AIA Group Limited 2012 Annual Results

Analyst Briefing Presentation – Transcript

27 February 2013

Mark Tucker, Chief Executive Officer and President:

Good morning to everyone and a warm welcome to our full year results presentation. This morning, we are pleased to announce another excellent set of results with sustained growth and record performances across all of our key metrics. We have repeatedly said that we are confident about AIA's future and as you will hear from us today, we are continuing to make strong progress in delivering our key strategic objectives and we are achieving real growth momentum in the business.

Let me begin by setting out our agenda. We will follow our usual format. I will start by going through the highlights of our performance over the year. I will then hand you over to Garth Jones, our Group Chief Financial Officer, to take you through the numbers in detail. You will then hear from our Regional Chief Executives, Gordon Watson, Ng Keng Hooi and Huynh Thanh Phong on the progress in their businesses at a local level. I will then come back to talk about our priorities before opening the session up to questions.

2012 was another year of excellent performance and our teams have worked enormously hard during 2012 to convert competitive advantages into delivery. While our primary focus is on continuing to implement our proven organic growth strategy, there were a number of additional initiatives and important events that occurred through 2012. Firstly, we completed the domestication of our Singaporean branch in January 2012.This restructuring boosted our solvency ratio and allowed us to remit over 600 million dollars of capital back to the Group. We also announced acquisitions during the year in Sri Lanka and Malaysia. Both transactions are value-enhancing and bring additional high-calibre distribution to AIA. However, and as I have said before, we see these acquisitions as incremental to our core strategy of organic growth and not an alternative.

AIA's long association with AIG came to an end in December 2012 after AIG completed its placing of AIA's shares. Over 14 billion dollars of our stock was successfully placed over 10 months beginning in March of last year, truly demonstrating the strength of investor demand. Let me now take you through the financial highlights.

You can see on this slide that AIA has produced an excellent performance across the full range of our key metrics – new business, embedded value and IFRS earnings.

Let me start with growth in shareholder value. VONB is up 27 per cent, at nearly 1.2 billion dollars. This is our highest VONB figure to date and the growth comes on top of the 40 per cent growth we reported in 2011. ANP volume increased 9 per cent totaling over 1.5 billion dollars in the second half. The underlying growth, importantly the underlying ANP growth, excluding the large Australian group scheme written last year, was an excellent 17 per cent achieved within our demanding capital return criteria. VONB margin reached another record level up 6.4 percentage points to 43.6 per cent. As you know, we do not write solely for either volume or margin, but instead focus on the growth in total VONB. Embedded Value increased by 15 per cent, or 4 billion dollars in 2012, to 31.4 billion.

Turning now to our IFRS results. Notwithstanding our significant investment in new business growth, we also increased operating profit after tax by 12 per cent to a new record high. Total net profit increased by 89 per cent to over 3 billion dollars, helped by equity market gains compared to last year. Overall shareholders' equity has grown by 25 per cent, mainly driven by strong earnings and positive capital market returns. Our solvency ratio is 353 per cent under the Hong Kong ICO basis and remains very healthy. We have also remitted an additional 1.6 billion dollars of capital to the Group Corporate Centre over the year, demonstrating the flexibility of capital across the Group. The Board has recommended a final dividend of 24.67 cents per share bringing the full year to 37 Hong Kong cents, an increase of 12 per cent.

Today's record figures stand-alone, but the growth we have achieved is even more significant when looked at from the 2011 starting base, which was itself a record year. In distribution, our Premier Agency strategy continues to deliver. Recruitment of the best talent with new agent selection and specialised induction and training programmes has led to greater agency engagement and increased profitability. Our partnership proposition, based around service quality and product design, has continued to thrive. In addition to our ongoing focus on protection, we have strengthened our range of products to address our customers' long-term savings needs. We are now seeing the returns from our improved unit-linked products with growth of 35 per cent against a difficult market backdrop over most of last year.

We have a much larger in-force customer base than our international competitors across the region with over 25 million holders of individual policies and 13 million group scheme members. This represents a substantial source of future earnings which we are now only just beginning to realise. We have begun the roll-out of our market-leading point of sale technology. It supports our agents through the full sales cycle and increases the speed of sale.

Within the first three months of launch, nearly one-third of new cases from Singapore are now submitted through the new platform. Garth will talk about the financials later. What I'd like to do is to now take you through some of these areas in greater detail, starting with distribution and Premier Agency.

AIA's highly effective agency distribution across the region is a huge competitive advantage for us and really is the cornerstone of our high-quality growth. We are committed to continually improving the quality and professionalism of our agency through the implementation of our Premier Agency strategy. The AIA Premier Academy has broadened its scope to provide specific new agent induction programmes to support our recruitment initiatives. We introduced new candidate profiling tools across 9 of our markets, alongside our strategic partnership with LIMRA, a worldwide leader in training and recruitment, to really identify and select the best new recruits. We launched Regional Officer Schools across 10 markets and 660 of our agency executives have already completed their training. We have continued to improve the quality of our agents with the total number of active agents increasing by 7 per cent and MDRT agents up by 11 per cent compared with last year. Let me now turn to Partnerships.

