



AIA International Limited
Financial Condition Report
For the year ended 31 December 2021



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1 GENERAL INFORMATION

AIA International Limited (the "Company") was incorporated in Bermuda on 16 January 1959. The Company is licensed by the Bermuda Monetary Authority (the "Authority") as a Class 3 insurer and a Class E insurer. As described in greater detail below, the Company's core business is to offer Asian households products and services that enhance their financial security and provide them with peace of mind as their financial needs evolve over their lifetimes. The Company is a member of the AIA Group and has branches in Hong Kong SAR, Macau SAR, and Taiwan (China) and wholly-owned subsidiaries in South Korea, Indonesia, Vietnam, Cambodia and New Zealand as well as a 49 per cent joint venture in India. In addition to the Authority, the Company is subject to supervision in the jurisdictions in which it operates as a branch.

The Company maintained a strong capital position for the year ended 31 December 2021 and the table below shows the current ratings of the Company by leading credit rating agencies:

Rating Agency	Financial Strength Rating	Issuer Credit Rating	Rating Current as at
S&P	AA- / Stable / --	AA- / Stable / --	14 May 2021
Moody's	Aa2/ Stable	NA	14 May 2021
Fitch	AA / Stable	NA	14 May 2021

The Company is a wholly-owned subsidiary of AIA Group Limited ("AIGL") which together with its subsidiaries (collectively "AIA" or the "Group") comprises the largest independent publicly listed pan-Asian life insurance group with presence in 18 markets in Asia. The business that is now AIA was first established in Shanghai a century ago. AIA is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia-Pacific, AIA serves the holders of more than 39 million individual policies and over 16 million participating members of group insurance schemes.

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

The Group's lead insurance regulator is the Hong Kong Insurance Authority.

For more information on the Group including the latest Annual Report, please refer to the following link:

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



2 BUSINESS AND PERFORMANCE

Name of Insurer

AIA International Limited

Supervisors

Insurance Supervisor
Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

Group Supervisor
Insurance Authority
19/F, 41 Heung Yip Road
Wong Chuk Hang
Hong Kong

Approved Auditor

Statutory Reporting
PricewaterhouseCoopers
Washington House
4/F 16 Church Street
Hamilton HM11
Bermuda

GAAP Reporting
PricewaterhouseCoopers
21/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Ownership Details

The Company is a direct wholly-owned subsidiary of AIA Company Limited, a company incorporated in Hong Kong, which in turn is a direct wholly-owned subsidiary of AIAGL, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

