AIA International Limited

Financial Condition Report

For the year ended 31 December 2024

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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. In addition to the Authority, the Company together with its subsidiaries are subject to supervision in the jurisdictions in which they operate as a subsidiary and a branch. As at 31 December 2024, the Company is a member of the AIA Group and has branches in the Hong Kong SAR, the Macau SAR, and Taiwan (China) and wholly-owned subsidiaries in South Korea, Indonesia, and Vietnam as well as a 49 per cent joint venture in India.

The Company maintained a strong capital position for the year ended 31 December 2024 and the table below shows the current ratings of the Company by leading credit rating agencies:

Rating Agency	Financial Strength Rating (note 1)	Issuer Credit Rating (note 1)	Rating as at
S&P	AA- / Positive / --	AA- / Positive / --	23 December 2024
Moody's	Aa2 / Negative	NA	23 December 2024
Fitch	AA / Stable	NA	23 December 2024

The Company is a wholly-owned subsidiary of AIA Group Limited ("AIAGL") 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 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, AIA serves the holders of more than 43 million individual policies and 16 million participating members of group insurance schemes.

AIAGL, 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" for HKD counter and "81299" for RMB counter with American Depositary Receipts (Level 1) traded on the over-the-counter market under 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

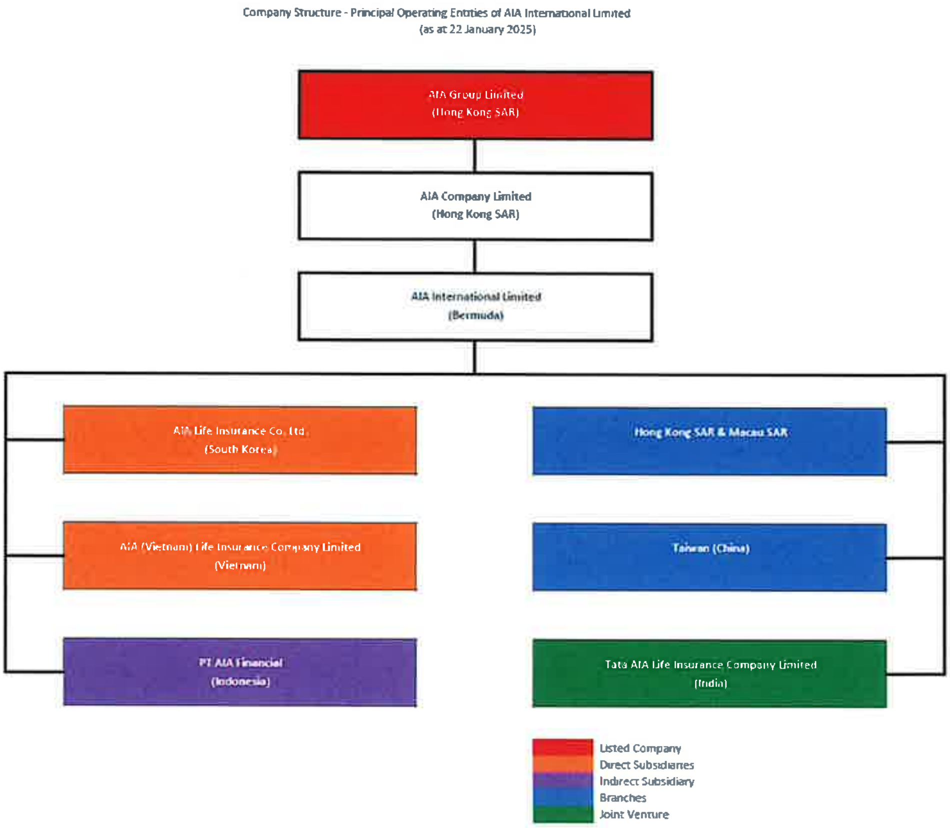
Approved Auditor

GAAP Reporting
PricewaterhouseCoopers
22/F, Prince's Building
10 Chater 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.

Group Structure



Insurance Business Written by Business Segment and by Geographical Region

The Company writes insurance business through its branches in the Hong Kong SAR, the Macau SAR, and Taiwan (China) and its subsidiaries in South Korea, Indonesia and Vietnam (collectively "AIA International group of companies").

