	(312)
Released during the year	340	(510)	(170)
Utilised during the year	(2,327)	(290)	(2,617)
Other movements	(970)	-	(970)
At 31 December 2021	25,280	8,516	33,796

Other provisions

Other provisions comprise provisions in respect of regulatory matters, litigation, reorganisation and restructuring. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate, the Group is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

28. Other liabilities

US\$'000	As at 31 December 2021	As at 31 December 2020
Trade and other payables	2,217,813	1,552,993
Lease liabilities	122,887	137,980
Reinsurance payables	433,573	448,295
Total	2,774,273	2,139,268

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period.

Reinsurance-related payables of US\$103.1m (2020: US\$125.2m) are expected to be settled more than 12 months after the end of the reporting period.



29. Share capital and reserves

Share capital

	As at 31 December 2021		As at 31 December 2020	
	Shares '000	US\$'000	Shares '000	US\$'000
Authorised				
Ordinary shares of US\$1.2 each	6,500	7,800	3,000	3,600
Issued and fully paid⁽¹⁾				
At beginning and end of the financial year	3,000	3,600	3,000	3,600
Transfer from capital contribution during the year ⁽²⁾	3,500	4,200	-	-
At end of the financial year	6,500	7,800	3,000	3,600
Share premium		945		945

Capital contribution

At beginning of the financial year	2,582,651	2,487,610
Increase during the year	265,589	95,041
Transfer to share capital during the year ⁽²⁾	(4,200)	-
At end of the financial year	2,844,040	2,582,651

Note:

(1) Issued capital represents the nominal value of shares issued plus any share premium received from the issue of share capital.

(2) On 12 August 2021, there was an allotment of 3,500,000 ordinary shares of US\$1.2 each by the Company to AIA Co. for a total consideration of US\$4.2m, which is credited as fully paid up by transferring an equivalent amount from the capital contribution account to share capital account.

There were no shares issued under share option schemes during the year ended 31 December 2021 (2020: nil). The Group has not undertaken any purchase, sale, or redemption of AIAGL's issued share capital in the reporting period.

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 consolidated financial statements of foreign operations.

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 the share-based compensation.

30. Non-controlling interests

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Share of earnings	201,522	198,447
Share of other reserves	(426)	707
Total	201,096	199,154



31. Group capital structure

Capital Management Approach

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

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

Group Regulatory Solvency

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulators at the Company level are the Bermuda Monetary Authority ("BMA"), and the Hong Kong Insurance Authority ("HKIA"). The HKIA requires that the Company meets 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. The Company is subject to regulation in each of the geographical markets in which it operates. The Company is also regulated in Bermuda by the BMA as the Company is licensed as a Class 3 general business and as a Class E long-term insurer under the Insurance Act in Bermuda.

The capital positions of the Company as of 31 December 2021 and 31 December 2020 are as follows:

US\$m	Total available capital	31 December 2021	Solvency ratio	Total available capital	31 December 2020	Solvency ratio
		Regulatory minimum capital			Regulatory minimum capital	
The Company	9,179	3,472	264%	9,382	3,122	301%

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. The Company submits annual filings to the HKIA of its solvency margin position based on their annual audited financial statements.

The ability of the Group to pay dividends to its 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 the Company, including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group. The Company's payment of dividends, distributions and other payments to shareholder is subject to the oversight of the HKIA.



31. Group capital structure (continued)

Capital and Regulatory Orders Specific to the Company

On 14 May 2021, AIAGL became a designated insurance holding company and is therefore subject to the Group-wide Supervision (GWS) framework. The HKIA has confirmed that the requirements and restrictions summarised below, which were previously in place, has ceased to apply as of 14 May 2021.