CHANGE OF GROUP STRUCTURE

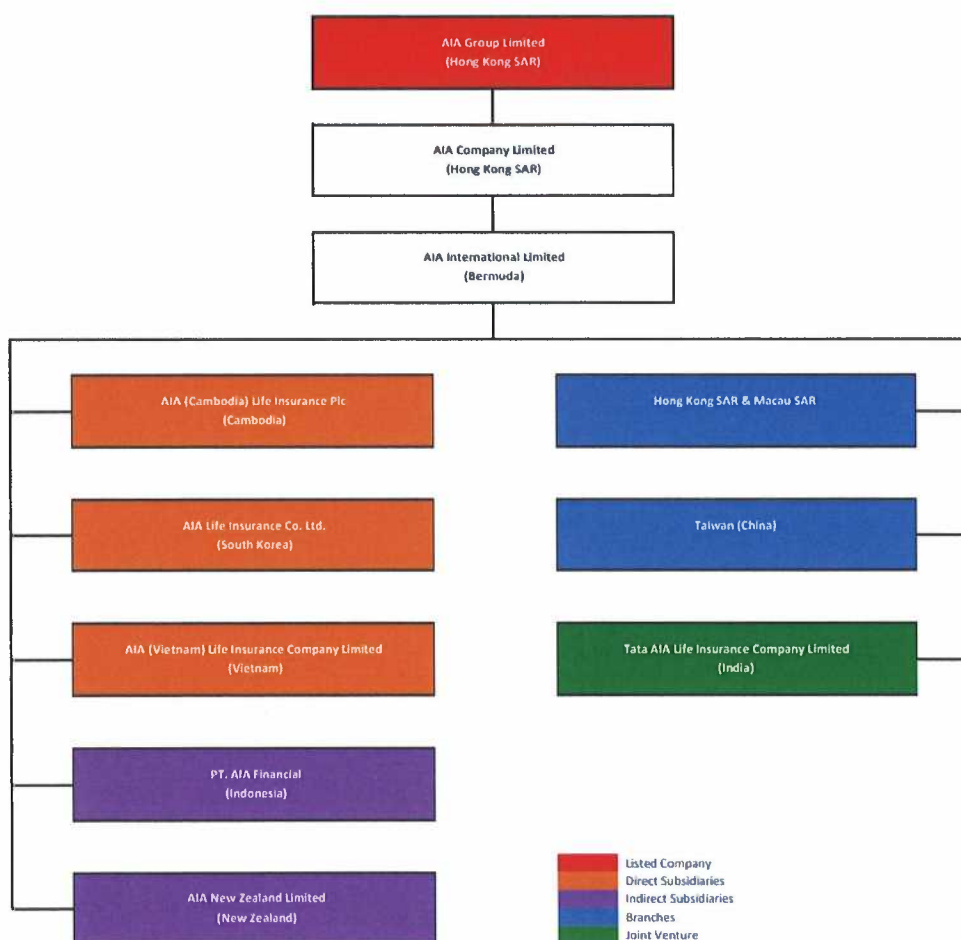
The New Zealand branch of the Company has been deregistered as of 7 September 2021.

The above change has been reflected in the next section "Group Structure".



Group Structure

Company Structure - Principal Operating Entities of AIA International Limited
(as at 24 February 2022)



Note 1 - The New Zealand branch of the Company has been deregistered as of 7 September 2021.



Insurance Business Written by Business Segment and by Geographical Region

The Company writes insurance business through its branches in Hong Kong SAR, Macau SAR, and Taiwan (China) and its subsidiaries in South Korea, Indonesia, Vietnam, New Zealand and Cambodia (collectively "AIA International Group"). Below is the information on the insurance business of the AIA International Group written by business segment (e.g. lines of businesses) and by geographical region:

IFRS Premiums and Fee Income by Business Segment for the Year

Line of Business (amounts * USD 1m)	Year ended 31 December 2021	Year ended 31 December 2020
Long-term Business	16,677	17,400
General Business	422	407
Total	17,099	17,807

IFRS Premiums and Fee Income by Geographical Region for the Year

Region (amounts * USD 1m)	Year ended 31 December 2021	Year ended 31 December 2020
Hong Kong	13,272	14,250
Other	3,827	3,557
Total	17,099	17,807

Please refer to the Financial and Operating Review of the Annual Report 2021 of AIAGL ("Annual Report 2021") for more information on the financial performance of the Group.

Performance of Investments & Material Income & Expenses for the Year

Performance of Investments for the year:

As at 31 December 2021, AIA International Group had policyholder and shareholder investment assets (including unit-linked assets) of USD 133,687 million. Of these, 71% were invested in fixed-income investments, 25% in equity securities (including investment funds), and 2% in properties.

The fixed income portfolio is of good quality with 98% rated as investment grade at 31 December 2021. A significant portion was held in corporate bonds. While investment in fixed income is generally weighted towards the highest rated issuers with the longest available tenor in each market, it is also constrained by factors such as availability, concentration risks, their respective sovereign rating and market demand.

The equity portfolio is mostly held in participating funds to provide for discretionary bonus and dividend payments to participating policyholders. As at 31 December 2021, the largest portion by geographical region was held in Hong Kong (91%), followed by Indonesia (7%) and South Korea (3%).

The real estate portfolio is about 2% of total investment assets. The investment properties are mainly located in Hong Kong SAR.