Below is the information on the insurance business of the AIA International group of companies written by business segment (e.g. lines of businesses) and by geographical region:

Gross Premiums Written by Business Segment for the Year

Line of Business (US$ million)	**Year ended 31 December 2024**	**Year ended 31 December 2023**
Long-term Business	16,207	15,688
General Business	439	352
Total	**16,646**	**16,040**

Gross Premiums Written by Geographical Region for the Year

Region (US$ million)	**Year ended 31 December 2024**	**Year ended 31 December 2023**
Hong Kong	13,518	12,641
Other	3,128	3,399
Total	**16,646**	**16,040**

Please refer to the Financial and Operating Review of the Annual Report 2024 of AIAGL ("Annual Report 2024") 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 2024, AIA International group of companies had policyholder and shareholder investment assets (including unit-linked assets) of USD113,785 million. Of these, 56% were invested in fixed-income investments, 41% in equity securities (including investment funds), and 2% in properties. The underlying assets of investment funds include various types of assets such as private credits, listed equities, private equities and real estates.

The fixed income portfolio remains of high quality with 98% rated as investment grade at 31 December 2024. 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 by participating funds to provide for discretionary bonus and dividend payments to participating policyholders. As at 31 December 2024, the largest portion by geographical region was held in Hong Kong (96%), followed by Indonesia (2%) and South Korea (1%).

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

Interest revenue on financial assets and other investment return (US$ million)	**Year ended 31 December 2024**	**Year ended 31 December 2023**
Interest revenue on financial assets	3,549	3,601
Other investment return		
Dividend income	899	674
Rental income	92	97
Net losses of debt securities measured at fair value through other comprehensive income	(130)	(156)
Net (losses)/gains in respect of financial instruments at fair value through profit or loss	(4,499)	2,270
Net fair value movement of investment property and property held for own use	(31)	(137)
Net foreign exchange gains/(losses)	397	(131)
Other net realised (losses)/gains	(73)	139
Total other investment return	(3,345)	2,757
Total interest revenue on financial assets and other investment return	**204**	**6,358**

Interest revenue on financial assets and other investment returns were generated by financial assets backing both participating business and non-participating business of AIA International group of companies.

For the year ended 31 December 2024, net investment returns were mainly driven by interest revenue on financial assets and mark-to-market gains on equity share and investment funds due to favourable market performance, partially offset by mark-to-market losses on fixed income investments due to higher market interest rate. In the year ended 31 December 2023, net investment returns were mainly driven by interest revenue on financial assets and net mark-to-market gains.

Material Income and Expenses for the Year:

AIA International group of companies' main revenue source is the insurance service result, determined following IFRS accounting principles including recognition of revenue through the release of contractual service margin and incurrence of insurance service expenses. The insurance service result for the year ended 31 December 2024 was USD1,939million, representing a 35% increase from USD1,434 million for the year ended 31 December 2023, due mostly to new business growth.

Income and expense type (US$ million)	**Year ended 31 December 2024**	**Year ended 31 December 2023**
Insurance revenue	5,773	5,125
Insurance service expenses	(3,755)	(3,563)
Net expenses from reinsurance contracts held	(79)	(128)
Insurance service result	1,939	1,434
Total interest revenue on financial assets and other investment return	204	6,358
Net finance income/(expenses)from insurance contracts	713	(5,157)
Net finance expenses from reinsurance contracts held	(34)	(33)
Decrease in investment contract liabilities	(309)	(208)
Other expenses	(575)	(594)
Other finance costs	(58)	(33)

Please refer to the Financial Highlights, Financial and Operating Review and Financial Statements of the AIA Group Annual Report 2024 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 is 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. The remuneration of senior executives follows the same guiding principles applied to all other employees with a significant portion of the variable remuneration being deferred subject to a multi-year performance-based vesting period 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 their independence.

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 the Hong Kong SAR, Indonesia South Korea, Taiwan (China), and Vietnam. The Company also operates several defined contribution pension plans, whereby employees and employer make monthly contributions ranging from 1 per cent to 22 per cent of the employees' monthly basic salaries.

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

The first interim dividend of USD1,200 million was approved by the Board on 19 June 2024 and the second interim dividend of USD350 million was approved by the Board on 19 August 2024 and the third interim dividend of USD350 million was approved by the Board on 25 November 2024.