Hong Kong Insurance Authority

AIAGL, its ultimate parent, has given to the HKIA an undertaking that AIAGL will:

- (i) ensure that (a) the Company will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150 per cent of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100 per cent of the Hong Kong statutory minimum solvency margin requirement for the branches other than Hong Kong (“minimum amount”); (b) it will not withdraw capital or transfer any funds or assets out of the Company that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; and (c) should the solvency ratio of the Company falls below the respective minimum amounts, AIAGL will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the HKIA;
- (ii) notify the HKIA in writing as soon as AIAGL becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of the Company through the acquisition of AIAGL’s shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of the Company through the disposal of AIAGL’s shares traded on the HKSE;
- (iii) be subject to the supervision of the HKIA and AIAGL will be required to continually comply with the HKIA’s guidance on the “fit and proper” standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company’s financial resources; the viability of a holding company’s business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Company’s legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Company’s corporate governance; the soundness of the Company’s risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and
- (iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidelines issued by the HKIA from time to time.



32. Risk management

Risk management framework

The Group recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (“RMF”) provides the structure for identifying, quantifying and mitigating risk across the Group. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

Insurance risk

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

Lapse

Lapse risk is the risk policies lapse, on average, earlier than assumed in the pricing or reserving assumptions.

Ensuring customers buy products that meet their needs is central to the Group’s Operating Philosophy. Through effective implementation of the Business Quality Framework, comprehensive sales training programmes and active monitoring of sales activities and persistency, the Group seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers’ needs.

Expense

Expense risk is the risk of greater than expected trends in, or sudden shocks to, the amount or timing of expenses incurred by the business.

Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Group’s very substantial experience within the markets in which we operate.

Morbidity and Mortality

Morbidity and mortality risk is the risk that the incidence and/or amounts of medical/death claims are higher than the assumptions made in pricing and/or reserving.

The Group adheres to well-defined market-oriented underwriting and claims guidelines and practices that have been developed based on extensive historical experience and with the assistance of professional reinsurers.

The Group’s actuarial teams conduct regular experience studies of all the insurance risk factors in its in-force book. These internal studies together with external data are used to identify emerging trends which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Group seeks to anticipate and respond promptly to potential adverse experience impacts on its products.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters.

The Group manages insurance risk concentration by diversification, reinsurance and establishing retention limits. Insurance risk concentration can arise when there is concentrated exposure geographically or to one single insured life. Geographical concentration of insured individuals could increase the severity of claims from natural catastrophic events or human-made disasters. The Group’s insured populations are geographically dispersed, thereby diversifying the insurance exposure. The Group also has catastrophic reinsurance in place to cover losses due to a single catastrophic event exceeding a pre-determined level. The Group limits its exposure to large claims on any single insured by applying retention limits that vary by market and insurance benefit type to the amount of insurance coverage per insured. The exposure in excess of these limits is ceded to reinsurers. For the year ended 31 December 2021 and 2020, there were no significant insurance concentration risks.



32. Risk management (continued)

Investment and financial risks

Investment objectives, policies and processes

The Group manages its financial investments in two distinct categories: unit-linked investments and policyholder and shareholder investments. The investment risk in respect of unit-linked investments is generally wholly borne by our customers, and does not directly affect the profit for the year before tax. Policyholder and shareholder investments includes all financial investments other than unit-linked investments. The investment risk in respect of policyholder and shareholder investments is partially or wholly borne by the Group and directly affects the profit for the year before tax.

The primary investment objectives of our policyholder and shareholder investments are generally designed to achieve optimal levels of risk-adjusted return for policyholders and shareholders over the long-term, while preserving capital, maintaining adequate solvency and liquidity levels, meeting our risk management and asset-liability management objectives and ensuring full compliance with applicable regulations and internal policies.

The Group has a comprehensive and integrated framework to ensure investment are properly authorised, monitor and managed within internal policies that address asset-liability management, financial and operational risks, whether assets are invested directly by the Group or through external investment managers. This framework consists of three elements: a strategic asset allocation framework; a tactical asset allocation process; and a combination of internal and external investment management for individual asset classes where appropriate.

The Group's investment management function is empowered with decision-making authority and compliance with exposure limits as defined in Risk Standards.

Asset-liability management

Asset-liability management for the Group is overseen by the Group Asset-Liability Committee and by asset-liability committees in each business unit. The Group manages its asset-liability risks in a variety of ways including the strategic asset allocation process under which the strategic asset allocation in each entity and for major different product groups is governed, by defining the amount of assets that can be allocated to each asset type taking into account the characteristics of the liabilities and related risks, capital and other requirements including economic and regulatory bases. The Group manages asset-liability risks predominantly on an economic basis, while also considering the effect on all applicable regulatory solvency requirements and other considerations such as the effect on earnings. Asset-liability management actions including product pricing and product design, reviews of policyholder dividends, reinsurance, and the management of discretionary policyholder benefits. Derivatives are used to manage the asset-liability position against adverse market movements.

