Lance Burbidge, Group Chief Investor Relations Officer:

Good morning everybody. Welcome to AIA’s 2019 Interim Results Presentation. I am Lance Burbidge, Chief Investor Relations Officer for AIA Group.

Today’s presentation will follow the same format as last year’s interim results. First, our Group Chief Executive, Keng Hooi, will start with a summary of the Group’s financial performance and business highlights from each of our market segments. Garth Jones, our Group Chief Financial Officer, will then take you through the financial results in detail. Keng Hooi will then come back and talk about our strategic progress and opportunities. And finally, our Regional Chief Executives will join Keng Hooi and Garth on the stage and we will open up the session for questions. With that, let me hand over to Keng Hooi.

Ng Keng Hooi, Group Chief Executive:

Thanks, Lance. Good morning everyone.

I am delighted to announce excellent results for AIA in the first half of 2019. This performance reflects our continued focus on executing our strategic priorities across all of our markets in the Asia-Pacific region. While AIA is not immune to market volatility, our results continue to demonstrate the resilience of our business through market cycles.

Let me begin with the key highlights. In the first half of 2019, value of new business (VONB) grew by 20 per cent to 2.3 billion dollars and EV equity exceeded 60 billion dollars for the first time. Operating profit after tax increased by 12 per cent to 2.9 billion, driving a further 70 basis points increase in operating return on equity. Underlying free surplus generation rose 15 per cent to 2.8 billion dollars. The Board continues to follow our prudent, sustainable and progressive dividend policy and has declared an increase of 14 per cent in the interim dividend to 33.3 Hong Kong cents per share. Once again, we have delivered double-digit growth across all of our key financial metrics, as we continue to focus on capturing the significant growth opportunities across our markets.

AIA has a uniquely diversified business across the Asia-Pacific region. The scale and quality of our multi-channel distribution platforms enable us to provide much-needed professional advice to millions of new and existing customers. Our proprietary agency is the primary source of our new business and generated 72 per cent of the Group’s VONB. Across the region, our partnerships complement our agency, extending AIA’s distribution reach. AIA’s balanced product mix underpins the Group’s attractive sources of earnings, and our broad geographical reach enables us to capture the long-term growth drivers across our markets. These areas of diversification are key to our resilient business model.

Our agency distribution delivered a very strong performance, with 21 per cent growth in VONB. Continued execution of our Premier Agency strategy drove a further increase in both active agents and productivity. We now have over 12,000 MDRT members across the Group, up 22 per cent over the year.

Excellent growth from our strategic bank partners supported strong growth in our partnership distribution, which includes brokers and banks. Bangkok Bank in Thailand and ASB in New Zealand both made strong progress as we leverage our regional experience in our most recent bank partnerships.
We continue to invest in our digital tools that enhance our distribution and service. In the first half, nearly 90 per cent of all our new business was submitted digitally and over 60 per cent was auto-underwritten. Increasingly our agents benefit from high-quality leads generated by our own propensity models and data analytics.

Innovation has always been an AIA strength, and we continue to expand our core capabilities to deepen customer engagement and support sustainable growth. In China, we launched a breast cancer critical illness product bundled with our flagship All-in-One protection that leverages WeDoctor services such as diagnosis and medication delivery. In Singapore, we launched a new wealth product to give our customers access to bespoke and exclusive investment funds as part of our funds platform for the first time. And we continue to enhance AIA Vitality across our markets.

Let me take you through some market highlights for the first half. AIA Hong Kong delivered 19 per cent growth, which was broad-based across our distribution channels and customer segments. We achieved double-digit growth from our partnership distribution, although we have seen some recent softening in sales from the IFA broker market since the end of June. Our Premier Agency strategy supported increases in both active agents and productivity in the first half, resulting in very strong VONB growth – now around 27 per cent of our agents in Hong Kong are MDRT-registered. We are confident that the long-term structural drivers of growth for our business in Hong Kong remain resilient.