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 and Group Chief Distribution Officer of AIAGL, responsible for the Group's businesses operating in the Hong Kong SAR and the Macau SAR, Taiwan (China), the Philippines, as well as the Group's agency distribution, partnership distribution and corporate solutions. 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 37 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 the 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 Tata AIA Life Insurance Company Limited, 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 his 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.

Mr. Mitchell David New (appointed 17 January 2017) is the Group General Counsel responsible for providing leadership to legal and corporate governance functions within Group Office and the country operations. He also has executive responsibility for the Group's ESG Programme, including acting as Chairman of the Group's ESG Committee. He has previously also acted as Group Chief Risk Officer. He is Chairman of AIA International Limited and a director of various companies within the AIA Group including AIA Reinsurance Limited, AIA Investment Management Private Limited and the Group's operating subsidiaries in Vietnam, Indonesia and the Philippines. He joined AIA in April 2011. Prior to joining the Group, Mr. New occupied various senior roles with Manulife Financial, including Senior Vice President and Chief Legal Officer for Asia and Japan, based in Hong Kong and Senior Vice President and General Counsel to Manulife's Canadian division. Mr. New also practised law with Fasken Martineau in Canada where he is a qualified barrister and solicitor and member of the Law Society of Ontario. He 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. Dick Poon (appointed 20 April 2022) is the Regional Chief Financial Officer of AIA Group reporting to the Group Chief Financial Officer. Mr. Poon is responsible for all the financial reporting related functions in the Group Office. Mr. Poon joined AIA Group directly from FWD Group Management Holdings Limited where he was Senior Vice President and Group Finance Director. Prior to that role, his experience includes roles in MetLife Asia as Vice President and Chief Financial Officer Designated Markets as well as Vice President, Regional Controller and before that, Deputy Regional Controller with Manulife Financial, Asia Division. Mr. Poon is a strategic finance professional with strong business partnership exposure and brings more than 25 years of global experience to AIA. He is a Chartered Professional Accountant and Certified Management Accountant of the Chartered Professional Accountants of Ontario, Canada, a member of Chartered Financial Analyst Institute, US and a member of the Hong Kong Institute of Certified Public Accountants. He holds a Master of Business Administration degree from York University and a degree in Honours Chartered Accountancy from the University of Waterloo.

Mr. Timothy Carrick Faries (appointed 17 January 2017) was Partner of Appleby a global legal and fiduciary services firm operating in 10 locations worldwide, from 1 April 2000 to 30 September 2024. After holding numerous executive positions within Appleby (Bermuda) Limited and its predecessor partnership, he served two terms as Managing Partner from 2015-2021. He is currently the Owner and Principal of Ascent Law Limited, a professional company providing Bermuda legal services and regulated by the Bermuda Bar Act, 1974. In his professional practice, Mr. Faries has obtained extensive experience of Bermuda insurance law and regulation, public and private insurance company capital raising, mergers and acquisition activity, public listings on US, UK and European securities exchanges, the establishment and licencing of alternative risk financing vehicles such as catastrophe bonds, ILWs and other insurance-linked securities, and captive insurance companies in established and emerging markets. 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 (inactive) 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 2024 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 and Life Operations Officer, Group Chief Human Resources Officer, Regional Chief Executive and Group Chief Distribution Officer, Regional Chief Executive, and Group Chief Marketing Officer.

Risk Management and Solvency Self-Assessment

The Company recognises the importance of sound risk management in every aspect of our business and for all stakeholders. For our policyholders, it supports safeguarding their interests and our ability to meet our obligations to them. For investors, it is key to protecting and enhancing the long-term value of their investment. Finally, for regulators, sound risk management supports industry growth and enhances the public's trust in the industry.

The 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 Company's RMF provides business units with appropriate tools, processes and capabilities for the ongoing identification, assessment, management and response, monitoring and reporting of the Group's principal risks in an integrated manner.

The Company's risk governance framework is built on the 'Three Lines 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 responsibilities for management of risk between Executive Management (First Line), Risk and Compliance (Second Line) and Internal Audit (Third Line) functions.

RISK MANAGEMENT PROCESS

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.

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

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

Management and Response. 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 Tolerances. They are also responsible for the timely escalation of material risk developments.

Risk Monitoring. Risks are evaluated against approved Risk Tolerances and Risk Limits to ensure implications for both the current and forward-looking risk profile are understood and appropriately considered in decision-making.

Risk Controls. 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.

