TRANSCRIPT

AIA Group Limited 2024 Interim Results

Analyst Briefing Presentation

Business Highlights by Lee Yuan Siong – *Group Chief Executive and President*

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Good morning from Hong Kong and welcome to AIA's 2024 interim results presentation.

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We have delivered excellent financial results with double-digit growth across our key operating financial metrics for new business, earnings and cash generation.

VONB grew 25 per cent to a record 2.5 billion dollars in the first half, driving a substantial uplift in operating return on EV to 16.5 per cent. AIA's ability to deliver successive layers of profitable new business has accelerated growth in earnings and cash generation with both OPAT and UFSG up by 10 per cent per share.

Higher earnings and proactive capital management supported an increase in operating ROE to 15.3 per cent. Our capital position remained very strong with free surplus of 14.6 billion dollars, and this is after returning 3.4 billion to shareholders in the first half through dividends and share buy-backs.

The Board continues to follow our prudent, sustainable and progressive dividend policy, and has declared a 5 per cent increase in the interim dividend per share.

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We are focused on growing profitable new business that compounds over time, allowing us to sustain growth in earnings and cashflow generation for longer, and drive attractive shareholder returns well into the future.

In April, we announced a new capital management policy that will deliver higher annual distributions. We target to pay out 75 per cent of annual net free surplus generation through a combination of dividends and additional share buy-backs. We will also regularly review our capital position and return excess capital to shareholders.

Following this new policy, the Board approved a 2 billion addition to our share buy-back programme in April, bringing the total programme to 12 billion dollars, with 3.1 billion remaining as at 30 June 2024.

Today, we are announcing an OPAT per share compound annual growth rate target of 9 to 11 per cent from 2023 to 2026.

We are confident in AIA's very strong financial position as well as our ability to continue delivering profitable new business that sustains earnings growth. Our belief in AIA's future delivery stems from the leading positions we hold in our markets, alongside the expansive headroom to grow in each of our operations.

Let me now take you through how we achieved today's results and are well-positioned to deliver our ambitions in 2024 and beyond.

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We have a clear growth strategy, focused on Asia, the world's most attractive region for life and health insurance.

High levels of private savings, low insurance penetration and limited welfare coverage fuel strong demand for our products. We target the resilient middle-class and affluent customers across the region with compelling propositions that meet their individual needs.

In the first half, we sold policies to close to one million brand new customers and repeat sales within our large existing customer base continued to grow as we nurture long-term relationships through our professional advice.

AIA's integrated product and services ecosystem is designed to address customers' needs as they evolve and our product mix is well balanced across traditional protection and long-term savings with attractive returns and rapid payback on capital invested.

This unique combination of growing middle-class customers, compelling propositions and high-quality advice has driven a strong increase in sales and profitability in the first six months of 2024.

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AIA's success is built on our proprietary Premier Agency that generated over 70 per cent of the Group's VONB in the first half.

The combination of growth in active agents and higher agent productivity drove a 19 per cent increase in VONB to 1.9 billion dollars. As we continued to build scale, new recruits were up by more than 20 per cent, with growth across most of our markets.

This strong performance reflects the confidence in our future growth opportunities, as well as the high levels of trust in our business model, as agency leaders persuade the best candidates to leave their existing careers and join AIA.

We are committed to the highest professional standards and recently retained our number one MDRT global ranking for a record ten years in a row. Our distribution is further strengthened by strategic partnerships with banks, brokers and digital platforms, bringing complementary access to large customer pools.

Partnership VONB increased by 43 per cent, with an excellent performance in the bancassurance channel as we grew active sellers and delivered a higher VONB margin. These twin engines drive growth across our markets, and you will now see how they performed and were further strengthened in our five largest businesses.

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AIA China's strategy is differentiated by its focus on meeting the needs of a more affluent customer base with professional advice and high-quality, personalised products. In the first half, VONB was up 36 per cent, supported by very strong sales and a higher VONB margin.

Long-term customer relationships help to support multiple repeat sales and a 23 per cent increase in the number of new customers in the first half provides significant additional future growth opportunities for our distribution.

Our Premier Agents target the evolving needs of Mainland China's growing middle-class consumers where demand remains robust. Growth in active agent numbers and increased productivity drove agency VONB up by 20 per cent overall and up by 44 per cent from our new geographies.

Our success is driven by young, dynamic and entrepreneurial agency leaders who ensure sustainable new business growth by attracting, developing and retaining the best agents. Recruitment momentum remained excellent with a 26 per cent increase in new recruits.

Demand for protection remained strong with a double-digit increase in VONB and we have continued to make good progress in shifting our mix of long-term savings more towards participating products and tax-deductible pensions.

In agency, we have a well-balanced product mix and VONB margin increased to over 60 per cent. Our highly-selective bancassurance partnerships achieved very strong VONB growth with VONB margin now exceeding 40 per cent.