The key asset-liability risks for the Group are credit risk, interest rate risk, credit spread risk, equity risk and foreign exchange rate risk which are summarised below.

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 the Group'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 validations. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

Interest rate risk and credit spread 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.

Credit spread risk is the risk of changes in credit spreads affecting the value of assets and liabilities.

The Group manages interest rate risk and credit spread 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.



32. Risk management (continued)

Investment and financial risks (continued)

Interest rate risk (continued)

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

US\$'000	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2021				
Financial assets				
Loans and deposits	453,008	1,706,559	2,186	2,161,753
Other receivables	580	-	1,012,623	1,013,203
Debt securities	4,589,203	90,033,540	-	94,622,743
Equity shares and interests in investment funds	-	-	32,928,082	32,928,082
Reinsurance receivables	-	-	353,482	353,482
Accrued investment income	-	-	901,912	901,912
Cash and cash equivalents	1,565,427	-	282,504	1,847,931
Derivative financial instruments	-	-	1,038,447	1,038,447
Total financial assets	6,608,218	91,740,099	36,519,236	134,867,553
Financial liabilities				
Investment contract liabilities	-	-	5,405,804	5,405,804
Notes due to ultimate holding company	-	-	770,000	770,000
Loans due to ultimate holding company	-	829,000	-	829,000
Obligations under repurchase agreements	40,067	-	-	40,067
Other liabilities	16,983	122,886	2,634,404	2,774,273
Derivative financial instruments	-	-	847,926	847,926
Total financial liabilities	57,050	951,886	9,658,134	10,667,070
US\$'000	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2020				
Financial assets				
Loans and deposits	504,128	1,374,930	10,850	1,889,908
Other receivables	552	-	1,308,427	1,308,979
Debt securities	3,734,818	90,647,209	-	94,382,027
Equity shares and interests in investment funds	-	-	26,548,030	26,548,030
Reinsurance receivables	-	-	265,642	265,642
Accrued investment income	-	-	870,123	870,123
Cash and cash equivalents	1,247,463	-	169,299	1,416,762
Derivative financial instruments	-	-	91,800	91,800
Total financial assets	5,486,961	92,022,139	29,264,171	126,773,271
Financial liabilities				
Investment contract liabilities	-	-	5,622,309	5,622,309
Notes due to ultimate holding company	-	-	243,500	243,500
Loans due to ultimate holding company	-	829,000	-	829,000
Other liabilities	10,729	137,980	1,990,559	2,139,268
Derivative financial instruments	-	-	492,395	492,395
Total financial liabilities	10,729	966,980	8,348,763	9,326,472



32. Risk management (continued)

Investment and financial risks (continued)

Equity price risk

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

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

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 24. 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.

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\$'000	31 December 2021		31 December 2020	
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)
Equity market risk				
10 per cent increase in equity prices	563,013	563,013	333,809	333,809
10 per cent decrease in equity prices	(563,013)	(563,013)	(333,809)	(333,809)
Interest rate risk				
+50 basis points shift in yield curves	(827,549)	(3,849,087)	(260,614)	(3,659,269)
-50 basis points shift in yield curves	828,851	4,171,772	261,860	4,009,610