RISK REPORTING, SYSTEMS AND TOOLS

Risk reporting represents the internal and external Risk and Compliance reporting processes which support an ongoing evaluation of the Company's Risk Profile. Information is gathered from underlying systems and provided to the Board, respective Risk Committees and other executive management to inform key decision-making, such as via the Commercial Insurer's Solvency Self-Assessment (CISSA) report.

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 the 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. Executives and the Risk Committee review the result 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 2024 published on the Group's website at http://www.aia.com/en/investor-relations.html.

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 control over financial reporting programme and 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 as explained in the 'Risk Mitigation' section of this report to monitor adherence to regulations as are applicable to the Group's role as an authorised insurer in jurisdictions it operates in. The compliance function monitors adherence to organisational compliance policies and procedures and conformity to the Group's Code of Conduct. All material exceptions are reported to the Board, or its Committees, and addressed accordingly. The compliance function is subject to review by Internal Audit and any material deficiencies or weaknesses would be reported to the Board, or applicable Committee.

Internal Audit

The role, purpose, authority, scope and responsibilities of AIA Group Internal Audit ("GIA"), and the arrangements for the management of the function, including ensuring its 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 purpose 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, objective and timely assessment and reporting of the overall effectiveness of risk management, internal controls and governance processes across the Group.

GIA is independent from management at all times in order to be effective in performing its activities. The Group Head of Internal Audit is accountable to the Board Audit Committee ("BAC"), through a functional reporting line to the Chairperson of the BAC, 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 review all areas of the Group, and have complete and unrestricted access, on request, to any of the Group's data, records, information, personnel and physical properties which the Group Head of Internal Audit considers is reasonably necessary for fulfilling GIA's mandate. The Group Head of Internal Audit is also authorised to designate members of GIA staff to have such access in the discharging of GIA's roles and 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 a Third Party Risk Management ("TPRM") Standard which sets out the requirements for engaging and monitoring third parties. 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 fellow-subsidiaries of the Company.

4 RISK PROFILE

Material Risks the Insurer is Exposed to During the Year

The Group's principal risks and the strategies to manage these risks are detailed below.

INSURANCE RISKS

Insurance risk relates to changes in claims experience, business expenses, and the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

Pandemic and catastrophe risk

The Company is exposed to morbidity and mortality risk including single events, namely pandemics, natural catastrophic events or human-made disasters. Geographical concentration of insured individuals could increase the severity of this risk. However, the Company's insured populations are geographically dispersed, thereby diversifying the exposure to pandemic and catastrophe risk. In addition, the Company limits its exposure to large claims arising from a catastrophe by purchasing reinsurance to cover losses due to a single catastrophic event exceeding a pre-determined level.

Expense risk

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. Operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Company's very substantial experience within the markets in which we operate.

Morbidity and mortality risk

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

The Company 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. Actuarial teams conduct regular experience studies of all the insurance risk factors in its portfolio. These internal studies together with external data are used to identify the impact of emerging trends, such as medical technology, health and wellness, and the impacts of climate change, which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

The Company limits its exposure to new risks and large claims on any single insured life 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.

Persistency (lapse) risk

Persistency (lapse) risk arises from policies lapsing, on average, differently to that assumed in the pricing or reserving assumptions. Persistency risk is assessed as part of the product development process and monitored through regular experience studies.

Ensuring customers buy products that sustainably meet their needs is central to the Company's Operating Philosophy of "Doing the Right Thing, in the Right Way with the Right People... and the Right Results will come". Through effective implementation of the Business Quality

Framework to manage sales conduct risk, comprehensive sales training programmes and active monitoring of sales activities and persistency, the Company seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers' needs.

MARKET RISKS

Market risk relates to the adverse price movements and credit defaults leading to financial losses immediately, as well as losses over time due to a mismatch in asset and liability cashflows.

Credit Risk

Credit risk arises from third parties failing to meet their obligations to the Company when they fall due. Although the primary source of credit risk is the Company investment portfolio, such risk can also arise through reinsurance and treasury activities.

The Company's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability through lines of defence. Fundamental to the Company's credit risk management is adherence to a well-controlled underwriting process. Credit risk limits are applied to control concentrations in individual exposures, sector and cross-border investments. A detailed analysis of each counterparty is performed and a rating is determined by the investment teams according to an internal rating framework. 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.

