AIA Group Limited 2012 Interim Results

Analyst Briefing Presentation – Transcript

27 July 2012

Mark Tucker, Chief Executive Officer and President:

Good morning and a warm welcome back to AIA Central. We were very pleased to announce this morning that we have produced another strong set of results and that we have delivered on the priorities that we set out for you back in February and in 2010 at the time of the IPO.

Let me begin by setting out our agenda for today. We will follow our usual structure and give you the opportunity to hear from a number of our senior executives about our progress over the last 6 months. I will start by going through the highlights of AIA's achievements in the first half of 2012 both operationally and financially.

I will then hand you over to Garth Jones, our Chief Financial Officer, to take you through the numbers in detail. Garth will then re-introduce our Regional Chief Executives, Gordon Watson, Ng Keng Hooi and Huynh, Thanh-Phong – these tried and tested veterans of Asian insurance should be very familiar to you. They will cover the many product, customer and distribution initiatives that we are driving across the region. I will then come back to wrap-up at the end before opening the session up to questions.

In February, I shared with you our achievements in getting AIA back on track and delivering high quality, sustainable growth that resulted in a record 2011 performance.

As you have seen, this momentum has been sustained throughout the first half of 2012. We have delivered another record first half VONB, new business margin and ANP. We have focused our businesses on investing capital to deliver better VONB margins with higher IRRs and shorter payback periods.

The results are a testament to the sustainable growth model we have put in place and this has been achieved through the delivery of our clear strategic priorities. As capital market volatility and global economic uncertainty persists – and our view is that it will certainly continue for some time – our prudent financial management and balance sheet resilience places AIA at a distinct advantage.

Alongside … Alongside our focus on the right priorities and with the right people to implement our strategy, AIA is truly in an excellent position and has the right platform to capture the many opportunities that our high growth markets offer. Now let me take you through our first half highlights.

As you can immediately see from the slide, all of the metrics shown here have continued to build positively on last year's record performance. As always, I will start with VONB, our most important value metric.

VONB is up 28 per cent to 512 million dollars. This is a record result and the first time our first- half VONB has exceeded half a billion dollars. Our strategy of only writing business that meets our profitability targets resulted in an improved VONB margin, up 6.6 percentage points to 42.6 per cent. ANP volumes, which we do not target specifically, were up 9 per cent with the second quarter volumes exceeding all of our previously reported quarters and totalling close to 1.2 billion dollars in the first half. Our Embedded Value increased by 6 per cent over the half to 28.8 billion dollars.

Turning to our IFRS profits. Operating profit after tax grew by 12 per cent and we reported a net profit of 1.4 billion dollars. Shareholders' equity has grown by 8 per cent over the half to 23 billion dollars and that's after paying the final 2011 dividend.

And as you can see, the solvency ratio is up at 456 per cent under the Hong Kong ICO basis and remains very healthy and robust. This increase was mainly driven by retained earnings over the half and the subsidiarisation of our branch in Singapore.

Today, we announced an interim dividend of 12.33 Hong Kong cents per share and following the pattern we established last year, if trading conditions are in line with present expectations, the 2012 interim dividend will represent approximately one-third of the full-year.

I said at the full-year that we expected to sustain the momentum built up since IPO and we have. In order to achieve this, we have made significant progress in each of the fundamental areas of our business over the first half.

In distribution, we have built upon our early successes in Premier Agency and moved the recruitment levels, activity levels and capabilities of our agents to the next level. We have deepened and strengthened our regional and local profitable partnerships, with very positive results.

The emphasis on more profitable long-term savings, accident and health and other protection business has continued the deliberate shift in our product portfolio mix. Over 90 per cent of our new sales are regular premium with a focus on A & H products that provide innovative benefits to our customers that complement the high-quality advice from our distribution.

On the customer side, we have translated research into actions through initiatives that will, over time, increase our share of customers' minds and wallets as we transform their experience with us.

All of our key strategic initiatives rely on top-quality local execution and we continued to empower and support the capabilities of our country teams, while seeking operational efficiencies at the Group level.