32. Risk management (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

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

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

Foreign exchange rate net exposure

US\$'000	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
31 December 2021							
Equity analysed by original currency	11,327,918	4,131,980	156,749	329,398	94,229	691,091	3,047,712
Net positions of currency derivative	(2,056,843)	322,770	-	-	-	-	924,133
Currency exposure	9,271,075	4,454,750	156,749	329,398	94,229	691,091	3,971,845
5 per cent strengthening of original currency							
Impact on profit before tax	23,150	25,673	7,838	16,470	4,711	34,554	75,353
Impact on other comprehensive income	(31,675)	141,491	-	-	-	-	123,239
Impact on total equity	(8,525)	167,164	7,838	16,470	4,711	34,554	198,592
5 per cent strengthening of the US Dollar							
Impact on profit before tax	23,150	(25,662)	(7,841)	(16,470)	(4,711)	(34,554)	(75,353)
Impact on other comprehensive income	(31,675)	(141,502)	3	-	-	-	(123,239)
Impact on total equity	(8,525)	(167,164)	(7,838)	(16,470)	(4,711)	(34,554)	(198,592)
31 December 2020							
Equity analysed by original currency	13,716,505	4,094,131	151,596	289,790	80,845	676,431	3,780,922
Net positions of currency derivative	(2,389,847)	650,354	-	-	-	-	1,125,435
Currency exposure	11,326,658	4,744,485	151,596	289,790	80,845	676,431	4,906,357
5 per cent strengthening of original currency							
Impact on profit before tax	26,256	53,686	7,580	14,490	4,042	33,821	78,172
Impact on other comprehensive income	(34,832)	140,380	-	-	-	-	167,146
Impact on total equity	(8,576)	194,066	7,580	14,490	4,042	33,821	245,318
5 per cent strengthening of the US Dollar							
Impact on profit before tax	26,256	(53,686)	(7,580)	(14,490)	(4,042)	(33,821)	(78,172)
Impact on other comprehensive income	(34,832)	(140,380)	-	-	-	-	(167,146)
Impact on total equity	(8,576)	(194,066)	(7,580)	(14,490)	(4,042)	(33,821)	(245,318)



32. Risk management (continued)

Investment and financial risks (continued)

Liquidity risk

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

The Group manages liquidity risk in accordance with its liquidity framework. This framework contains the standards, procedures and tools used by the Group to monitor and manage liquidity risk on a forward-looking basis in base and stressed conditions across multiple time horizons from daily to twelve months. The forward-looking management of liquidity allows early detection of trends enabling management to proactively manage liquidity with reference to the pre-defined contingency plan. The framework is comprised of four key pillars:

- Daily Cash Forecasting and Liquidity Adequacy Ratio;
- Structural Liquidity Adequacy Ratio;
- Market-based Asset Liquidity Monitoring; and
- Liquidity Management and Contingency Plans.

The Group further supports its liquidity internally by maintaining appropriate pools of unencumbered high-quality liquid investment assets. Liquidity is further supported externally via access to committed credit facilities and use of bond repurchase markets.

The Group's liquidity framework builds liquidity resiliency in all our markets while providing central oversight and the ability to take timely management action if required to ensure we meet all our financial commitments as they fall due.

The maturity profile of our financial assets, financial liabilities and insurance contract liabilities are presented below which provides a supplemental long-term view on the Group's liquidity profile.

US\$'000	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 ⁽¹⁾
31 December 2021						
Financial assets (Policyholders and shareholder investments)						
Loans and deposits	2,161,737	777,184	129,977	8,285	946	1,245,345
Other receivables	958,918	902,650	26,004	3,006	6,979	20,279
Debt securities	93,455,113	945,567	7,880,684	9,256,071	75,372,791	-
Equity shares and interests in investment funds	20,233,065	-	-	-	-	20,233,065
Reinsurance receivables	353,482	353,482	-	-	-	-
Accrued investment income	887,412	885,408	1,728	276	-	-
Cash and cash equivalents	1,556,632	1,556,632	-	-	-	-
Derivative financial instruments	1,037,370	21,932	964,121	-	51,317	-
Subtotal	120,643,729	5,442,855	9,002,514	9,267,638	75,432,033	21,498,689
Financial assets (Unit-linked contract and consolidated investment funds)	14,223,824	-	-	-	-	14,223,824 ⁽²⁾
Total	134,867,553	5,442,855	9,002,514	9,267,638	75,432,033	35,722,513
Financial and insurance contract liabilities (Policyholders and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	93,143,142	1,524,533	6,830,804	8,352,713	76,435,092	-
Notes due to ultimate holding company	770,000	770,000	-	-	-	-
Loans due to ultimate holding company	829,000	-	829,000	-	-	-
Obligations under repurchase agreements	40,067	40,067	-	-	-	-
Other liabilities excluding lease liabilities	2,616,549	2,453,621	86,554	38,326	34,790	3,258
Lease liabilities	128,824	62,315	63,952	2,357	200	-
Derivative financial instruments	846,959	310,034	524,510	12,169	246	-
Subtotal	98,374,541	5,160,570	8,334,820	8,405,565	76,470,328	3,258
Financial and insurance contract liabilities (Unit-linked contract and consolidated investment funds)	14,184,587	-	-	-	-	14,184,587
Total	112,559,128	5,160,570	8,334,820	8,405,565	76,470,328	14,187,845