Credit Spread Risk

Credit spread movements affect both the value of assets and liabilities. Credit spread risk is mainly managed through the strategic asset allocation process, whereby the two key drivers of spread risk – credit rating and spread duration – are managed for capital efficiency, taking into account both the economic risk and the local solvency capital considerations. The risk is monitored by the business units, with special attention paid to any issuers with credit ratings close to the lower boundary of Investment Grade.

Interest Rate Risk

Interest rate risk is primarily measured through the duration gap, which provides an understanding of the implications of interest rates movements on surplus. 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 Company's insurance liabilities.

The Company manages interest rate risk primarily on an economic basis. Interest rate risk on the local solvency basis is also taken into consideration for business units where local solvency regimes deviate from the economic basis. Furthermore, the Company actively manages interest rate risk by extending asset duration, managing liability duration, repricing products, and implementing appropriate hedging programmes and reinsurance solutions where possible. For products with discretionary benefits, additional modelling of interest rate risk is performed to guide the determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

Equity Risk

Equity risk arises from changes in the market value of equity shares, interests in investment funds and exchangeable loan notes. Investments in equity shares, interests in investment funds and exchangeable loan notes on a long-term basis are expected to align with policyholders' reasonable expectations, provide diversification benefits and enhance returns.

Equity risk is managed through strategic asset allocation and tactical asset allocation. Equity investments are subject to benchmarks and controls relating to maximum concentration and tracking errors. Equity limits are also applied to contain concentration risk of individual stocks and sectors, liquidity as well as equity volatility. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

The extent of exposure to equities at any time is subject to the terms of the Company's strategic asset allocations. Equity risk arising from the underlying items of participating contracts is shared with policyholders after allowing for the Company's share of the performance of the underlying item.

Foreign Exchange Rate Risk

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

Assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched except for holdings of equities and other non-fixed income assets denominated in currencies other than the functional currency. Bonds denominated in currencies other than the functional currency are hedged with cross-currency swaps or foreign exchange forward contracts.

Liquidity Risk

The Company defines 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 Company manages liquidity risk in accordance with the approved liquidity framework. This framework contains the standards, procedures, and tools used by the Company to monitor and manage liquidity risk on a forward-looking basis in base and stressed conditions across multiple time horizons from daily to monthly time steps for 12-month period, as well as a projection in line with strategic planning. The forward-looking management of liquidity over short to longer-term horizons allows for the early detection of risks and enables management to action the pre-defined liquidity contingency plans.

AIA 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, use of bond repurchase markets and debt markets via the Group's Global Medium-term Note and Securities Programme.

OPERATIONAL RISKS

Operational risks arise from internal processes, personnel and systems or from external events which may result in a direct or indirect business impact. The Company's RMF includes a mechanism for identifying, assessing, managing, monitoring and reporting operational risks to ensure that potential risk exposures arising from operational activities do not exceed the Company's Risk Tolerances.

Data Risk

As a data-driven organisation, AIA continues to focus on managing the risk of incomplete or invalid data, or mishandling of data, through a variety of Information Security standards and protocols as well as our Group Data Governance Standard and Group Data Protection Standard. Data Councils are established at the Group and business unit level for enhanced data management governance and controls. In addition, a group-wide Data Privacy Standard is in place which is aligned to leading industry standards and independent assurance is provided by GIA as part of its risk-based cyclical audit plan for data privacy compliance controls.

Environmental, Social and Governance-Related Risk

AIA's Environmental, Social and Governance (ESG) Report 2024 is published on the websites of both the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and the Company at https://www.aia.com/en/esg/overview and provides an update on our ESG strategy, initiatives and progress. AIA's ESG governance framework and strategy are embedded in the organisation, enabling the Group to effectively manage ESG-related risks and opportunities across all businesses.

Financial Crime Risk

Financial crime risk refers to the risk of breach of Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) laws and regulations. AIA is committed to a strict programme of compliance with all applicable AML/CTF laws and regulations to prevent the use of its products and services for money laundering and terrorist financing purposes. The Group AML/CTF Policy sets out the detailed requirements of the Group AML/CTF Programme, including a risk-based approach to conducting customer due diligence, ongoing monitoring, suspicious activity reporting, training and record keeping. AIA uses appropriate AML/CTF monitoring software and tools to screen risk profile and monitor customer activity. Employees and agents are required to complete AML/CTF training. In addition, our Group Economic Sanctions Policy sets out standards to manage the risk of dealings with governments, individuals and entities subject to sanctions programmes.