In China, our Premier Agency training programmes encourage agents to become lifelong trusted partners to our customers, providing tailored advice on our range of long-term savings and protection products. And for our agency leaders, we have driven greater adoption of Master Planner, our powerful digital management app. We have also enhanced policyholder benefits in our protection products and launched our own medical network for our high net worth customers. These strategies have supported strong growth in active agents and higher agent productivity, and as a result, AIA China was again our fastest-growing market segment, with 34 per cent growth.

In Thailand our business continued to grow, supported by continued success in our FA programme and good progress in our partnership with Bangkok Bank, where we have activated insurance specialists in over 800 branches. 15 per cent of our agents are now FAs, but significantly higher productivity means they have contributed 30 per cent of agency VONB in the first half.

VONB for AIA Singapore was flat, as reduced sales volumes were offset by positive product mix. We maintained our leading agency position and our exclusive partnership with Citibank delivered solid growth.

In January we launched a new quality recruitment platform for our agency in Malaysia, and this generated half of our new agent recruits in the first six months. Early signs are encouraging; these quality recruits are achieving significantly higher productivity than standard recruits. We delivered double-digit growth from our agency and 10 per cent overall growth for AIA Malaysia.

Finally, our Other Markets grew total VONB by 17 per cent and included excellent growth in Vietnam. Double-digit growth from Australia was supported by the inclusion of Sovereign and the renewal of several large group schemes. While our strategic partnership with BCA delivered strong growth, overall VONB in Indonesia declined. In the Philippines, we delivered very strong growth from agency and bancassurance. We also launched a new quality recruitment programme as we transform our agency. And in April, we were delighted to be allowed to participate in the Myanmar market through a 100 per cent owned subsidiary, and we are now working towards launching our business.

In summary, in the first half of 2019 we have continued to build on our track record of delivering sustainable, profitable growth. Today’s excellent results reflect the tremendous hard work and focus on executing our strategic priorities from all of our exceptional teams.

Let me now hand over to Garth, who will take you through the financial details. Garth.
Garth Jones, Group Chief Financial Officer:

Thanks Keng Hooi and good morning everyone.

AIA’s financial performance in the first half of 2019 demonstrates our continuing ability to deliver strong and consistent results across all our key financial metrics. VONB grew by 20 per cent to 2.3 billion dollars. EV operating profit increased by 11 per cent to 4.5 billion dollars, driven by very strong VONB growth and prudent management of our large in-force portfolio. This has driven a further increase of 30 basis points in our operating ROEV to 17.3 per cent, and EV equity exceeded 61 billion dollars.

OPAT was up 12 per cent to 2.9 billion dollars, helping to increase operating ROE by a further 70 basis points to 14.6 per cent. Shareholder’s allocated equity increased to 40 billion dollars after the payment of the increased dividend, driven by the strong operating result and positive mark-to-market movements in our equity portfolio. Underlying free surplus generation increased by 15 per cent to 2.8 billion dollars, and the solvency ratio for AIA Co. was 415 per cent.

Based on this strong and broad-based performance, the Board has declared an increase of 14 per cent in the interim dividend to 33.3 Hong Kong cents per share. The Board continues to follow our prudent, sustainable and progressive dividend policy, while retaining the financial flexibility to fund future growth. These excellent financial results reflect AIA’s continuing focus on executing our strategic priorities and financial discipline to generate attractive returns.

I will now provide more detail in each of the usual three areas. AIA’s unique diversification across geography, high-quality distribution and products allows us to selectively deploy capital and optimise long-term value for shareholders. ANP increased by 9 per cent to 3.4 billion dollars, with more than 90 per cent of ANP sourced from regular premium business.