32. Risk management (continued)

Investment and financial risks (continued)

Liquidity risk (continued)

US\$'000	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 ⁽¹⁾
31 December 2020						
Financial assets (Policyholders and shareholders investments)						
Loans and deposits	1,889,897	508,622	225,435	14,852	2,838	1,138,150
Other receivables	1,265,526	1,211,966	23,510	10,684	161	19,205
Debt securities	93,902,002	1,165,004	5,827,519	9,211,399	77,698,080	-
Equity shares and interests in investment funds	13,758,068	-	-	-	-	13,758,068
Reinsurance receivables	265,642	265,642	-	-	-	-
Accrued investment income	858,033	856,435	1,187	411	-	-
Cash and cash equivalents	1,100,821	1,100,821	-	-	-	-
Derivative financial instruments	81,896	33,921	32,907	1,231	13,837	-
Subtotal	113,121,885	5,142,411	6,110,558	9,238,577	77,714,916	14,915,423
Financial assets (Unit-linked contract)	13,651,386	-	-	-	-	13,651,386 ⁽²⁾
Total	126,773,271	5,142,411	6,110,558	9,238,577	77,714,916	28,566,809
Financial and insurance contract liabilities (Policyholders and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	85,373,553	1,309,500	6,263,119	7,664,354	70,136,580	-
Notes due to ultimate holding company	243,500	243,500	-	-	-	-
Loans due to ultimate holding company	829,000	-	506,000	323,000	-	-
Other liabilities excluding lease liabilities	1,946,157	1,766,807	99,186	41,986	36,072	2,106
Lease liabilities	144,620	67,438	74,032	2,789	361	-
Derivative financial instruments	492,246	49,798	433,457	8,440	551	-
Subtotal	89,029,076	3,437,043	7,375,794	8,040,569	70,173,564	2,106
Financial and insurance contract liabilities (Unit-linked contract)	13,703,797	-	-	-	-	13,703,797
Total	102,732,873	3,437,043	7,375,794	8,040,569	70,173,564	13,705,903

Notes:

- (1) Financial assets with no fixed maturity are equities or receivables on demand which the Group has the choice to call. Other financial liabilities with no fixed maturity are payables on demand as the counterparty has a choice of when the amount is paid.
- (2) The total value of amounts within financial assets (unit-linked contracts and consolidated investment funds) is included within the no fixed maturity category to facilitate comparison with the corresponding total value of amounts within "Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)".



33. Employee benefits

Post-retirement benefit obligations

The Group operates a number of funded and unfunded post-retirement employee benefit schemes, whose members receive benefits on either a defined benefit basis (generally related to salary and length of service) or a defined contribution basis (generally related to the amount invested, investment return and annuity rates), the assets of which are generally held in separate trustee-administered funds. The defined benefit plans provide life and medical benefits for employees after retirement and a lump sum benefit on cessation of employment, and the defined contribution plans provide post-retirement pension benefits.

Defined benefit plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, South Korea, Vietnam, Indonesia, Taiwan (China) and Cambodia. The latest independent actuarial valuation of the plans was at 31 December 2021 and was prepared by credentialed actuaries of Towers Watson Hong Kong Limited. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions.

For defined benefit plans, the costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to the consolidated income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The resulting scheme surplus or deficit appears as an asset or liability in the consolidated statement of financial position.

The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 45 per cent (2020: 41 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US\$22.3m (2020: US\$23.2m). The total expense relating to these plans recognised in the consolidated income statement was US\$2.7m (2020: US\$5.1m).

