TRANSCRIPT

AIA Group Limited 2023 Interim Results

Analyst Briefing Presentation

Financial Results by Garth Jones – *Group Chief Financial Officer*

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Good morning. In the first half of 2023, AIA has delivered excellent VONB growth and a very strong financial performance overall.

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I will now take you through the financial results in more detail across growth, earnings and cash. Starting with growth.

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VONB grew by 37 per cent in the first half of 2023 with growth from all of our reportable segments and distribution channels.

AIA Hong Kong more than doubled VONB, driven by very strong demand from Mainland Chinese visitors, while we also delivered double-digit growth in our Hong Kong domestic business. AIA China was up 14 per cent for the whole of the first half; as the effects of the pandemic subsided strong momentum returned and VONB growth was 29 per cent from February to June. AIA Thailand delivered growth of 28 per cent, reflecting a very strong performance from both agency and partnership channels and a stable VONB margin compared with the second half of 2022.

AIA Singapore was up by 5 per cent, supported by a strong performance from our bancassurance channel. For AIA Malaysia, growth in all distribution channels delivered an increase of 10 per cent in total. Other Markets increased 8 per cent in aggregate with very strong growth offset by substantially lower sales in Vietnam. We delivered very strong double-digit growth from the rest of the markets, including the Philippines, Australia and New Zealand and an outstanding performance from Tata-AIA Life in India. Overall, the Group delivered excellent VONB growth, powered by AIA's unrivalled distribution platform and our consistent financial discipline.

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Our continued focus on writing high-quality, profitable new business generates attractive returns over time. We grew VONB to more than 2 billion dollars, supported by 49 per cent growth in ANP and a VONB margin of 50.8 per cent.

We saw growth in the sales of traditional protection products in Hong Kong, and also experienced very strong demand for long-term savings products; this is reflected in the higher contribution from participating business in our product mix.

The Group's PVNBP margin remained stable at close to 10 per cent. Our ability to meet the full range of customer needs across protection, long-term savings and retirement products is a key differentiator for AIA and a major factor in our confidence in the Group's future growth.

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EV operating profit was 4.4 billion dollars, up 20 per cent per share, driven by the excellent VONB result and an increase in the expected return, reflecting higher government bond yields and risk discount rates.

Operating experience variances were positive and added 0.2 billion dollars. We have experienced increased medical claims compared with the lower levels seen during the pandemic, and have included a temporary claims provision within operating assumption changes for prudence, as we continue to reprice our health insurance portfolios. Our consistently favourable operating variances have added 3.9 billion dollars to EV Equity since IPO.

Operating return on EV of 13.3 per cent was up by nearly 4 percentage points from the full year 2022 level and EV Equity was 70.6 billion dollars after returns to shareholders of 3.6 billion.

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Our EV methodology uses spot market yields and trends over time to our long-term assumptions, which aims to smooth out short-term market volatility. While AIA is not immune to capital market movements you can see from the sensitivities that our EV remains highly resilient to short-term market volatility from both interest rate and equity market movements. We have a substantial allowance for risk in our discount rates with a risk premium of close to 5 per cent for the Group, consistent with the levels used since IPO.

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Now moving to IFRS earnings, which we are reporting under IFRS 9 and 17 for the first time.

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Under IFRS 17 the contractual service margin or CSM is the key driver of OPAT. The CSM represents the stock of expected future profits that are yet to be earned on our in-force business and these will release over time into OPAT and net profit. We have built up a very large CSM over time through the addition of successive cohorts of profitable new business with a discounted value of more than 50 billion at the start of the year.

In the first half, the CSM grew by 19.3 per cent on an annualised basis before variances, exchange rates and the CSM release into OPAT. The growth was driven by new business of 3.4 billion and an expected return of 1.2 billion. Variances and others of 1.4 billion mainly related to market movements.

The annualised CSM release rate remained stable at 9.7 per cent as 2.6 billion dollars was released into OPAT from the CSM at the end of the first half. On an underlying basis, CSM grew strongly by 2 billion dollars over the first half of the year.

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As you saw on the previous slide, the addition of large-scale profitable new business is the main driver of future growth in the CSM, while the release of CSM forms the vast majority of the insurance service result and this, in turn, is the largest component of our OPAT.

The insurance service result was stable at 2.8 billion dollars as growth in the CSM release was offset by higher medical claims within operating variances, similar to EV. Net investment result after expenses increased by 9 per cent to 1.7 billion due to higher equity asset balances and increased long-term investment return assumptions.

After reflecting higher finance costs and a more normalised level of tax, OPAT remained stable compared with the same period in the prior year and operating margin was strong at 17 per cent. After the positive effects of the ongoing share buy-back programme, OPAT per share increased by 4 per cent.