Last but not least, the strength of our financial position is a key point of differentiation for AIA and a competitive advantage we value highly. The internally generated cash flow from our in-force business allows us to capture the significant growth opportunities available to us as we continue to invest in new business at high IRRs. Let me now take you through these areas in greater detail starting with distribution and Premier Agency.

Premier Agency is at the core of AIA's growth and a key differentiator of our business and reason for our success in the region. The growth in our agency VONB reflects our focus on recruitment quality, first rate training and the strategy of writing business that meets our profitability targets.

This is demonstrated by the improvement in new business margins to 52 per cent compared with the first half of 2011. This is a very substantial year on year increase. We strengthened the effectiveness of our training across the Group, building on the regional roll-out of our Premier Academy that we spoke to you about in February. Our particular emphasis is on providing market-leading induction programmes for new agents.

We also continued to strengthen our agency selection processes through various new initiatives to ensure that the profile and competencies of the candidates we look to hire fit the AIA Premier Agency strategy.

The outcome of these recruitment and training initiatives increased the number of active agents by 7 per cent compared with last year. Membership of the Million Dollar Round Table remains a benchmark for Premier Agency performance and AIA is ranked number one in Asia-Pacific ex India.

Turning now to Partnerships. On the Partnership side, we are focused on deepening our existing relationships and identifying suitable new opportunities although always applying our rigorous profitability criteria. You can see the excellent results with our partnership VONB up 52 per cent which means that it represents over a quarter of our total VONB in the first half. Bancassurance has had a particularly strong first 6 months with VONB up 75 per cent. We continued to deepen our strategic regional relationships and strengthen our support for our domestic partners, such as BCA and CIMB in Indonesia and BPI in the Philippines.

Our on-going focus on profitability and selling the right mix of products through our in-branch insurance specialists has increased margins substantially in this channel over the half. We also continued to develop other channels with investment in direct marketing talent and technology and there was a strong performance in high-net-worth from private banks and brokers.

We have spoken about the Group Insurance opportunity across the region before. Our plans to capture this opportunity are well underway and we have seen good success in the first half with VONB growth of 50 per cent. Let me move on to products.

Our on-going re-pricing actions, new product launches and changes to product mix have been the most significant drivers of the sustained increase in margin over the first half. This slide shows a more detailed breakdown of the overall margin growth for the Group.

You can see that the influence from country mix remains small and demonstrates that VONB grew fairly consistently across the region. Changes to assumptions, mainly reflecting the economic environment, have reduced the margin by 0.9 percentage points.

We only write new business that meets our profitability targets, as you can see from the positive margin movement. Equally we do not focus purely on the pursuit of margin to the detriment of profitable growth. Our clear aim is to optimise overall VONB growth and you can see how we have achieved this on the next slide.

The positive results of our product and distribution are clearly shown here. Higher production accounted for 9 per cent of the improvement in VONB. The pure mix effect towards protection business shown on this slide as the “Product Mix Improvement” contributed 10 per cent, and margin enhancement from product quality which includes repricing and new product designs contributed 8 per cent of the increase.

It is still very much work in progress and as you can see, our quality distribution and product strategies are aimed at sustaining our growth in VONB. Let’s move on to customer initiatives.

Customers are at the heart of everything we do. Building on this for the future, we launched a customer experience transformation programme in our 10 largest markets during the first half of the year. We conducted detailed customer and agent research and that has provided us with a clearer view of our customers’ priorities and has given us valuable insights about what matters most to our customers.

We have turned these insights into practical local action plans that aim to increase our level of customer engagement. While this all makes good intuitive sense, we also have hard evidence to demonstrate that it adds value to AIA.

The right hand chart shows actual data from our Chinese business. It shows that customers who are identified as highly engaged have generated almost three times as much additional new business premium as those with low engagement.

We are confident that our customer initiatives will continue to generate sustainable revenue growth through more new business referrals and additional sales to the holders of our more than 24 million existing individual policies.

Finally you may recall from our previous presentations that our employee scorecard is based on three performance indicators: VONB, EV and OPAT. The key point of these metrics is that we are driving the business to focus on long-term sustainable growth and shareholder value.