	Year ended 31 December 2021	Year ended 31 December 2020
Investment return (amounts * USD 1m)		
Interest income	3,398	3,219
Dividend income	438	335
Rental income	<u>103</u>	<u>108</u>
Investment income	3,939	3,662
Net gains of Available for Sale financial assets	1,572	910
Net gains of financial assets measured at fair value	797	4,214
Other investment losses	<u>(162)</u>	<u>(176)</u>
Investment experience	2,207	4,948
Investment return	<u>6,146</u>	<u>8,610</u>

Material Income and Expenses for the Year:

AIA International Group's main revenue source is premiums and fee income. Net premium and fee income for the year ended 31 December 2021 were USD16,046 million, representing a 3% decrease over USD16,615 million for the year ended 31 December 2020 due to lower premium income from new business and renewal business mainly in Hong Kong, partially offset by business growth in other geographical locations.

	Year ended 31 December 2021	Year ended 31 December 2020
Expense type (amounts * USD 1m)		
Net Insurance and Investment contract benefits	15,071	18,000
Other	<u>3,745</u>	<u>3,644</u>
TOTAL	<u>18,816</u>	<u>21,644</u>

For the year ended 31 December 2020, and applied retrospectively, the Company revised its accounting policy with respect to the recognition and measurement of insurance contract liabilities of other participating business with distinct portfolios. Other participating business with distinct portfolios refer to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. Prior to this change in accounting policy, the Company recognised and measured the insurance contract liabilities for this business based on the present value of guaranteed benefits and nonguaranteed participation less estimated future net premiums to be collected from policyholders.

With effect from 1 January 2020, and applied retrospectively, the Company now recognises and measures the insurance contract liabilities for this business based on the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance contract liability is recorded for the proportion of the net assets of this other participating business with distinct portfolios that would be allocated to policyholders assuming all relevant surplus at the date of the Balance Sheet were to be declared as a policyholder dividend based upon policyholder participation. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time, the current policyholder participation in declared dividends for Hong Kong ranged from 70% to 90%.



Please refer to the Financial Highlights, Financial and Operating Review and Financial Statements of the Annual Report 2021 for more information on the financial performance of the Group.

3 GOVERNANCE STRUCTURE

The Company is committed to high standards of corporate governance and sees the maintenance of good corporate governance practices as essential to its sustainable growth. The Company also recognises the importance of sound risk management in every aspect of its business and for all its stakeholders.

Board and Senior Executive

Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities

The role of the Board of Directors (the "Board") is to exercise oversight in relation to the Company. The Board provides leadership to the Company in respect of operational issues through the Group Chief Executive and other executives who are authorised to act on behalf of the Board in the operational management of the Company. Any responsibilities not so delegated by the Board to the Group Chief Executive and other executives remain the responsibility of the Board. The Group Chief Risk Officer is responsible for risk oversight.

The Company's corporate governance is implemented through a structure hierarchy, which includes the Board, the Audit Committee, the Risk Committee and any other committees of the Board established by resolutions of the Board. The Board meets on a regular basis (or ad hoc if required). Committee reports are presented to the Board.

The Board consists of six directors, which are four executive directors and two independent non-executive directors, and their roles and responsibilities are outlined in the Company's Bye-Laws and comply with the regulatory requirements of Bermuda.

Remuneration Policy

AIA is committed to responsible remuneration practices to attract, motivate and retain staff at all levels across the Group. AIA's aim to reward competitively and fairly, irrespective of gender, ethnicity, age, disability or other non-performance related factors are based on principles of impact and contribution with sound risk management in balance. Remuneration supports the achievement of AIA's business strategy including long-term objectives taking into consideration the capital position and the long-term performance of the Group whilst not inducing excessive risk-taking behaviours or violation of applicable laws, guidelines or regulations. AIA's Remuneration Policy serves to support the above including the governance, design, implementation and monitoring of AIA's remuneration framework. AIA's remuneration framework applies across the Group and is implemented consistently subject to local rules and regulations if deemed necessary and appropriate for the Group. The Remuneration Policy supports the risk management framework. Remuneration of senior executives follows the same guiding principles applied to all other employees with a significant of the variable remuneration being deferred subject to a multi-year performance-based vesting conditions to ensure alignment with the business strategy and key strategic initiatives, and to not encourage excessive risk-taking behaviours. The fees for Non-executive Directors are delivered in fees not linked to any performance conditions to ensure the independence of Non-executive Directors.