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AIA's sources of earnings are high-quality with 73 per cent from insurance services. Regular premiums make up 99 per cent of our total weighted premium income, providing additional future premiums, a very strong cash flow, and ample liquidity on our large in-force book. Taken together with our geographically diverse portfolio of businesses, this underpins the resilience of the Group's earnings and balance sheet. Our disciplined strategy of focusing on value and quality has helped deliver consistent growth in OPAT per share to over three times the IPO level, uninterrupted by the adoption of IFRS 17.

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Shareholders' allocated equity provides a clearer reflection of the underlying drivers of the change in equity by excluding the fair value reserve and insurance finance reserve contained within other comprehensive income. As a reminder, under IFRS 17, virtually all mark-to-market movements from participating business flow to insurance contract liabilities, reducing the volatility of net profit compared to the prior accounting basis.

Before returns to shareholders, allocated equity increased to 48.7 billion dollars as net profit increased by 50 per cent to 2.3 billion. The combination of 3.3 billion of OPAT and the share buy-back helped drive operating ROE up by 1.2 percentage points compared with the full year 2022 level to reach 14.2 per cent.

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A new measure under IFRS 17, comprehensive equity, is the sum of shareholders' equity and the CSM, net of tax, reinsurance, and non-controlling interests. Comprehensive equity represents the aggregate value of historical and expected future profits from the in-force business, net of cumulative cash returns to shareholders.

As at 30 June 2023, comprehensive equity of 83 billion was evenly split between shareholders' equity and net CSM. Our financial leverage ratio including the net CSM was 11.9 per cent at 30 June 2023, further supporting AIA's financial flexibility and our strong credit ratings. With comprehensive equity significantly higher than our EV Equity, the prudence of AIA's embedded value reporting is clear.

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Finally, capital and dividends.

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The LCSM coverage ratio is the Group's principal regulatory solvency measure taking a fully consolidated view of local business requirements and is calculated on a prescribed capital requirement basis. While the LCSM is consistent with the capital requirements used to assess regulatory solvency, free surplus continues to be more representative of the capital position for shareholders.

Before the effects of the share buy-back and other non-operating items, the LCSM ratio was stable over the first half of the year. Other non-operating items include temporary effects from internal capital movements that will reverse and changes to the regulatory regimes in South Korea and New Zealand. The sensitivity of our LCSM coverage ratio to mark-to-market movements on equities and interest rates is low, reflecting the strength of our balance sheet and our robust risk management. AIA's capital position remains very strong with a Group LCSM coverage ratio of 260 per cent at 30 June 2023.

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Our high-quality investment portfolio is constructed to match our insurance liabilities as closely as possible. Our participating business asset allocation aims to achieve attractive returns over the long term for policyholders above a base level, while non-participating investments are positioned more defensively. As a result, 81 per cent of non-par and surplus assets are fixed income, with the vast majority either government and government agency bonds or investment grade corporate bonds.

Within this, the 29 billion dollars corporate bond portfolio is well diversified across sectors and geographies and is comprised of bonds from more than 1,900 issuers with an average holding of 15 million dollars. The average credit rating of our corporate bond portfolio at A minus is unchanged from the full year and there was no material increase in expected credit loss provision in the first half of 2023.

The Group's exposure to real estate and local government financing vehicles in Mainland China is small and almost all of AIA China's fixed income assets are government and government agency bonds. In summary, we have strong asset-liability management and a high-quality diversified investment portfolio.

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In the first half, free surplus increased by 2 billion to 19.9 billion dollars before returns to shareholders. The increase was driven by underlying free surplus generation of 3.3 billion dollars, up 10 per cent per share and reinvestment of 0.7 billion in new business at attractive long-term returns. The 3.6 billion dollars returned to shareholders included 2 billion through the share buy-back. As a result, free surplus closed the first half at a very strong 16.3 billion dollars.

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The Board has declared a 5 per cent increase in the interim dividend to 42.29 Hong Kong cents per share. The Board continues to follow AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group. In addition to regular dividends, our ongoing 10 billion dollar share buy-back programme has to date returned 5.5 billion to shareholders. A total of 22.5 billion has now been returned to shareholders since IPO.

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In conclusion, in the first half of 2023, the Group delivered excellent VONB growth and very strong financial results overall across growth, earnings and cash. VONB was up 37 per cent with VONB in Hong Kong more than doubling, and double-digit growth in each of Mainland China, our ASEAN businesses and Tata AIA Life in India.

EV operating profit increased 20 per cent per share and operating ROEV jumped to 13.3 per cent. OPAT per share was up 4 per cent and operating ROE increased to 14.2 per cent. Underlying free surplus generation grew by 10 per cent per share and our capital position remains very strong, with Free Surplus of 16.3 billion dollars.

The Board has declared an increase of 5 per cent in the interim dividend and we are around halfway through our 10 billion dollar share buy-back programme. AIA's robust balance sheet is a key competitive advantage, ensuring we retain our unmatched financial flexibility to invest in the enormous potential for profitable new business growth in the region, fully harnessing the exceptional qualities of AIA that are clearly demonstrated by today's results. Thank you.