As these results demonstrate, we have grown our new business while protecting and nurturing the in-force book as well as funding our growth and maintaining robust earnings delivery. We’re proud of the track record and momentum shown on this slide but, importantly, the team is not resting on its laurels and our strong focus is on continuing the excellence of execution to drive our future results.

Our objective remains both simple and clear – a relentless focus on shareholder value creation through sustainable profitable growth. The headline figures and more importantly, the underlying drivers demonstrate that the transformation of AIA that began a little more than 18 months ago is working well.

The delivery of our strategy is progressing to plan and there is still a lot, lot more to go for. Let me at this point hand over to Garth to take you through the financial details.

Garth Jones, Group Chief Financial Officer:

Good morning everyone. Let me now take you through our interim results for the first half of 2012 in more detail, starting with value creation.

As Mark has already highlighted, we have achieved another record set of VONB results and our profitable momentum has continued into 2012. As Mark said, this is the first time our first-half VONB has exceeded half a billion dollars, noting that the VONB results are also after a deduction of 48 million dollars for Group Office expenses and cost of capital above local requirements under the Hong Kong ICO basis. Growth in VONB has come from a combination of quality top-line sales accompanied by an increase in profitability.

Looking firstly at top-line growth, this accelerated in the second quarter, with a record quarter for ANP of 644 million dollars and first half ANP overall of close to 1.2 billion dollars. When looking at our ANP figures, it is important to bear in mind that over 90 per cent of our new business comes from regular premium business that steadily builds greater and greater scale.

We have focused our distribution on selling long-term savings and protection products that meets the needs of our customers. Protection oriented products often have lower average case sizes but at the same time produce higher margins and higher VONB in aggregate. The results of this shift can be seen on the next slide.

The new business margin in the first half of the year was up 6.6 percentage points compared to the same period last year. This was another very strong performance and the right hand side of this chart demonstrates the consistent improvement in margins over the last 2 years. Overall, the margin for the first half on an ANP basis was 42.6 per cent.

We have received requests from some of you to provide our margin on a Present Value of New Business Premium basis. The PVNBP figure for the first half of 2012 was 7.6 per cent. This is not a measure we particularly manage to, preferring internal rates of return and payback periods; however we hope this is helpful.

The strong growth in VONB during the first half of 2012 is apparent from this slide. One additional point worth making is the strength of our portfolio diversity with a positive 28 per cent overall growth in new business value despite the refocusing taking place in our Korean Business and the impact of floods in Thailand.

As well as absolute VONB and VONB growth rates, it is also important to take into account the high return on capital we are achieving from our continued investment in growing new business. Our average IRR on new business was again in excess of 20 per cent, even after allowing for group office expenses and despite the relatively high Hong Kong reserving and capital requirements. This chart demonstrates that our clear strategy of focusing on profitable growth is working.

The growth across our businesses was both very strong and broad-based as shown on the left hand chart. Hong Kong, was up 16 per cent, while Thailand is up by 30 per cent. Singapore increased by 27 per cent through strong ANP growth, while China was very strong at 36 per cent. Our Korea business reported a decrease of 21 per cent as we repositioned the distribution channels and launched new higher-margin products. Malaysia was up 41 per cent and last but clearly not least our Other Markets delivered a particularly strong performance up 50 per cent.

The right hand side of the chart shows that margin expansion was also broad-based with China in particular showing a step up in profitability after the introduction of the very successful “all-in-one” product. Gordon, Keng Hooi and Phong will provide greater detail about the wider business achievements of individual markets later.

Let me now turn to Embedded Value, which reached 28.8 billion dollars as at 31 May 2012, up 1.6 billion dollars over the first half of the year from 30 November 2011. The main driver of the increase was EV operating profit of 1.7 billion dollars, representing growth of 9 per cent over the same period last year.