Fraud Risk

Fraud risk arises from fraudulent activities committed by internal and/or external parties to cause a loss (including monetary loss, reputational loss or regulatory fines) to AIA or others. AIA adopts a zero-tolerance approach to fraud, with clear standards for consequence management, including discipline. The Group Anti-Fraud Policy / Group Whistleblower Protection Policy and respective trainings provide guidance to employees on their responsibilities to be vigilant in identifying and reporting potential fraud impacting AIA or our customers, including through whistleblowing channels. Detective controls include monitoring and modelling of intermediary conduct and checks on employees' expenses.

Operational Resilience Risk

Operational resilience ensures effective preparedness and response to disruptive events, which involve the availability of critical staff, critical systems, and premises. AIA has a robust Business Continuity Management (BCM) framework in place, aligned with leading industry standards. Critical staff have designated backups, with the required capability and technology/systems to work remotely, whilst disaster recovery readiness and recovery objectives have been defined, validated and tested for critical systems. The group-wide BCM system enables real-time monitoring, automation of reports and digital dashboards. General BCM awareness as well as certified professional training programmes are undertaken to enhance response capabilities of our people.

People Risk

Our organisation and people strategy enables us to attract, retain and develop outstanding people, making AIA an employer of choice across our markets. We monitor engagement across our business units and functions each year through the Gallup Q12 Employee Engagement Survey. This provides meaningful inputs that inform targeted and impactful strategies to maintain and enhance our strong levels of engagement. AIA is also committed to developing strong internal leadership capability, with a succession pipeline that drives personal growth for our people, shapes our organisation, and ultimately supports sustainable business growth. Moreover, employees' physical, mental, social, and financial health continue to be a priority in retaining top talent and sustaining high performance.

Regulatory Risk

Regulatory risk concerns the risk of financial or reputational loss due to the failure to comply with or address changes to regulatory requirements, guidelines and expectations. We continue to monitor adherence to various new and existing regulatory requirements in various jurisdictions as well as international developments, including the Insurance Capital Standard and Base Erosion and Profit Shifting (BEPS) 2.0.

Sales Conduct Risk

Sales conduct risk arises from inappropriate marketing and sales practices which may result in poor outcomes for customers and reputational damage or financial loss to the Group. It is managed in accordance with group-wide standards on business quality, which set out the minimum requirements to promote the right outcomes for customers and the right culture across intermediaries. Agents are licensed by the respective regulators and further trained by AIA on the relevant regulatory and company policy requirements, including AIA Code of Conduct requirements. The interactive Point of Sale (iPoS) tool facilitates the sale process, supported by minimum standards covering product suitability, handling of vulnerable customers and non-face-to-face sales. Sales practices are monitored through various means, including direct verification calls with customers, mystery shopping, sample-based quality assurance reviews of controls, and investigation of inappropriate sales practices.

Technology Risk

AIA manages technology risk in accordance with industry policies, practices and benchmarks. In 2024, AIA maintained International Organization for Standardization (ISO) 27001 certification covering identity access management, cybersecurity and cloud security operations and we regularly perform an independent cybersecurity maturity assessment against the standards of the United States' National Institute of Standards and Technology (NIST). With growing use cases of responsible artificial intelligence (AI) in the Group, AIA has established AI governance through the Group Responsible Use of AI Standard and the Group and business units AI Councils.

Third-Party Risk

AIA engages a variety of third parties in the normal course of its business operations, and has in place minimum requirements for assessing, managing and governing third parties, including with respect to third-party security, operational resilience and regulatory compliance. AIA identifies, captures and monitors third-party risks through a group-wide Third Party Management System. External and intra-group outsourcing arrangements that are material from Group perspective are identified and a register of material group outsourcing arrangements is maintained.

Risk Mitigation in the Organisation

Under the 'Three Lines' model, the Executives working in the First Line are responsible for operating within the Company's Risk Management Framework, including implementing effective controls to mitigate risks within the Risk Appetite of the Company.

Risks which the Company seeks to mitigate are managed through an effective internal controls system to maintain exposures within an acceptable residual level.

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.