VONB margin increased by 6.1 percentage points to 65.6 per cent. The increased margin was partly driven by a shift to more profitable geographies and products. Assumption Changes and Other were a significant contributor, with around 40 per cent of the increase here from the positive effect of the tax rule change in China. Year-end updates to operating assumptions in light of sustained positive experience also helped increase VONB margin. The equivalent new business margin on a PVNBP basis improved from 10 per cent to 11 per cent. As we have said many times, we focus on growing total VONB and do not target volume or margin alone.

Despite an opening EV which was impacted by last year’s market fall, EV operating profit increased by 11 per cent to 4.5 billion dollars, driven by very strong VONB growth and further improvements in operating performance. Operating variances were positive and added 343 million dollars to profit. The higher operating profit increased operating ROEV by 30 basis points to 17.3 per cent. The EV as at 30 June also benefited from 1.6 billion dollars of positive investment return variances as a result of market movements during the first half of the year. Other non-operating items included currency translation effects of nearly 470 million dollars.

Overall, our EV equity increased by 5.2 billion after the payment of 1.4 billion of dividends, to 61.4 billion dollars. Our closing EV equity is shown after a deduction of 5.6 billion for additional consolidated reserving and capital requirements and the present value of Group Office expenses.

AIA’s continuing positive experience reflects the quality of our distribution and products, and confirms the appropriateness of our EV assumptions. Mortality and morbidity claims experience was positive, as were persistency and expense variances, reflecting both our pricing discipline for new business and the proactive management of our existing book. Our EV results continue to demonstrate the prudence in our operating assumptions. Overall, cumulative operating variances since our IPO have exceeded 2.3 billion dollars.

Our EV methodology uses spot market yields and trends over time to our long-term assumptions. Our long-term assumptions smooth out volatility and we made no changes for these interim results, in line with our usual practice. At the end of June, our weighted long-term assumption remained below the forward rate,
noting that if the current interest rate environment and outlook persists, we will likely lower our assumptions at year end. We are not immune to short-term market volatility; however, our sensitivities are small and demonstrate the resilience of the Group’s EV.

To provide further context, we have estimated the EV based on spot interest rates as at 13 August. This analysis included a 10-year US Treasury rate of 1.65 per cent. Using these spot interest rates and applying them throughout – that is, without trending to long-term assumptions – the EV would only fall by 1 per cent.

We continue to actively re-price new business to reflect the changing environment and make adjustments to our pricing assumptions in light of current expectations of future experience, both economic and operating. Our cumulative investment return variances are positive at 1.9 billion dollars, a similar picture to operating variances.

Moving on now to our IFRS results. Strong growth in new business and the proactive management of the in-force have delivered 12 per cent growth in operating profit after tax to 2.9 billion dollars. This growth reflects the strong increase in total weighted premium income, together with an increasing proportion of participating business with a lower operating margin. Our expense ratio overall remained stable at 7.1 per cent.

The breakdown of our operating profit after tax demonstrates the benefit of geographic diversity at scale across the region. OPAT grew for all of our reportable market segments. Hong Kong delivered nearly 1 billion dollars of OPAT, as strong underlying business growth was moderated by the growing proportion of Participating business and less favourable investment experience, including lower new money yields and the impact of last year’s stock market movements. China’s OPAT of 537 million dollars grew by 32 per cent, exceeding Thailand for the first time. OPAT from Thailand grew by 8 per cent, in line with the greater scale of the business and supported by improved claims and persistency experience. Increased OPAT in Malaysia and Singapore reflects business growth, with a partial offset in Singapore from lower profitability in our HealthShield related portfolio. Finally, Other Markets delivered 11 per cent growth, driven by Vietnam and Australia, including the addition of the acquired business in New Zealand.

As usual, the movement in shareholders’ allocated equity is shown before the IFRS accounting treatment of AFS bonds. Allocated equity does, however, allow for other market movements. The increase in allocated equity reflects robust operating profit, positive mark-to-market impacts on equities, and positive foreign exchange movements, offset by the payment of dividends. Overall, allocated equity was up 8 per cent from the year end.