Operating variances of 69 million dollars represent better than expected experience compared to our EV assumptions. On the non-operating side, positive market movements were offset by exchange rates plus other movements and the dividend payment of 339 million dollars. I would like to remind you that our dividend payments are not split evenly over the year. The amount deducted here was the final dividend for 2011, representing two-thirds of last year's total dividend. As part of our reporting process we have an independent actuarial firm assess both our economic and operating EV assumptions and confirm that these remain appropriate. Looking further at our operating experience, our effective expense management has achieved a 40 basis points reduction in the expense ratio, taking it down to 8.7 per cent.

Persistency, a critical driver of value and cash flow, has steadily improved since late 2009 and has reached an excellent level of 94.5 per cent as at May 2012. This also reflects the continued improvement in the quality of our business, our service levels and the close relationships we have with our customers.

We have updated the capital market movement EV sensitivities that we provided at the full year. These include equity price movements and a comprehensive interest rate change. The sensitivities allow both for movements in the net worth and also the value of in-force. As you can see, while we are not immune to equity market and interest rate movements, the impacts to EV are small relative to the total EV.

A distinguishing feature of AIA's overall value equation is the profits which will be generated by our in-force book, or VIF. The profile of the projected cash flows underpinning our VIF is very attractive, with over 10 billion dollars expected to turn into cash between now and the end of 2016 on an undiscounted basis. And a further 10 billion dollars in the following 5 years. We continuously seek to create value by growing and optimising the cash flows emerging from our in-force book and applying cash to finance increasing volumes of profitable new business with high IRRs. Now let's take a look at the IFRS results.

Total weighted premium income, or TWPI, grew by 8 per cent in the first half of 2012 to 7.3 billion dollars. We continued to add to TWPI through growth in regular premium new business, building on our large in-force block, which generates substantial renewal premiums and cash flow.

Operating profit before tax over the first half increased to 1.3 billion dollars. Operating margin, which is operating profit before tax divided by TWPI, remained stable at 17.9 per cent over the first half of 2012. One point to note is that operating margin tends to be higher in the first half because of the timing of investment dividends received, and also since TWPI is seasonally higher in the second half. The chart on the right hand side demonstrates the diversity of operating profit across our markets, which is a particularly strong feature of the AIA Group as I mentioned previously.

Investment Income increased to 2.1 billion dollars for the first half and the investment yield remained stable at 5 per cent – the same level as in the first half of last year. The investment return reflects the investment yield together with the mark-to-market performance of equities. Although equity markets have been volatile, we reported net gains at a similar level to last year.

The investment mix remains conservative and stable, mainly being invested in high quality Asian fixed income assets. From the 10 per cent shown here as held in equities, only 6 per cent relates to shareholder's funds with the balance in participating funds. The average credit quality of the portfolio is unchanged and remains strong. Our exposure to Eurozone sovereign and agency bonds in total is 40 million dollars or around 0.05 per cent of our invested assets.

Operating Profit After Tax is up 12 per cent compared with the first half of 2011 to well over one billion dollars. It is worth reiterating that AIA's definition of operating profit does not include normalised gains in the market value of equities and properties such as this building. Our average non-operating gains over the past three years were 331 million dollars.

The IFRS net profit for the first half amounted to 1.4 billion dollars, showing a 10 per cent year-on-year increase. This reflects a combination of the growth in our operating profit and a slightly lower growth in gains from equities compared with the first half of 2011. Our Net Profit does not reflect 594 million dollars of bond gains and foreign exchange movements in the first half of 2012 as they are included through Shareholders' equity. You can see how this works on the next slide.

Shareholders' equity increased 8 per cent over the first half of the year to reach 23 billion dollars. The main drivers were the 1.44 dollars billion increase in retained earnings, plus 594 million dollars of net gains not included in net profits less the payment of the final dividend for 2011 of 339 million dollars. Let me now end with capital and dividends.

Before I go into more detail, I should note that we have shown the 30 November 2011 solvency position of 446 per cent for AIA Co. on a pro-forma basis. This is to allow for the effect of the subsidiarisation of our branch operation in Singapore that occurred during the first half of the year. The purpose of doing this is to make it easier for you to see the underlying half-year movement.