Defined contribution plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, does not have any further payment obligations. The Group's contributions are charged to the consolidated income statement in the reporting period to which they relate and are included in employee benefit expenses. The total expense relating to these plans in the current year was US\$21.2m (2020: US\$18.8m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 20 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

34. Share-based compensation

Share-based compensation plans

AIAGL's share-based compensation plans are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and/or share options granted. Non-market vesting conditions are included in assumptions about the number of shares and/or share options that are expected to be vested. At each period end, the Group revises its estimates of the number of shares and/or share options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to equity. Where grants of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate grant, and therefore the fair value of each tranche is recognised over the applicable vesting period.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

During the year ended 31 December 2020, the 2010 Share Option (SO) Scheme, the 2010 Restricted Share Unit (RSU) Scheme and the 2011 Employee Share Purchase Plan (ESPP) were terminated. There shall be no further grants under either of these schemes. However, these schemes shall remain in full force and effect for all grants prior to its termination, and the exercise and the vesting of these grants shall be subject to and in accordance with the terms on which they were granted under the provisions of each of these schemes, and the Listing Rules, where applicable. In the same year, AIAGL adopted the 2020 SO Scheme, the 2020 RSU Scheme and the 2020 ESPP Plan.

During the year ended 31 December 2021, AIAGL made new grants of SO, RSU and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under these new schemes.



34. Share-based compensation (continued)

Share-based compensation plans (continued)

On 1 February 2021, AIAGL adopted the new 2021 Agency Share Purchase Plan (ASPP) with an effective period of 10 years from the date of adoption.

2012 ASPP was terminated with effect from 31 March 2021, after which time no further restricted stock subscription units. RSSUs can be granted under such plan. The 2012 ASPP shall remain in full force and effect for all RSSUs granted prior to this termination, and the vesting of such RSSUs shall be subject to and in accordance with the terms on which they were granted under the provisions of the 2012 ASPP.

During the year ended 31 December 2021, AIAGL made new grants of RSSUs to eligible agents under the 2021 ASPP and 2012 ASPP.

RSU Schemes

Under the RSU Schemes, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period during which, the eligible participants are required to remain in employment with the Group. For RSU grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting period. For most RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the granted RSUs are expected to be settled in equity. The total number of shares of AIAGL that can be granted under this scheme is 302,264,978 shares (2020: 302,264,978 shares), representing 2.5 per cent of the number of shares of AIAGL in issue on the reference date, being the 2020 AGM date.



34. Share-based compensation (continued)

RSU Schemes (continued)

	Year ended 31 December 2021	Year ended 31 December 2020
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial year	6,047,142	6,374,711
Granted	1,716,190	2,338,598
Net transfer (out)/in	(233,519)	154,717
Forfeited	(1,734,497)	(710,033)
Vested	(1,092,134)	(2,110,851)
Outstanding at end of financial year	4,703,182	6,047,142

SO Schemes

The objectives of the SO Schemes are to align eligible participants' interests with those of the shareholders of AIAGL by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the Group. For SO grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the respective vesting periods. The granted SOs expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share of AIAGL. Subject to restrictions in the applicable laws, regulations and rules of the relevant jurisdictions, the granted SOs are expected to be settled in equity. The total number of shares under option that can be granted under the scheme is 302,264,978 shares (2020: 302,264,978 shares), representing 2.5 per cent of the number of shares of AIAGL in issue on the date of adoption.

Information about share options outstanding and share options exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

	Year ended 31 December 2021		Year ended 31 December 2020	
	Number of share options	Weighted average exercise price (HK\$)	Number of share options	Weighted average exercise price (HK\$)
Share options				
Outstanding at beginning of financial year	377,422	65.59	388,625	60.59
Granted	78,715	97.33	173,501	68.10
Transfer in	42,385	70.44	-	-
Transfer out	(200,939)	72.02	-	-
Exercised	(5,005)	41.90	(101,378)	45.76
Forfeited or expired	-	-	(83,326)	71.60
Outstanding at end of financial year	292,578	70.83	377,422	65.59
Share options exercisable at end of financial year	81,010	51.13	65,551	45.43
Weighted average remaining contractual life (years)	7.47		8.06	

At the respective dates on which the share options were exercised, the weighted average share price of AIAGL was HK\$101.60 for the year ended 31 December 2021 (2020: HK\$74.07).