Our financial discipline over time has delivered increasing returns on equity on both an EV and IFRS basis. Progressively higher EV operating profit has driven ROEV up 540 basis points since IPO, even as our EV equity has nearly trebled. The same increasing trend can be seen for OPAT and ROE, while shareholders’ allocated equity has more than doubled. These charts clearly demonstrate the highly attractive financial dynamics and underlying quality of our business.

Finally, moving to capital and dividends. Underlying free surplus generation increased by 15 per cent to 2.8 billion dollars, reflecting growth in the business and our prudent management of the in-force. New business investment of 750 million dollars was lower than 2018, supported by a reduced level of cash strain due to the tax change in China and a shift in product mix. Investment variances, exchange rates and other items were positive 848 million dollars in aggregate, mainly driven by lower US interest rates increasing the market value of bonds within free surplus and the positive mark-to-market movements on our equity portfolio. After the 1.4 billion payment for shareholder dividends, the closing free surplus was 16.1 billion dollars.

The Australian part of the CBA acquisition remains outstanding pending regulatory approvals; on completion, we expect a net reduction of around 1 billion dollars to our free surplus. I should also note that we have made a separate announcement about the CBA acquisition this morning.
In the coming few years our Group supervisor, the Hong Kong Insurance Authority, intends to make two major changes that will affect our regulatory capital position. First, the HKIA will introduce a formal group-wide supervision framework for Hong Kong-based multinational insurance groups, such as AIA. This will include a new group required capital basis, which we expect will become effective around the middle of next year. The rules are yet to be finalised, but we understand that the calculation of group required capital will be based on a summation of individual entity local requirements.

Secondly, the HKIA is also working to replace the existing HKIO solvency requirements with a risk-based capital framework. A third quantitative impact study is due later this year and we anticipate that the new Hong Kong RBC basis will be effective from January 2022. This timeline suggests that the first formal presentation under the Hong Kong RBC would be in our 2022 interim results, along with our first set of accounts following the implementation of IFRS 17.

While this changing capital landscape and extended timeline create uncertainty, we remain confident of the Group’s capital strength and our solvency position. This confidence was reaffirmed recently with the upgrading of our ratings outlook from S&P from ‘Stable’ to ‘Positive.’

Our primary objective is to achieve profitable new business growth at increasing scale, and generate superior, sustainable value for our shareholders. We aim to demonstrate that our strong growth in VONB translates over time into earnings growth, increased cash generation and shareholder dividends, as shown here and on the next slide.

The Board has declared an increase of 14 per cent in the interim dividend to 33.3 Hong Kong cents per share. The increase reflects the strength of our financial results across a broad range of financial metrics, our confidence in the Group’s prospects and the scale of the opportunities available to us.

In conclusion, the Group has delivered a set of excellent results in the first half of 2019. We have delivered very strong growth in VONB as we continue to invest capital in high-quality business with attractive returns. IFRS operating profit increased further and benefited from the effects of increased scale and geographic diversification. Underlying free surplus generation grew strongly, enabling us to finance new business growth and a further significant increase in the shareholder dividend. Our disciplined financial management and continuing ability to build sustainable value for our shareholders are reflected in today’s results.

I will now hand back to Keng Hooi, who will cover our strategic progress and the incredible opportunities that are available to us both now and over the longer term.

Ng Keng Hooi, Group Chief Executive:

Thank you, Garth.

As you can see, the structural drivers that underpin AIA’s ability to deliver profitable growth remain as strong as ever. While we are not immune to external shocks, superior economic growth and urbanisation will continue to drive the rapid expansion of the middle classes in Asia, creating a substantial long-term need for AIA’s advice and products. These structural drivers are present across all of our businesses, with tremendous opportunities for growth.