As you can see, the financial position of AIA has remained very strong throughout the first half of 2012 as a result of our prudent approach to investment and capital management. This strength allows us to finance our new business growth ambitions and to absorb capital market volatility, a clear feature of current market conditions. The credit rating by S&P on AIA Co. remains at AA- with stable outlook.

Our strong free surplus generation is a distinguishing feature of AIA. During the first half of 2012 we generated 1.2 billion dollars of cash from the in-force book and invested around 600 million dollars of this in financing our strong, profitable, new business growth. Note that the dividend payment deducted here is two thirds of the 2011 full-year dividend as I mentioned previously. This leads me to my last slide.

As we have stated previously, we think about capital across four priorities. First to continue to invest in further new business growth at high IRRs and take advantage of the significant opportunities we have; second to maintain an advantaged solvency position and strong credit rating that provides confidence to our customers, staff, agents, partners, regulators and investors in uncertain markets; third to pay a prudent, sustainable and progressive dividend; and fourth to ensure that we have the flexibility to capture value creating opportunities as they arise.

The board has declared an interim dividend of 12.33 Hong Kong cents per share in-line with our dividend policy and representing a growth of 12 per cent compared with the interim dividend for 2011.

AIA has delivered another set of strong financial results over the first half of 2012. I shall now hand over to our Regional Chief Executives, starting with Gordon Watson who will share with you how these excellent results have been achieved. Gordon.

Gordon Watson, Regional Chief Executive Officer:

Good Morning. As you've just heard from Garth and Mark, AIA has continued its track record of delivering strong results. As Keng Hooi, Phong and I discuss each of the countries, you'll see that the strong performance is a result of our continued focus on three simple priorities. Firstly, disciplined management to create bottom line value and profitable growth; secondly, continuing to build "Asia's Premier Distribution", expanding the number of quality active agents, not just the number of agents, and implementing our Profitable Partnership distribution model; and thirdly to introduce innovation with consumer focused products and services.

Delivering our strong results on these priorities across AIA's markets will sound similar as we have been leveraging our pan-Asian presence to share best practices. Taking what succeeds in one market and customising it across the region. Today we will update you on our largest 6 operations and some of the exciting developments in our other markets. So, let me start firstly with the largest – Hong Kong.

VONB grew at 16 per cent for the first half of 2012. This strong growth was accomplished through a balanced mix of sales growth and margin enhancement. Our principle distribution channel in Hong

Kong is our Premier Agency, which continues to be seen as the benchmark. The Premier Agency programs that we started in 2011 are continuing to bear fruit in 2012.

The foundation for success is agent increased agent activity. We achieved a 7 per cent increase in the number of active agents over the prior year. Our focus on new quality recruiting increased active new agents by 35 per cent. We have also increased activity in the corporate insurance market with 80 per cent more agents selling group in 2012 versus 2011. We have expanded our Reactivation program beyond just agents to include agency leadership. Results have been positive with targeted leaders seeing 10 per cent higher growth than the rest of our leaders.

AIA in Hong Kong was the undisputed market leader in terms of the most MDRT qualifiers for 2011 and we are on track to maintain this position in 2012. As you know, in 2011 the Hong Kong operation alone ranked 6th in the world for number of MDRTs. Our state of the art development program for high potential candidates new to the insurance industry, known as the Premier Academy "Road to MDRT" is establishing itself as a benchmark for Premier Agency Development. We are on track to have close to 10 per cent of recruits making MDRT in their first year, which would be remarkable.

This year Hong Kong has also made a lot of progress building our Profitable Partnership model, targeting the high-net-worth model, market sorry. Through competitive product design and an investment in the High Net Worth infrastructure and service capabilities, we have been able to substantially grow our partnerships.

Our distribution efforts are supported by our very strong brand reach. The 2012 Brand study just conducted by Nielsen for Campaign Magazine has once again shown that AIA is the most recognised Insurance Brand in Hong Kong. In addition, Independent Consumer research has shown that AIA is the Brand most associated with protection in Hong Kong; AIA is seen as the company that most values long term relationships with its customers; and AIA's agents are considered the most trustworthy when it comes to their customer's money.