34. Share-based compensation (continued)

SO Schemes (continued)

The range of exercise prices for the share options outstanding as of 31 December 2021 and 31 December 2020 is summarised in the table below.

	Year ended 31 December 2021		Year ended 31 December 2020	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK\$36 – HK\$45	33,000	4.18	38,005	5.18
HK\$46 – HK\$55	27,546	5.19	27,546	6.19
HK\$66 – HK\$75	136,537	7.93	239,178	8.67
HK\$76 – HK\$85	30,590	7.27	72,693	8.23
HK\$86 – HK\$95	64,905	9.23	-	-
Outstanding at end of financial year	292,578	7.47	377,422	8.06

ESPP

Under the ESPPs, eligible employees of the Group can purchase ordinary shares of AIAGL with qualified employee contributions and AIAGL will grant one matching RSU to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the relevant vesting period, the eligible employees must hold the contribution shares purchased and remain employed by the Group in order to qualify to receive the matching shares for upon the vesting of the matching RSPUs. The granted matching RSPUs are expected to be settled in equity. Under the 2010 ESPP, the level of qualified employee contribution was subject to a maximum amount equal to 8 per cent of the monthly base salary or HK\$9,750 (or local currency equivalent) per month, whichever is lower. Under the 2020 ESPP, the level of qualified employee contribution is subject to a maximum amount equal to 10 per cent of the monthly base salary or HK\$12,500 (or local currency equivalent) per month, whichever is lower. For the year ended 31 December 2021, eligible employees paid US\$10.1m (2020: US\$10.1m) to purchase 847,029 ordinary shares (2020: 993,945 ordinary shares) of AIAGL under the ESPP.

ASPP

The structure of the ASPP generally follows those of the ESPPs, the key difference is that the eligible agents are required to pay a subscription price of US\$1 to subscribe for each new share of AIAGL at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of AIAGL with qualified agent contributions and AIAGL will grant one matching RSU to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share of AIAGL. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased and maintain their agent contracts with the Group in order to qualify to receive the matching shares upon the vesting of the matching RSSUs. The granted matching RSSUs are expected to be settled in equity. Under the ASPPs, the level of qualified agent contribution is subject to a maximum amount of HK\$9,750 (or local currency equivalent) per month and HK\$12,500 (or local currency equivalent) per month respectively. For the year ended 31 December 2021, eligible agents paid US\$10.0m (2020: US\$12.4m) to purchase 848,968 ordinary shares (2020: 1,255,083 ordinary shares) of AIAGL under the ASPPs.



34. Share-based compensation (continued)

Valuation methodology

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

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

	Share options	Year ended 31 December 2021		
		Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.24%	0.19% - 0.27%*	0.14% - 0.83%	0.37%
Volatility	26%	26%	n/a	n/a
Dividend yield	1.60%	1.60%	1.60% - 1.70%	1.60%
Exercise price (HK\$)	97.33	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.82	n/a	n/a	n/a
Weighted average fair value per option / unit at measurement date (HK\$)	22.26	65.90	72.11	71.39

	Share options	Year ended 31 December 2020		
		Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	0.85%	0.78%*	0.09% - 1.68%	0.87%
Volatility	24%	24%	n/a	n/a
Dividend yield	1.60%	1.60%	1.60%	1.60%
Exercise price (HK\$)	68.10	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.84	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	15.51	62.78	79.06	59.37

* Applicable to RSU with market conditions

The weighted average share price for share option valuation for grants made during the year ended 31 December 2021 is HK\$92.75 (2020: HK\$68.10).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation grants made by the Group for the year ended 31 December 2021 is US\$13m (2020: US\$21m).



35. Remuneration of Directors and key management personnel

Directors' remuneration

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Directors' fee	63	60
Salaries, allowance and benefits in kind	-	-
Retirement scheme contribution	-	-
Share-based compensation	-	-
Total	63	60
The aggregate emoluments of the three highest paid Directors	63	60

Key management personnel have been identified as the members of the Company's Board of Directors. Certain Directors of the Company are also the Directors of AIA Co. The corresponding Directors' remuneration attributable to the Company were paid by AIA Co. and recharged to the Company during the year.