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 standards and limits governing concentrations risk arising mainly from its investment activities in single name obligor, sector and cross-border exposures. Any 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 BMA Code of Conduct

The Company's investment portfolio is managed by the Group's investment team in accordance with the Group's investment policy guidelines. The guidelines require that appropriate assets are allocated to support technical provisions designed to ensure that claims can be paid on a timely basis. The size of the high-quality and liquid investment portfolio is corresponding to the liquidity requirements plus a safety buffer.

These guidelines are reviewed on an annual basis, or ad hoc if any significant deviation has occurred that affects financial markets and therefore the valuation of assets held.

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 and actuarial experiences 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

With effect from 1 July 2024, a risk-based capital solvency requirement became effective as part of Hong Kong Insurance Ordinance ("**HKRBC**").

In the light of this change in Hong Kong Insurance Ordinance, the Authority has provided a **"Modified Filing"** option to Bermuda-incorporated Hong Kong insurers, subject to an annual approval process, for HKRBC information submitted to the Hong Kong Insurance Authority ("**HKIA**") to be used in order to fulfil a number of Bermuda regulatory filing requirements.

On 12 March 2025, the Authority approved a Modified Filing application from the Company, and accordingly the preparation and filing of the Financial Condition Report has been modified, requiring sections "iv. Solvency Valuation" and "v. Capital Requirement" to be prepared on the HKRBC reporting basis in meeting the filing requirements for the year ended 31 December 2024.

Accordingly, the Company has considered the principles and requirements of HKRBC specified in the Cap. 41R Insurance (Valuation and Capital) Rules under the Hong Kong Insurance Ordinance in preparing Section 5 (Solvency Valuation) and Section 6 (Capital Requirement) in this report.

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

The valuation principles applied are to measure assets and liabilities on a fair value basis (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), following the requirements of HKRBC under Hong Kong Insurance Ordinance.

The valuation principles used for assets are as follows:

- Cash and Cash Equivalents are measured at amortised cost using the effective interest method, as an approximation to 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 and Interest in Investment Funds 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 regulated subsidiaries are measured at cost less any impairment losses.
- Investments in non-regulated subsidiaries are accounted for using proportional consolidation.
- Investments in regulated associates 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, as an approximation to their fair value.

- Accounts Receivable, premiums 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

Technical provisions are valued on the HKRBC reporting basis, which is based on the probability-weighted mean of best estimate cash flows, discounted to reflect the time value of money using interest rates prescribed by the HKIA with Matching Adjustment, where applicable.

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

In addition, a 'margin over current estimate' reserve is held, which reflects the uncertainty of liability cash flow related to life insurance risks. It is determined as the 75^{th} percentile of the distribution of life insurance risk modules in accordance with the HKRBC reporting basis.

At 31 December 2024, the total technical provisions amounted to USD66,400 million, mainly comprising the following:

Total Gross In-force reserves	US$ 61,070 million
Prepaid policyholder premiums	US$ 3,455 million
Margin Over Current Estimate	US$ 1,171 million

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, adjusted for the expected losses due to potential default of the counterparty of the reinsurance contracts to which the insure is a cedant.

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

Other Liabilities mainly include amounts due to affiliates, and accounts payable and accrued liabilities.

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

Referring to Section 5 Solvency Valuation following approval by the Authority of the Modified Filing application for the Company, the preparation and filing of the Financial Condition Report has been modified whereby sections "iv. Solvency Valuation" and "v. Capital Requirement" are prepared on the HK-RBC reporting basis in line with the filing requirements for the year ended 31 December 2024.

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 Valuation and Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

AIA International group of companies maintained available statutory capital and surplus of an amount that exceeded the value of its Minimum Margin of Solvency ("MSM") and Enhanced Capital Requirement ("ECR") at the end of the year. AIA International group of companies held tier 1 and 2 capitals in compliance with capital composition limits stipulated in the Eligible Capital Rules.

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") [1]	US$ 2,791 million
Modified Enhanced Capital Requirement ("Modified ECR") [1]	US$ 11,163 million

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.

[1] *Under the Modified Filing approved by the Authority, the amount of ECR is modified to be the Prescribed Capital Amount under HKRBC and the MSM is determined based on the Modified ECR.*

7 EVENTS AFTER THE REPORTING PERIOD

On 10 March 2025, the Board approved a final dividend of US$1,400 million.

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

24 April 2025
Date

Christopher Andrew Hancorn
Approved Actuary

24 April 2025
Date