Delivering on our 2011 award winning Mind the Gap campaign, we continue to help our customers close their protection gap in Hong Kong. Innovative critical illness products helped AIA Hong Kong increase ANP from protection focused products by 32 per cent. And with external estimates of Hong Kong's protection gap at half a trillion US dollars, we continue to see great opportunities to grow in Hong Kong for many years to come. So, let's move to Korea.

In Korea, as I have said before, we have taken a hard look at our business and we chose to take one step back to build the sustainable business we want for the future. Our repositioning started with agency in 2011, when we deliberately realligned commissions to shift the focus to protection and to enhance margins. This has improved profitability as planned and caused a number of agents to leave as expected. Particularly those agents who focused on lower margin products, not willing or capable to make the shift towards protection sales.

The strategic shift has increased our margin and provided us with the right platform for growing premier agency in Korea. We have some positive signs in the second quarter as our strategy starts to bear fruit. Quarter on quarter growth in our number of active agents and productivity gives us reason for optimism that we are getting this channel on track.

A major focus for the rest of 2012 will be to do the same for our Direct Marketing operations. The first priority is growing the number of telemarketers. We have had initial success in the first half of 2012, by expanding our geographic foot print. Targeting areas with populations that meet our recruiting profile and have less competition for labour, we are finding it relatively easier to attract and grow our sales force.

We are also seeing some positive signs with DM, our direct marketing ANP up 10 per cent in the 2Q versus 1Q. However, there is still a lot more work needed to rebuild our DM channel. So building on the hard work from the first half, we will shift our focus to product and service innovation to continue the revitalisation of this business.

So, whilst Hong Kong and Korea businesses are at very different stages of development, you can see that we are committed to driving quality growth in both. Thank you. I'd like to introduce you to my friend and colleague Keng Hooi to update you on his key markets.

Ng Keng Hooi, Regional Chief Executive Officer:

Thanks Gordon and good morning. I am happy to share with you the positive first half 2012 results for Singapore, Malaysia and China.

As you will see, we have delivered once again on the priorities we set in February. The two key drivers of our impressive performance across all three markets are: First, continued focus on driving Premier Agency which moves our agents up the ladder of productivity and professionalism. And second, continued focus on profitable regular premium long-term savings and protection products to meet a significant customer need. Let me begin with our achievements in Singapore for the first half of 2012.

In January of this year, our Singapore operation became a subsidiary. Building on the significant progress achieved last year, AIA Singapore's focus on Premier Agency, high quality products and profitable Partnership Distribution delivered strong growth in VONB and ANP. VONB increased by 27 per cent to 99 million dollars, driven mainly by high margin ANP growth.

A key driver of these results is our Premier Agency strategy which focuses on boosting the productivity and professionalism of our agents via an enhanced programme of training and development. In March of 2012, we launched a new training programme designed to improve the productivity of new agents and also to promote better retention. We also broadened our distribution reach with impressive growth in profitable partnership distribution, notably the bancassurance and broker channels where we saw strong sales to high-net-worth customers. In Singapore, Group Insurance remains one of our key strengths allowing us to reach the SME market through Premier Agency with very positive results

We continue to re-price our existing products as well as launch new ones to meet the significant protection needs of our new and our existing customers. As a result of the launch of our Next Generation unit-linked product in July of last year, the VONB from regular premium unit-linked products has increased by more than 50 per cent during the first half of 2012. Overall, a very positive set of results for AIA Singapore. Now let me move to the next key operation in my portfolio – Malaysia.

Our Malaysian operation reported a record second half last year and we have continued this momentum into 2012. VONB increased 41 per cent to 31 million dollars compared with the same period last year, driven by strong growth in agency and partnership distribution. VONB margin improvement was a very strong performance up by 9 percentage points to 41 per cent while ANP increased by 13 per cent as a result of our continued shift toward accident and health and unit-linked products. As with Singapore, this performance was driven by successful execution of our strategy to upgrade our distribution force and to promote profitable regular premium unit-linked products.