Pension or Early Retirement Schemes for Members, Board and Senior Executives

The Company operates funded and unfunded defined benefit plans that provide participating employees with life and medical benefits after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong SAR, South Korea, Indonesia, Taiwan (China), Vietnam and Cambodia. The Company also operates a number of defined contribution pension plans, whereby employees and employer make monthly contributions equal to 1 per cent to 20 per cent of the employees' monthly basic salaries.

Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board and Senior Executives

An interim dividend of USD800 million was approved and declared by the Board of Directors on 6 December 2021.

Fitness and Proprietary Requirements

Fit and Proper Process

The Company appoints members of the Board and hires senior executives based on the individual's expertise and work experience as well as professional judgment. The individual's assessment covers competence and capability as well as honesty, integrity, reputation and financial soundness. Before directors are appointed to the Board, all candidates must undergo a rigorous recruitment and background screening. Certain regulated positions (e.g. a key person in a control function) must also be approved by local regulators.

Board and Senior Executives Professional Qualifications, Skills and Expertise

Details of the qualifications, skills and expertise of the current Board are set out below:

Mr. Jacky Wing Shing Chan (appointed 1 June 2017) is the Regional Chief Executive of AIAGL, responsible for the Group's businesses operating in Hong Kong SAR and Macau SAR, Mainland China, the Philippines, South Korea, and Taiwan (China). He is a director of various companies within the Group, including AIA Company Limited and AIA International Limited. Mr. Chan has extensive experience having worked at AIA for the past 33 years. Prior to becoming a Regional Chief Executive, Mr. Chan was Chief Executive Officer of AIA Hong Kong and Macau since 2009. Previously, he held several senior positions including the Country Head of AIA China, Executive Vice President – Distribution & Marketing of Nan Shan Life Insurance of Taiwan; and Senior Vice President & Head of Life Profit Centre of AIA – Asia (ex-Japan & Korea). Mr. Chan holds a Bachelor of Science Degree from The University of Hong Kong. He is a Fellow of the Society of Actuaries, a member of American Academy of Actuaries (MAAA) and a Fellow of the Canadian Institute of Actuaries (CIA).



Mr. Garth Brian Jones (appointed 30 April 2013) is the Group Chief Financial Officer of AIAGL responsible for leading the Group in all aspects of capital and financial management, as well as managing relationships with key external stakeholders, including independent auditors and actuaries, rating agencies and international accounting and regulatory bodies. He is a director of various companies within the Group, including AIA Company Limited and AIA International Limited. He joined AIA in April 2011. Prior to joining the Group, Mr. Jones was the Executive Vice President of China Pacific Life Insurance Co., Ltd., the life insurance arm of China Pacific Insurance (Group) Co., Ltd. He also held a number of senior management positions during 12 years with Prudential Corporation Asia Limited, including Chief Financial Officer of the Asian life insurance operations. Prior to joining Prudential, Mr. Jones led the development of Swiss Re's Asia life business. Mr. Jones is a Fellow of the Institute and Faculty of Actuaries. On 1 June 2016, he was appointed a member of the industry advisory committee on long term business, which advises the Insurance Authority in Hong Kong. Mr. Jones is also a member of the IFRS Advisory Council of the IASB.

Mr. Mitchell David New (appointed 17 January 2017) is the Group General Counsel of AIAGL responsible for the provision of legal services for the Group and providing leadership to legal and corporate governance functions within country operations. He has previously also acted as Group Chief Risk Officer. He is a director of various companies within the AIA Group including AIA International Limited, AIA Singapore Private Limited and AIA Reinsurance Limited. He joined AIA in April 2011. Prior to joining the Group, Mr. New was a member of the law firm Fasken Martineau and occupied various senior roles with Manulife Financial, including Senior Vice President and Chief Legal Officer for Asia and Japan, based in Hong Kong SAR and Senior Vice President and General Counsel to Manulife's Canadian division. He is a qualified barrister and solicitor and member of the Law Society of Upper Canada and holds a Bachelor of Commerce Degree and Master's Degree in Business Administration from McMaster University and a Bachelor of Laws Degree from the University of Western Ontario.