36. Related party transactions

US\$'000	Year ended 31 December 2021	Year ended 31 December 2020
Transactions with related parties		
Reinsurance related parties (income)/expense		
Premiums assumed	(7,736)	(7,363)
Premiums ceded to reinsurers	179,721	301,032
Claims recovered from reinsurers	(101,757)	(77,322)
Claims paid on inwards reinsurance	5,961	4,371
Commissions and fee income	(41,184)	(38,801)
	35,005	181,917
Non-insurance related party income		
Income from services provided	(142,516)	(157,561)
	(142,516)	(157,561)
Non-insurance related party expenses		
Dividend declared	800,000	200,000
Interest expense	27,465	27,956
Purchases of services	258,585	209,439
Corporate service fees	207,692	153,597
	1,293,742	590,992
Total	1,186,231	615,348
Payment/(receipt) on behalf of related party		
Amounts paid on behalf of related parties	28,991	30,411
Amounts received on behalf of related parties	(32,170)	(33,801)
Total	(3,179)	(3,390)
Amounts due from related parties		
Insurance-related amounts receivable	18,511	16,380
Other amounts receivable	7,456	17,472
Total	25,967	33,852
Amounts due to related parties		
Insurance-related amounts payable	(21,358)	(25,864)
Notes due to ultimate holding company	(770,000)	(243,500)
Loans due to ultimate holding company	(829,000)	(829,000)
Other amounts payable	(128,384)	(79,895)
Total	(1,748,742)	(1,178,259)

Transactions with related parties are transactions with subsidiaries of AIAGL, the ultimate parent of the Group and are carried out on normal commercial terms and conditions.

Insurance-related and other amounts due from/to related parties are unsecured which are expected to be settled within one year.

Remuneration of Directors and key management personnel is disclosed in note 35.



37. Commitments and contingencies

Investment and capital commitments

	As at 31 December 2021	As at 31 December 2020
US\$'000		
Not later than one year	2,316,329	2,018,831
Later than one and not later than five years	9,726	37,681
Later than five years	-	15,842
Total	2,326,055	2,072,354

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 consolidated financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies and claims. The Group believes these matters are adequately provided for in these consolidated 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 potential tax implications, based on management's judgement and best estimate in relation to the probability or likelihood of the potential outcomes, which is subject to periodic re-assessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$428m at 31 December 2021 (2020: US\$479m). The liabilities and related reinsurance assets, which totalled US\$3m (2020: US\$3m), 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.

As at 31 December 2021, the Group had a Standby Letter of Credit of US\$85m (2020: US\$75m) from a bank to comply with Section 25C of the Insurance Ordinance (Cap.41).

38. Subsidiaries

The principal subsidiaries which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 31 December 2021		As at 31 December 2020	
				Group's interest %	NCI's interest %	Group's interest %	NCI's interest %
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND3,224,420,000,000	100%	-	100%	-
PT. AIA Financial	Indonesia	Insurance	1,910,844,141 ordinary shares of Rp1,000 each	100%	-	100%	-
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US\$1 each	90%	10%	90%	10%
AIA New Zealand Limited	New Zealand	Insurance	248,217,572 ordinary shares of NZD\$63,709,199 issued share capital	100%	-	100%	-
AIA Life Insurance Co. Ltd	South Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	100%	-	100%	-

All of the above subsidiaries are unlisted and are audited by PricewaterhouseCoopers.



39. Events after the reporting date

The HKIA is in the process of developing amendments to the HKIO to cater for the new Hong Kong Risk-based Capital (HKRBC) regime with an effective date of 1 January 2024. On 28 December 2021, the HKIA released a circular setting out requirements for insurers that are “sufficiently advanced” in their preparation to adopt the HKRBC regime at an early date. Accordingly, the Company submitted an application for early adoption of HKRBC regime with effect from 1 January 2022 which was approved by the HKIA on 8 April 2022.

40. Immediate and ultimate controlling party

At the reporting date, the Company was a wholly-owned subsidiary of AIA Co., whose ultimate holding company was AIAGL, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.