Our agents are managed on a segmented basis with training and support customized to target different levels of productivity. To build our next generation of quality agents, we launched a structured recruitment and selection process through our Premier Academy. On the partnership side of the business, we signed a long-term distribution arrangement with Alliance Bank offering its customers a range of regular premium products via insurance specialists inside the bank branches.

In Malaysia, our strong performance in first half 2012 was also due to our ongoing focus in promoting our enhanced Unit-Linked products to customers seeking protection and long-term savings. Through a coordinated training and sales campaign, our regular premium unit-linked VONB grew by 32 per cent compared with the first half of 2011. As part of our ongoing strategy to upsell to our existing customers, we launched a new marketing campaign for protection products which resulted in over 30,000 new policies issued. Our Takaful business, launched in early 2011, has gained significant traction in first half 2012, contributing around 10 per cent of AIA Malaysia's VONB. Now let me turn to China.

2012 marks the twentieth anniversary since AIA re-entered the mainland China market. Despite challenges faced by the industry as a whole, AIA China delivered another strong set of results.

In the first half of 2012, VONB grew by 36 per cent to 60 million dollars. Margin improved across all channels, increasing by 15 percentage points to 56 per cent in first half 2012. This excellent performance is driven by continued execution of our Premier Agency strategy combined with a series of successful integrated campaigns to support our shift to higher margin products.

Agency remains our dominant channel in China generating an excellent performance with VONB growth of 35 per cent. We continued to implement our Premier Agency strategy with a focus on increasing overall productivity and the number of active producers while also expanding our efforts to recruit new agents. Our MDRT run rate in China was up by more than 50 per cent, a significant increase compared to last year. By providing agents with best-in-class training and career development, AIA China has successfully created a virtuous circle of improvements in productivity and professionalism, thereby increasing agents' incomes, which in turn helps us to attract a higher caliber of new recruits.

As the first foreign life insurer entering China, AIA enjoys high brand awareness. AIA China leverages this brand equity to reinforce our 'protection expert' reputation by offering a comprehensive range of protection and long-term savings products. This helped attract new customers as well as further penetrate our existing customer base, with ANP from protection products up 31 per cent.

As you can see, 2012 is off to a good start for Singapore, Malaysia and China. Right priorities need right people to turn potential into business achievements. As I said at our last meeting in February, we have excellent management teams leading highly motivated employees and highly motivated agents to continue growing our businesses.

Now I would like to hand over to Phong. Thank you.

Huynh Thanh Phong, Regional Chief Executive Officer:

Thanks Keng Hooi and good morning. Now, I would like to share with you the excellent results delivered by AIA in Thailand and our Other Markets in the first half of 2012.

The key themes you will hear from me today are: Firstly, our Premier Agency strategy remains the key focus. We improved the quality of our recruitment and enhanced our training to further increase the momentum in productivity gains. Secondly, we continued to develop profitable partnerships in bancassurance and other channels in important markets such as Australia, Indonesia and the Philippines. Thirdly, we continue to improve our product profitability by adjusting the product mix and re-pricing, where appropriate.

Let me begin with Thailand. As I will show you now, we have recovered well from the impact of the severe flooding which affected the entire country late last year. In the first half of this year, AIA Thailand delivered strong VONB growth of 30 per cent. This significant increase is mainly due to the success of our Premier Agency strategy which helped enhance the effectiveness of our agents in selling higher-margin protection products. Boosting agent productivity will continue to be a strategic focus for us and ensuring high quality recruitment is crucial to achieving this goal.

We took a major step forward in February of this year by launching the LIMRA agency profiling in Thailand. LIMRA profiling is a selection tool that helps us predict the sales potential of the candidates. This important investment will enable us to attract and retain higher quality new agents. We also continue to invest and further upgrade our agency training this year. Such efforts have led to improved agency productivity and a better sales mix, as you can see from today's results.

As Mark mentioned earlier, a key measure of the success of our Premier Agency Strategy is the number of MDRT qualifiers. Our market leading number of MDRT qualifiers in Thailand remains a key competitive strength for us. Our strategy of leveraging our dominant agency force in Thailand and promoting group insurance in the SME sector has also been very successful. We achieved excellent VONB growth in this area in the first half of this year.