Mr. Richard Owen Sumner (appointed 23 June 2020) is the Head of Group Tax of AIAGL, responsible for managing the Group's overall tax affairs and advising AIA's business units in 18 markets across the Asia region on a range of tax issues. He is a director of various companies within the AIA Group. He joined AIA in July 2013. Prior to joining the Group, Mr. Sumner was an Executive Director of Financial Services Tax for Ernst & Young ("EY") Hong Kong, leading the insurance tax practice and sitting on EY's global Insurance Tax Executive. Mr. Sumner has previously worked as an insurance tax advisor for PwC and as a Senior Policy Advisor on insurance taxation and the taxation of foreign profits at HM Treasury. Mr Sumner is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Timothy Carrick Faries (appointed 17 January 2017) is the Managing Partner of the Bermuda Office of Appleby and has overall responsibility for managing the operations of Appleby's Bermuda office. In addition, he is the Group Chief Executive Officer of Appleby Global Services, which provides corporate, fiduciary and trust administration services to clients in Bermuda, Cayman Islands, Hong Kong SAR, Jersey, Mauritius and the Seychelles. He is also the Bermuda Group Head of the Corporate department and the Insurance and Reinsurance global sector leader. He leads a team of lawyers who specialise in all manner of non-contentious corporate insurance work. Mr. Faries has extensive experience of public and private insurance company capital raising, mergers and acquisition activities, public listings on US, UK and European securities exchanges, the establishment and licensing of alternative risk financing vehicles such as catastrophe bonds, ILVs and other insurance-linked securities, and captive insurance companies in established and emerging markets. Mr. Faries joined Appleby in 1993 and has been the Managing Partner since 2015. Mr. Faries obtained a B.A. from the University of Alberta in 1989 and an LL.B from the University of Alberta in 1990. He qualified as a barrister and solicitor in Alberta, Canada in July 1991. He obtained a Master's Degree in International Business Law (LL.M) from McGill University in 1994 and was called to the Bermuda Bar the same year. Memberships in Professional Societies and Associations include the Alberta Law Society and Bermuda Bar Association.



Mr. Shelby Ross Weldon (appointed 17 January 2017) is a senior financial services executive with over thirty years of experience in public practice and private sectors. Mr. Weldon has had exposure to all aspects of the regulation and supervision of Bermuda's insurance industry including captive insurers, commercial carriers, special purpose vehicles and intermediaries. He obtained a B.A. from Howard University, Washington DC in 1986 and was qualified as a Certified Public Accountant in the State of Illinois in 1988. Mr. Weldon spent 20 years as a financial services regulator, beginning his career as a senior analyst and progressing to Director in 2007. He had served as the Director, Licensing & Authorizations of the Authority since 2009 until August 2016. In that role he was responsible for the licensing of all financial services company seeking to conduct financial services in Bermuda, the processing of all supervisory and regulatory applications and request in connection with the insurance and investment funds sectors, and the vetting of all shareholder controllers, directors and officers and key functionaries. He was also the Chairman of the Authority's board delegated Assessment & Licensing Committee and a senior member of the Authority's Executive Committee, the Risk Committee, On-site Inspection Committee and various other working groups. From 2016 to 2020, Mr. Weldon was a Senior Vice President at Marsh Management Services (Bermuda) Ltd., managing a team of accounting and insurance professionals providing management and administration services to a portfolio of captive and commercial insurers. In June 2020, Mr. Weldon joined HLB Bermuda Accounting and Advisory Services as President and Deputy Chairman. HLB Bermuda is affiliated with HLB International, an international network of accountants and consultants.

Please also refer to the section on Corporate Governance of the Annual Report 2021 of AIAGL for more information on the Executive Committee of the Group including the biographies of the Group Chief Executive and President, Group Chief Financial Officer, Group General Counsel, Group Chief Risk Officer, Group Chief Investment Officer, Regional Chief Executive and Group Chief Strategy Officer, Group Chief Technology Officer, Group Chief Human Resources Officer, Regional Chief Executive and Group Chief Distribution Officer, Regional Chief Executive and Group Chief Life Operations Officer, and Group Chief Marketing Officer.