Our geographical expansion remains on track, and in the first half we successfully launched operations in three new cities in Sichuan and Hubei provinces. AIA's differentiated positioning in Mainland China gives us confidence that we can continue to grow strongly through economic cycles.

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AIA Hong Kong was the largest contributor to the Group's VONB, delivering 858 million dollars in the first half, up 26 per cent. Demand was very strong across both domestic and Mainland Chinese visitor customer segments.

Our Premier Agency is the leader in Hong Kong and Macau and agency VONB was up 20 per cent, from growth in active agents and higher productivity. We continued to add greater capacity to our agency, with new recruits up 19 per cent, keeping us ready to meet the sustained demand for high-quality life and health insurance.

Our agency generated the majority of MCV business and more than 70 per cent of VONB in this segment was from customers new to AIA. Partnerships delivered 41 per cent VONB growth, with excellent performances in the IFA and broker channel as well as from bancassurance.

Overall, our market-leading traditional protection products contributed 15 per cent growth in VONB and, as we continue to launch, upgrade and reprice products, VONB margin increased to over 65 per cent.

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AIA Thailand is our largest ASEAN business where we have an excellent track record of consistent execution. VONB grew by 16 per cent in the first half and we remain the clear market leader.

Agency delivered 18 per cent VONB growth, as we continue to uplift quality and standards, including through our highly-productive financial adviser programme. Quality recruitment remains a key priority and we achieved a 20 per cent increase in the number of new recruits.

In bancassurance, VONB through Bangkok Bank was up 22 per cent as we raise productivity to unlock the significant potential from the bank's large retail customer base. Technology, Digital and Analytics is at the heart of AIA's strategy and enables every part of our business, helping us to deliver superior new business growth while realising significant operational efficiencies.

This is clearly evident in AIA Thailand, where our expense ratio reduced to 6.5 per cent and supported strong growth in earnings.

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In Singapore, 27 per cent VONB growth was driven by a 31 per cent increase from our Premier Agency and the IFA and broker channel was up 24 per cent.

Our agency is the most professional, most productive and largest tied distribution force in the market. One-in-four AIA agents are MDRT qualified and we ranked the clear number one again in Singapore.

In the first half, we continued growing our agency with new recruits up 13 per cent. Agent productivity increased by 24 per cent, as we expanded our propositions, targeting the affluent and high-net-worth segments.

New products and enhancements to AIA Altitude, our customer loyalty programme enable us to capture higher customer wallet share. As a result, VONB of long-term savings propositions was up 35 per cent and demand for our comprehensive suite of traditional protection products was also strong with VONB up 18 per cent.

In April, we successfully launched AIA International Wealth, which targets affluent and high-net-worth customers across the region. We see large potential for further growth from AIA Singapore as we tap into increasing domestic demand and leverage Singapore's position as a regional hub.

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AIA Malaysia continued to deliver strong new business results with VONB up 14 per cent, supported by our focus on protection, both traditional and unit-linked.

Overall, Premier Agency growth was the result of a 14 per cent increase from our conventional business as we continue to take proactive steps to strengthen our Takaful segment.

Our partnership business achieved a very strong performance including an 18 per cent VONB increase from Public Bank as well as excellent growth from the corporate solutions business.

As we leverage Amplify Health's powerful data and analytics capabilities, we are making good progress in targeted product design and repricing to make health insurance more affordable and sustainable for our customers.

These efforts supported a significant improvement in the medical loss ratio compared with the second half of 2023.

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Across our markets, the focused execution of AIA's growth strategy has delivered excellent new business results. Successive cohorts of new business add substantial layers of recurring earnings to our in-force portfolio, driving underlying CSM annualised growth of 9.1 per cent.

We actively manage the in-force portfolio and our TDA-led strategic priorities have supported expense efficiencies, effective claims management, increased customer loyalty and high persistency.

Our recent actions on medical claims have helped deliver a return to positive operating experience variances across EV and IFRS, with both improving by around 400 million dollars compared with the second half of 2023.

Compounding profitable new business and in-force management has led to 29 per cent per share growth in EV operating profit and a 10 per cent per share increase in OPAT. In turn, higher earnings and cash generation enable us to maintain our financial strength, drive further profitable growth and enhance shareholder returns.

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Our new capital management policy underlines our commitment to returning excess capital to shareholders.

In April, we announced an additional 2 billion to our existing share buy-back programme, which brought the total to 12 billion dollars. As at 30 June 2024, dividends and share buy-backs have totalled over 15 billion dollars since 2022 and we have a further 3.1 billion dollars remaining under the current buy-back programme.

Our proactive capital management optimises returns for shareholders and our financial discipline is a key differentiator and enabler of our future financial delivery.