Our partnership distribution has delivered excellent results in 2012 with VONB up 59 per cent and this has been achieved by continuing to source and execute new growth opportunities that meet our profitability targets.

Our bancassurance model is built around the deep and high quality relationships we have with our partners. And this allows us to take a disciplined approach to the products so that we achieve the right returns for both our partners, their customers and for AIA. As a result, the VONB from our bancassurance doubled compared with last year. And late in 2012, we announced a new long term partnership with Public Bank the second largest bank in Malaysia and a new agreement with NDB in Sri Lanka. We continued our investment in direct marketing with strong new sales growth in Thailand, Malaysia and Taiwan. Other partnership channels, including IFAs and private banks, continued to show excellent growth over the year.

As I said earlier, AIA only writes business that meets our return targets. We do not focus purely on the pursuit of either volume or margins in isolation. This strategy is working well as you can see from the chart. We have adjusted the figures here for the effect of the large Australian scheme written last year so that you can see clearly what is happening in the underlying business. The excellent results have been achieved mainly from strong volume growth combined with improvements in both product mix and product margins. Our distribution focus has been and will be total VONB growth as we seek to achieve attractive returns for our shareholders with the right payback profile on our capital invested. I believe that there is a great deal more we can do here that will have a positive and material impact on future growth.

At the interims, I highlighted the work that we had begun on our customer experience transformation programmes. We have now extended these programmes in the second half of the year to cover 10 of our largest markets. Based on hard analytics, we have shown that engaged customers generate double the amount of new business, on average, across the region. The detailed research has allowed us to segment and target our new and our existing customers in a far more systematic and sophisticated way than in the past. We have seen some initial results here with an additional 500,000 policies sold to our existing customers in 2012.

As I said, we serve the holders of over 25 million individual policies and 13 million group scheme members. We believe there is a great deal more we can do to drive incremental sales to our existing customers through improved knowledge and more targeted product propositions.

The first time I presented to you, I outlined the primary performance metrics which I said would determine the priorities of all of us here at AIA. Looking back since the IPO, you can see our track record and the strong momentum we have generated across all of our metrics. The headline figures demonstrate that we are driving the underlying business for long-term sustainable growth and greater shareholder value. Our strategy is working well and our solid execution has produced excellent and sustained growth in new business profitability. At the same time we have ensured that this profitability has been translated into in-force shareholder value creation, earnings growth and cash flow generation and, importantly, and very importantly, this growth has been achieved with scale.

While we have achieved an enormous amount in just over two years since the IPO we are still very, very early in our journey and as the Regional Chief Executives will set out shortly, there are many enormous opportunities for us to go after that we are very well positioned to capture. At this time, let me hand over to Garth to take you through the detailed financials.

Garth Jones, Group Chief Financial Officer:

Thanks Mark. Good morning. Let me now take you through our financial results for 2012 in detail. I will use our usual presentation structure starting with the key measures of value growth.

As Mark mentioned, we have achieved another record set of VONB results in 2012. AIA's advantaged business model and the execution of our clear strategy have led to an increase of 27 per cent in VONB over the year. This result follows the record growth we achieved in 2011 and is the first time our VONB for the full year has exceeded one billion dollars, demonstrating the significant opportunities for growth we have at AIA. Our VONB results are shown after a deduction of 113 million dollars for the allocation of Group Office expenses and also the cost of holding capital and reserves on the Hong Kong ICO basis, above local requirements. The growth in VONB is the result of a combination of quality top-line sales growth, margin enhancements and improvements in product mix. I will now go through each of these in turn.

ANP grew by 9 per cent for the full year and accelerated in the second half of 2012, leading to a record half-year ANP result of over 1.5 billion dollars. You can also see from the slide that Q4 was our most productive quarter on record. 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 premiums that steadily build scale over time.

The new business margin for the year rose by 6.4 percentage points to 43.6 per cent. Our margin has increased consistently since our IPO in the second half of 2010. The increase has been driven by a combination of pro-active management of our agency and other distribution channels to sell a higher-quality product mix together with targeted product re-pricing actions and new product launches.

This slide shows a more detailed breakdown of the overall margin growth for the Group over the full year. The margin figure reported at the Group level is a product of a number of factors including channel and country mix. The influence from country mix was positive and benefited from the strong growth in Singapore, our highest margin market. Changes to assumptions including interest rates have reduced the margin by 0.9 percentage points.

As Mark said earlier, we have consistently focused on writing quality business that meets our return targets and on balanced growth in shareholder value rather than more narrowly looking for market share gains. Our aim is to optimise growth in the total value of new business as illustrated by the next slide.

VONB was close to 1.2 billion dollars for the full year 2012, another excellent performance. You can see that the second half result in 2012 of 676 million dollars was greater than the VONB figure for the whole of 2010, which was 667 million dollars, demonstrating the progress our businesses have made since IPO.