Risk Management and Solvency Self-Assessment

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

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

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

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



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

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

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

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

Reporting and Monitoring. Executives working in the First Line are responsible for the execution of appropriate actions and other risk mitigation strategies to transfer, mitigate or eliminate risks considered outside of risk tolerance. They are also responsible for the timely escalation of material risk developments. In addition, to ensure the effectiveness of the Risk Management Process, a Commercial Insurer's Solvency Self-Assessment is reported to the Risk Committees for annual review.

The Company's solvency is assessed and monitored regularly by the actuarial and finance function. The solvency position is reviewed by the Audit Committee and ultimately approved by the Board.

Stress testing is conducted to assess the solvency under specified stress events according to the Company's Risk Tolerance. Management information arising from the solvency assessment and stress testing is used to complete Solvency Self-Assessments of the capital required to support the Company's business objectives given the amount of risk the Company has taken on (or plans to take on) and environmental factors. The result is reviewed by executives and the Risk Committee to ensure that the Company operates within its risk appetite.

For more information on the Group's Risk Management Framework, please refer to the Risk Management section of the Annual Report 2021.

Internal Control System

The Board of Directors is responsible for overseeing the Company's internal control system, as well as reviewing its effectiveness. The Company has an internal audit function. On an ongoing basis, the Board of Directors, through the Audit Committee, reviews the adequacy and effectiveness of the Company's financial reporting system and internal control procedures, discusses with management any matters in relation to the Company's internal control system and ensures that management has discharged its duties in establishing and maintaining an effective internal control system.



Compliance Function

The Group's compliance function has the responsibility within the 'Three Lines of Defence' model (that is explained in the 'Risk Mitigation' section of this report) to monitor adherence to applicable regulations central to the Group's role as an authorised insurer in relevant jurisdictions. The compliance function monitors adherence to organisational compliance policies and procedures and conformity to the Group's Code of Conduct. All material violations are reported to the Board, or its Committees, and addressed. The Company uses internal audits to review the compliance function and would report any material deficiencies or weaknesses to the Board, or applicable Committee.

Internal Audit

The mission, scope and responsibilities of AIA Group Internal Audit ("GIA"), including arrangements for ensuring GIA's independence and objectivity, are set out in the AIA Group Internal Audit Charter as approved by the AIAGL's Audit Committee.

Within AIA's governance framework, GIA operates as the third line of defence. The primary role of GIA is to assist the Board, AIAGL's Audit Committee and executive management to protect the assets, reputation and sustainability of the Group. GIA's mission is to provide independent and objective assessment and reporting of the overall effectiveness of risk management, internal controls and governance processes across the Group and appropriately challenge executive management to improve the effectiveness of these processes.

GIA is independent from management at all times in order to be effective in performing its activities. The Group Head of Internal Audit reports directly to AIAGL's Board of Directors, through the Audit Committee of AIAGL, on the audit programme, its status, and the condition of the control environment. This reporting relationship which also includes audit plans, financial budgets and staffing considerations is designed to ensure the ongoing independence of GIA in order to provide for the objectivity of its findings, recommendations and opinions. For administrative purposes, the Group Head of Internal Audit reports to the Group Chief Risk Officer.

The Group Head of Internal Audit is authorised by Board Audit Committee to have complete and unrestricted access, on request, to any of the Group's records, properties and personnel. The Group Head of Internal Audit is also authorised to designate members of GIA staff to have such access in discharging of their responsibilities.

Actuarial Function

The Actuarial Function is responsible for the valuation and monitoring of the Technical Provisions. There are actuarial staff based in each local office of the Company's business units to support the Actuarial Function.

Key objectives of the Actuarial function are to:

- develop and maintain appropriate methodology for valuation of the Technical Provisions, in compliance with regulatory requirements outlined by the Authority.
- monitor the Company's actual experience and set the best estimate assumptions on a regular basis.
- perform the valuation of the Technical Provisions and ensure its reasonableness with consideration of the nature, scale and complexity of the Company's business.