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In summary, today's excellent results are the direct outcome of exceptional businesses operating in the right markets to execute our growth strategy.

I have every confidence in AIA's continuing ability to achieve profitable new business growth that compounds over time, enabling us to sustain higher earnings and cash-flow generation for longer, and deliver attractive returns well into the future.

Now over to Garth.

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

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Thanks Yuan Siong, and good morning everyone.

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I will now take you through the financial results in more detail across Growth, Earnings and Capital and Cash.

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Our excellent VONB performance, with 25% growth overall, was driven by significant increases across all of our reportable segments and double-digit growth in 11 markets.

Yuan Siong has already covered the very strong results in our five largest operating segments that you see here. These together made up over 90 per cent of the Group's VONB. Other Markets grew by 9 per cent to 224 million dollars, with an excellent performance in the Philippines in particular.

In Indonesia, our partnership with BCA delivered strong double-digit growth and we recently extended the partnership out to 2038.

India, the largest contributor to this segment, was lower against a very high base in 2023 as previously highlighted, however a strong performance from our Premier Agency has seen a return to growth in April to June this year.

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Our new business generates attractive returns, with an IRR on capital invested consistently above 20 per cent and with short payback periods.

We delivered improvements in new business capital efficiency and higher margins across our different product categories, supported by more favourable product mix, repricing actions and new product launches.

Overall PVNBP margin increased to 11 per cent and VONB margin grew by more than 300 basis points. Our ability to write large-scale, high-quality and profitable new business with a very attractive financial profile, 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 per share grew by 29 per cent and operating return on EV stepped up to 16.5 per cent.

This was lifted by an additional half a billion dollars of VONB compared with the first half of 2023 and improved positive operating variances of 0.4 billion, supported by our proactive claims management initiatives.

Together with the expected return on EV, these led to a very strong increase in EV operating profit to 5.4 billion dollars in the first half.

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EV equity was up by 8 per cent over the first half to 74.2 billion dollars before shareholder returns, driven by EV Operating Profit.

Both operating and investment variances were positive and together added 0.9 billion over the first half. Our positive operating variances have now added 4.3 billion dollars to EV equity since IPO demonstrating the prudence in our assumptions.

In the first half, we returned 3.4 billion to shareholders through dividend and share buy-backs, resulting in closing EV equity of 70.9 billion dollars as at 30 June 2024.

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Our EV methodology uses spot market yields for bonds and trends over time to our long-term assumptions. Overall, you can see that our long-term assumptions are below market forward government bond yields.

You can also see on the right-hand side that the Group's EV continues to be highly resilient to interest rate movements. Our sensitivities assume a 50 basis points change across the whole yield curve and remain small. Some of you have raised questions about China and US interest rate movements.

If we were to use the spot yields on Chinese bonds as at 30 June throughout, instead of grading to long-term assumptions, AIA China's EV would be just 1 per cent lower. If we assumed a drop in Chinese bond yields by 50 basis points, then AIA China's EV reduces by 4 per cent.

AIA Hong Kong is largely invested in US dollar assets that currency match our liabilities. A 50 basis points fall in US yields results in a 3 per cent increase in Hong Kong's EV.

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Now moving to IFRS earnings.

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The contractual service margin represents our stock of future profits. In the first half, our underlying CSM growth after CSM release increased to 9.1 per cent annualised.

This growth in CSM came from 3.8 billion dollars of new business and 1.4 billion from expected in-force return. Variances and others were small, while exchange rate effects reflect the strengthening of our US dollar reporting currency relative to Asian currencies.

The CSM release rate of 9.5% was stable while the resulting CSM release grew by 10 per cent and contributed 2.8 billion dollars to OPAT in the first half.

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The 10 per cent increase in CSM release drove growth in OPAT per share for the Group, also up by 10 per cent.

The CSM release forms the vast majority of the insurance service result, which increased by 9 per cent to 2.9 billion dollars. Within this, operating variances were positive, supported by proactive claims management initiatives and the repricing of our medical business.

The net investment result increased by around 6 per cent, after adjusting for the impact of the share buy-backs reducing the return on shareholder funds. Other revenue and expenses, finance costs and tax grew by 2 per cent. Overall, operating margin remained strong at 16.1 per cent.

The addition of large-scale profitable new business combined with active in-force management gives us confidence that we can continue to grow our stock of future profits through the CSM and in turn, deliver our OPAT growth target.

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The combination of strong OPAT of 3.4 billion and the ongoing share buy-back programme helped drive an increase in operating ROE to 15.3 per cent.

Net profit was 3.3 billion, similar to OPAT, with small overall non-operating movements. After returning 3.4 billion to shareholders during the first half, shareholders' allocated equity was 43.6 billion dollars.