On the product side, we continued to improve the profitability of our product range by re-pricing and by replacing low margin, low volume products. We also aligned our agency compensation with product profitability and successfully promoted more rider sales. In April this year, we launched AIA Health Lifetime, a first-to-market critical illness combined with whole life product. This was launched with an integrated media campaign to raise consumer awareness about their need for more protection. The response was excellent so far. As a result, AIA sales of protection products grew by 19 per cent, and the rider attachment ratio increased compared with the first half of 2011. The combination of these initiatives increased the overall margin by 8.1 percentage points, contributing to the very strong overall results.

Now, let me take you through AIA's excellent performance in our Other Markets. We delivered a strong VONB growth of 50 per cent in our Other Markets in the first half of this year. I will share with you a few achievements by our operations in Australia, Indonesia and the Philippines.

In Australia, AIA delivered strong VONB growth in the first half of this year. Our success was driven by both the retail IFA channel and our market-leading position in Group Insurance. On the retail IFA front, the implementation of our Premier IFA model, combined with our competitive products and best-in-class advisory service continued to boost AIA Australia's VONB. For Group insurance, the growth can be attributed to our strong client development model and the introduction of our Lifeapp and eClaims technology.

In Indonesia, we successfully launched our Next Generation Unit-Linked product in February this year. This product provides much higher protection to help our customers narrow their protection gap. It also better aligns our agency compensation with our product profitability, in line with our philosophy across the region. We also made good progress in building Premier Agency force in Indonesia. The number of active agents increased by almost 70 per cent this year compared with the first half of 2011 while, at the same time, selling higher-margin products focused on protection. On bancassurance, we have seen very strong performance from our profitable partnerships with BCA, CIMB and several other banks.

AIA's business in the Philippines achieved significant VONB growth compared with the first half of 2011. Following the launch of the Premier Agency strategy last year, productivity has increased by 11 per cent. And more importantly, the number of active new recruits was also more than doubled compared to 2011. Our joint venture with the Bank of the Philippine Islands achieved significant growth with VONB more than doubled compared with the first half of 2011.

As you can see, we have many exciting initiatives taking place in Thailand as well as in our Other Markets. Although we have achieved very positive results so far, these are all still work-in-progress. There are many more actions we can and will take to drive our key strategic priorities to boost our sales and profitability. AIA Group has a well-diversified portfolio covering a range of growth markets across the region. As Gordon and Keng Hooi also highlighted, everyone at AIA is very committed to turning the significant opportunities we have into profitable growth.

Let me now hand back to Mark. Thank you.

Mark Tucker, Chief Executive Officer and President:

Thanks Phong. You have seen in detail the record results and strong progress that we have made over the first half of 2012. Let me close by reinforcing why we believe AIA can take maximum advantage of the outstanding future opportunities presented by our markets:

Number one, we have the right platform. We are the only 100 per cent Pan-Asian, 100 per cent retail financial services company. We are able to access the huge growth opportunities offered by our Asian markets through our proprietary distribution and with our financial strength.

Number two, we have the right priorities. We are confident that we are focusing on the right drivers making the right changes and prioritising the right opportunities to ensure that we continue to deliver sustainable profitable growth.

Number three, we have the right people. We understand fully the need to execute on our priorities. We know we have 'the right people' in depth within our country operations and at the Group to deliver this.

Our strong results in the first half demonstrate yet again, what we can achieve when you combine these 3 key drivers of sustainable growth. We believe that taken together they make AIA a unique and exciting proposition. That concludes our formal Presentation and we now look forward to questions.

But let me make a couple of points before … before we go into questions, and I think that would be helpful. The first is I know there is a burning question that everybody wants to ask. And that question is how did Gordon get that injury and did I do it to him. The answers are playing football and no it wasn't me. So just to be very clear about that. I know you will also ask many questions about recent press articles. As you would expect we will not comment on market rumours or speculation. We are here today to focus on your questions about our results, not on press speculation. So that won't prevent the question I understand, at least I've said it once, that makes me feel better. Let's start with questions please.