Outsourcing

Outsourcing Policy and Key Functions that have been Outsourced

The Company has outsourcing policies in each jurisdiction in which it operates to comply with local regulatory requirements. These policies outline the criteria for the selection of third party service providers and the due-diligence procedures to be undertaken to monitor performance and provide oversight of such arrangements.

The Company does not outsource key functions outside the Group and leverages the expertise within the Group through intra-group arrangements.

Material Intra-Group Outsourcing

Intra-group transactions are overseen by the relevant Group Office functions to ensure adherence with the relevant Group policies. The Group Risk function oversees the processes to identify and assess material systematic intra-group transaction risks, and ensure risks assumed are within the Group's Risk Management Framework.

The Company makes use of several affiliated service companies which perform a range of services. These affiliated companies are fully owned by the Group. In terms of material intra-group outsourcing, the operation of various information technology systems has been outsourced to a fellow-subsidiary of the Company in Malaysia.

4 RISK PROFILE

Material Risks the Insurer is Exposed to During the Year

The Company maintains a detailed risk taxonomy to ensure all risks are identified and systematically managed. These risks are categorised in accordance with risk landscape shown below.





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

Risk Mitigation in the Organisation

Under the 'Three Lines of Defence' model, the executives working in the first line are responsible for the timely identification and escalation of material risk developments and for the implementation of risk mitigation actions, as appropriate.

The Company mitigates financial risk in the organisation through a variety of ways, including but not limited to product design or repricing, asset allocation, hedging, reinsurance, experience study, etc.

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

The Company also protects itself against financial losses by purchasing insurance cover against a range of operational loss events including business disruption, property damage and internal fraud. The coverage is determined after taking into consideration the Company's Operational Risk Profile.

Material Risk Concentrations

The Company has established risk policies and limits governing concentrations risk arising mainly from its investment activities in single name obligor, sector and cross-border exposures. Any potential activity that may breach the concentration limits has to be reviewed by the Risk Management function and approved by the designated executives in the first line according to the Company's Activity Approval and Monitoring Process.



Investment in Assets in accordance with the Prudent Person Principles of the Code of Conduct

The Company's investment portfolio is managed by AIA's investment team in accordance with the Group's investment policy guidelines. The guidelines require that highly liquid and low volatility fixed income securities support technical provisions designed to ensure that claims can be paid on a timely basis. The size of the high-quality investment portfolio is determined by the amount of technical provisions recorded for the quarter plus a large safety buffer.

These guidelines are reviewed on an annual or ad hoc basis if any significant deviation have occurred that affect the financial markets.

Stress Testing and Sensitivity Analysis to Assess Material Risks

Stress testing provides assurance that the Company and the business units are adequately capitalised to maintain regulatory solvency and withstand adverse financial risk events. The Company performs regular stress testing to monitor the potential impact of the changing investment and economic environment on the regulatory capital and liquidity adequacy of the Company and each of the business units. These tests show the financial impact the risks identified above are likely to have when considered individually and collectively. The stress test results are reviewed regularly by Risk Committees.



5 SOLVENCY VALUATION

Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company has considered the valuation principles outlined by the Authority's "Guidance Note for Statutory Reporting Regime" for the year's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents are measured at amortised cost using the effective interest method. This approximates the fair value.
- Fixed Interest Securities are valued 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.
- Equity Securities are valued based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities.
- Hedge Funds and Limited Partnerships are measured based on the net asset values provided by the general partner or manager of each investment.
- Property held for own use and investment property are valued based on external property valuations.
- Mortgage loans on real estate and collateral loans are valued by discounting expected future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings.
- Investments in associates and joint ventures are accounted for using the equity method of accounting.
- Policy loans with fixed rates are valued by discounting expected future cash flows at the interest rates charged on policy loans of similar policies currently being issued. Policy loans with variable rates are carried at amortised cost using the effective interest method. This approximates the fair value.
- Accounts Receivable, premium receivable and investment income due and accrued are initially recognised at fair value plus transaction costs. Subsequently they are carried at amortized cost using the effective interest method less any impairment losses. This is not considered materially different to the fair value.
- Derivative Financial Instruments are valued 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.



Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Insurance technical provisions are valued based on best estimate cash flows, discounted to reflect the time value of money using rates of interest consistent with those supplied by the Authority (where available). The technical provisions are calculated using reasonable estimation methodologies that have been consulted with the Authority.

In addition, for participating business, to be consistent with policyholder bonuses and dividends assumed in the best estimate cash flows, future cash flows from derivatives in the participating funds which are considered in determining future policyholder bonuses and dividends have been reflected in calculating the technical provisions.

The data used to measure the insurance reserves in the audited financial statements are also used to value the insurance technical provisions. Cash flows are projected based on best estimate assumptions without provision for adverse deviations.

In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows, which is calculated using the cost of capital approach and the rate prescribed by the Authority for each year.

At 31 December 2021, the total Technical Provisions in the Economic Balance Sheet amounted to USD 90,320 million comprising the following:

• Total Gross Long-Term Business Insurance Provisions	USD87,563m
• Reinsurance Recoverable Balance	USD(300)m
• Risk Margin	USD3,057m

Description of Recoverables from Reinsurance Contracts

Reinsurance contracts mainly take the form of surplus and quota share arrangements. Receivables from reinsurance contracts are valued using the same methodologies and principles that are also used to value the insurance technical provisions.

Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Other Liabilities mainly include segregated accounts – LT Business, amounts due to affiliates, and accounts payable and accrued liabilities.

Similar to the valuation principles for assets, the Company's segregated accounts – LT Business follow the valuation principles outlined by Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities on a fair value basis. The balance is valued at quoted market prices, observable market inputs or on an IFRS basis where appropriate.

Amounts due to affiliates, and accounts payable and accrued liabilities are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.



6 CAPITAL MANAGEMENT

Eligible Capital

Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Year

The capital management objective of the Company is to maintain sufficient capital to ensure that the Company operates within its risk appetite while achieving its strategic objectives.

The Risk Appetite Statement of the Company is supported by five Risk Principles: regulatory capital, financial strength, liquidity, earnings volatility and business practice. The first two Risk Principles define the capital requirements of the Company.

- Regulatory capital: "The Company has no appetite for regulatory non-compliance and as such will ensure that we hold sufficient capital to meet our current statutory minimum solvency in all but the most extreme market conditions."
- Financial strength: "The Company will ensure its ability to meet future commitments to our customers, terms of the promise we make to them. The Company will maintain sufficient capital to support a Financial Strength Rating that meets our business needs."

There were no material changes to the capital management policy of the Company during the year.

Eligible Capital Categorised by Tiers in Accordance with the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

Tier 1 and 2 capitals are held by the Company at the end of the year. Tier 2 capital is the excess of pledged assets over policyholder obligations.

Regulatory Capital Requirements

ECR and MSM Requirements at the End of the Year

At the end of the year, the regulatory capital requirements were assessed as follows:

Requirement	Amount
Minimum Margin of Solvency ("MSM")	USD 1,750m
Transition Enhanced Capital Requirement ("Transition ECR")	USD 5,546m

Identification of Any Non-Compliance with the MSM and the ECR

The Company was compliant with the MSM and ECR requirement at the end of the year.

Approved Internal Capital Model

The Company has not applied an internal capital model to determine regulatory capital requirements.



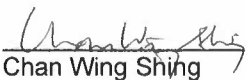
7 EVENT AFTER THE YEAR

The Hong Kong Insurance Authority ("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.

8 DECLARATION

On behalf of the Board of Directors of the Company, we hereby declare that, to the best of our knowledge and belief, this Financial Condition Report fairly represents the financial condition of the Company in all material respects.

By order of the Board of Directors


Chan Wing Shing
Director and
Regional Chief Executive for the AIA Group

20 April 2022
Date


Christopher Andrew Hancorn
Approved Actuary

20 April 2022
Date