We continue to seek to optimise ROE through OPAT growth and active capital management.

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Today's results have demonstrated how the return of strong new business momentum has helped accelerate growth in OPAT per share to 10 per cent.

Alongside our effective in-force management, we are confident in AIA's ability to continue delivering profitable new business that sustains earnings growth. We have therefore announced a compound annual growth target for OPAT per share of 9 to 11 per cent, from 2023 to 2026.

For clarity, our OPAT per share growth target already allows for an illustrative impact of the introduction of the OECD's global minimum tax rate, commonly known as BEPS 2.0.

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Finally, turning to capital and cash.

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The Group's financial position remained very strong with free surplus increasing by 12 per cent over the first half to 17.9 billion dollars, before capital returns to shareholders.

This increase was driven by underlying free surplus generation of 3.4 billion. After reinvesting 0.8 billion in new business at highly attractive returns, in the first half our net free surplus generation was 2.2 billion.

Investment return variances and other non-operating items mostly relate to the effect of exchange rate movements. After returning 3.4 billion of capital to shareholders through dividends and share buy-backs, free surplus was 14.6 billion dollars at 30 June.

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UFSG is our key operating measure of cash generation before investment in new business and central costs. Overall, UFSG grew by 10 per cent per share. There are four components that make up UFSG and these ongoing disclosures are intended to help with modelling this.

The first component is expected distributable earnings of 2.0 billion dollars from our in-force book. This figure is consistent with the expected emergence we have reported for many years in our EV report.

Next is the expected return on assets backing free surplus and medium-term notes that added 0.7 billion in the first half. Third, the addition of new business further diversifies our in-force portfolio and leads to a reduction in reserves and required capital. This recurring new business diversification benefit added 0.4 billion in the first half.

Finally, operating variances were positive 0.3 billion, reflecting better experience than our assumptions. Together these comprise the 3.4 billion of underlying free surplus generation we delivered in the first half.

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The key driver of future UFSG growth is successive cohorts of profitable new business, adding to the substantial distributable earnings from our large in-force book. We have illustrated this on the left-hand side of the slide.

Every dollar of new business we invested in the first half generated, on average, 4 additional dollars of discounted future distributable earnings, demonstrating the highly attractive returns we achieve on organic growth.

Over the next 10 years, our substantial in-force portfolio is expected to generate 45 billion dollars of distributable earnings. This assumes no other operating variances such as the 0.3 billion we delivered in the first half of this year.

This total increased by 2 billion dollars over the half, primarily as a result of new business added. This is why VONB growth is such an important focus for AIA.

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At our first quarter update, we provided a shareholder view of the Group's capital position.

Shareholder total capital resources includes free surplus plus eligible debt and required capital, as stated in our EV report. Required capital includes the prescribed capital levels for our various businesses as set out by our regulators.

In addition, we hold capital to withstand a range of stress scenarios, whilst ensuring we can fund our organic new business growth plans. Our shareholder capital ratio was 242 per cent at 30 June allowing for the remaining 3.1 billion from the existing share buy-back programme.

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Our new capital management policy, announced in April, provides greater clarity on how we will deliver higher annual capital returns to shareholders.

There are two key components. The first is an annual payout target of 75 per cent of annual net free surplus generation, that complements our well-established dividend policy.

The balance of the 75 per cent payout above dividends will come from additional share buy-backs, announced at the annual results each year. This target payout is set at a level which we expect will gradually reduce the Shareholder Capital Ratio.

The second component is a commitment to regularly review our capital position and return excess capital. Under this component, we announced an additional 2 billion to our existing buy-back programme in April, bringing the total to 12 billion dollars.

This policy underscores our commitment to systematically return capital in excess of our needs, while continuing to deliver organic growth at attractive returns.

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The Board has declared a 5 per cent increase in the interim dividend. As at 30 June 2024, dividends and share buy-backs totalled more than 15 billion dollars over the last 2.5 years. We will announce the final dividend and the results of the annual payout consistent with our capital management policy in our 2024 full year announcement next March.

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In conclusion, the Group has delivered an excellent financial performance in the first half of 2024.

VONB was up 25 per cent to a record level and both OPAT and UFSG were up by 10 per cent per share. In the first six months of 2024, we returned 3.4 billion dollars to shareholders in the form of dividends and share buy-backs.

Operating returns increased, with ROEV up to 16.5 per cent, and ROE up to 15.3 per cent.

As we actively seek to optimise returns to shareholders, we announced our new capital management policy in April to deliver higher annual distributions for shareholders.

We have further increased the dividend and our share buy-back programme is ongoing, with 3.1 billion remaining to be completed by April next year, and today we announced a 3-year growth target for OPAT per share.

There are substantial opportunities for AIA to continue to deliver attractive returns for shareholders well into the future and I have every confidence that we will do so.