Here are examples of just some of the emerging opportunities we have ahead of us. First, our fastest-growing market, China. We are very excited about the further opening of China’s life insurance market, which has been brought forward to 2020. Our 100 per cent owned business in China has a proven model for organic expansion into new cities. At the end of July, our two new sales and service centres in Tianjin and Hebei province received approval to begin sales – our first geographical expansion in China in 17 years. We are very excited about bringing our differentiated proposition to new geographies in due course and our preparations are advancing well.

Next Indonesia, the Philippines and Vietnam. These countries have a combined population of over 460 million, GDP of 1.6 trillion dollars and low insurance penetration. AIA has strong businesses in all three
markets, with an attractive and balanced distribution mix. We will continue to expand and enhance our agencies by focusing on quality recruitment, comprehensive training, and support from our innovative digital tools. In each of these countries we also have excellent strategic partners who complement our agency and generated half of our VONB.

Finally India, where we have a joint venture with Tata. The long-term outlook for life insurance in India is exciting, powered by strong economic growth and a huge young population that is rapidly urbanising. Tata AIA distributes through both our proprietary agency and banks, including our exclusive bank partnerships with IndusInd and Citibank. The business is one of the leading players in pure retail protection and has been delivering strong growth. We will continue to focus on executing our Premier Agency strategy and strengthening our partnerships so that we can take advantage of the incredible potential that India presents.

These markets offer AIA exciting growth opportunities, but as I said earlier, all of our markets offer excellent prospects to deliver sustainable growth for shareholders. AIA has a unique platform that enables us to take advantage of all these opportunities at scale.

AIA’s business is built on trust, reinforced by our long history. Our brand promise – Healthier, Longer, Better Lives – is the focus of all our marketing activity and sits at the heart of what we do to help our customers. Helping millions know and improve their health is good for our customers, good for society and good for shareholders. Our wellness programmes are helping to deliver significantly improved health outcomes for our customers. More broadly, we were delighted last month to announce the extension of our partnership with Tottenham Hotspur until 2027. Our continuing partnerships with Spurs and David Beckham, our Global Ambassador, play an important role in amplifying AIA’s commitment to health and wellness.

Our brand promise, partnerships and wellness programmes are a source of great pride for our employees and agents and they are successfully promoting AIA to a new generation of customers. In June, we were delighted to be named Asia’s number one insurance brand by Campaign Asia. AIA is already delivering on our brand promise, and we are very proud of the leadership role we are taking to support our customers and communities across the region.

We continue to shift our business towards being a lifelong partner for our customers. Our differentiated health and wellbeing strategic framework is focused on transforming engagement with our customers, delivering meaningful health improvements and driving repeat sales.

Membership of our wellness programmes, including AIA Vitality, has now exceeded 1.5 million, up nearly 60 per cent over the last year. Our regional exclusive partnership with Medix leverages a global network of leading doctors with locally-based personal medical case management, helping customers receive the right treatment. In China, we have launched our own medical network and personal claims manager, and our partnership with WeDoctor helps our customers access diagnosis, treatment and medication. AIA also helps with recovery, providing ongoing support to our customers to help them back to work and improve their quality of life. As customers demand more, our framework enables us to be their partner throughout their healthcare journey. This shows how we are future-proofing AIA and ensuring that we can capture the significant opportunities across our markets.

In conclusion, our continued focus on executing our strategic priorities has enabled AIA to deliver today’s excellent results, with double-digit growth across all of our key financial metrics. I am confident that our teams will continue to deliver long-term value for our shareholders and help our millions of customers live Healthier, Longer, Better Lives.

With that, I invite the RCEs to join us on the stage for your questions. You will notice we have an additional RCE, Tan Hak Leh, who I appointed on 1 May. Hak Leh was previously a CEO of AIA Thailand and, before that, AIA Singapore. He has responsibility for Singapore, Malaysia, Cambodia and Myanmar, and the market responsibilities for the other RCEs otherwise remain unchanged. Adding a fourth RCE reflects the Group’s increasing size and enables enhanced support for each of our businesses.

Now I am going to open up and pass it over to you for questions.