As I have said previously, with our rigorous pricing discipline we continue to achieve high returns on the shareholder capital we allocate to fund our new business growth. During 2012 our average IRR on new business was again in excess of 20 per cent. Note that this IRR figure is fully loaded for group office expenses and for the relatively high Hong Kong reserving and capital requirements.

AIA continues to deliver VONB growth across Asia. VONB in our largest market, Hong Kong, increased by 20 per cent, while Thailand reported 26 per cent growth. Singapore's VONB grew by 38 per cent, with China, our fourth largest market, delivering 22 per cent growth. Our Korea business reported a decrease of 8 per cent in the full year. However, the business recorded growth in the second half of the year of 9 per cent compared with the same period in 2011, evidencing the positive results of our repositioning there. Malaysia was up 17 per cent and had a high comparative base in the second half of 2011. Last but certainly not least, our Other Markets delivered a particularly strong performance of 45 per cent growth. 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 31.4 billion dollars as at 30 November 2012, up 15 per cent over the year. The main driver of the increase was EV operating profit of 3.5 billion dollars, representing growth of 12 per cent over last year. As we use a prudent discount rate in our calculations, our EV operating profit will continue to benefit from the significant unwind of the value of our in-force book between the start and end of each year. Operating variances of 111 million dollars also contributed to EV operating profit and represent positive experience compared to the assumptions we use in our EV calculation. On the non-operating side, strong positive market movements were partly offset by economic assumption changes and dividend payments of 530 million dollars during the year. Overall, EV grew by 4.2 billion dollars.

Our EV sensitivity to capital market movements is shown here. The sensitivities allow for movements in the net worth, including the impact on our liabilities and also the value of in-force. As you can see, while AIA is not immune to equity market and interest rate movements, the economic impacts on EV are relatively small.

It is important to look at both interest rate assumptions and risk discount rates together in order to measure the risk premium and the overall level of prudence. The difference between our average risk free rate and our average risk discount rate is equivalent to a risk premium of 700 basis points allowing for the effect of reserves and capital. We regularly have an independent actuarial firm assess our EV methodology and assumptions against industry practice and confirm that these remain prudent by comparison. They have also confirmed that our approach would give no overall material differences compared to a market-consistent approach.

As well as diversification across Asia, another distinctive feature of AIA is the scale and profitability of our back book of business. This slide shows the after tax surplus which will be generated from our book of in-force business, or VIF over time. The total figure has grown by 14 per cent since last year and this is after the surplus that is transferred to shareholders' net worth that occurs over the year. The profile of the projected cash flows underpinning our VIF is very attractive, with close to 12 billion dollars expected to be released between now and the end of 2017 on an undiscounted basis.

Our back book of existing customers is a valuable asset for AIA. We continuously seek to create value by growing and optimising the cash flows emerging from our in-force book and investing in profitable new business with high IRRs.

Now let's turn our attention to the IFRS results. Operating profit before tax for the year grew by 11 per cent to 2.7 billion dollars. It is now around 50 per cent higher than the figure recorded in 2009. The chart on the right hand side shows the split by market segment. Each of our market segments reported a profit above 150 million dollars, and this is after taking account of the investment made in their strong growth over the year. This scale and underlying diversification are particularly strong features of AIA and its financial results.

Investment income increased to 4.3 billion dollars for the year and the investment yield remained stable at 4.8 per cent. The investment return reflects the investment yield together with the mark-to-market performance of equities over the year. Our investment mix remains conservative and stable, being mainly invested in high quality Asian fixed income assets to match our liabilities. The average credit quality of our portfolio is unchanged and remains strong.

Operating margin increased from 16.5 per cent in 2011 to 17.3 per cent in 2012. This shows both the active management of our back book and the quality of the new business we are writing. Our expense ratio remained stable over the year and continues to be one of the lowest in the industry.

Operating Profit after Tax was up 12 per cent to over two billion dollars. It is worth reiterating that AIA's definition of operating profit does not include actual or mark to market gains. The average annual non-operating gain reported over the last 4 years was 460 million dollars.

IFRS net profit for the year showed a growth of 89 per cent to over 3 billion dollars including mark-to-market gains from equities. Shareholders' equity as at end November 2012 increased by 25 per cent to approximately 26.7 billion dollars. The main drivers were the 3 billion dollars of net profit plus 2.6 billion dollars of bond gains not included in the P&L account less dividend payments of 530 million dollars.

Let me end with capital and dividends. Our Hong Kong ICO basis solvency ratio remained strong over the year increasing from 311 per cent to 353 per cent. The positive move is a result of robust retained earnings and the subsidiarisation of our Singaporean business. This was partially offset by the payment of dividends.

We said at the time of our acquisition of ING Malaysia that we intended to refinance the purchase through an efficient financing structure. Included in our announcement this morning is a statement that we intend to establish a Medium Term Note programme later today. We will consider whether to issue debt under this programme taking into account market conditions and the dynamics of the business.

As I mentioned previously, the scale of our back book of business and consequently our strong free surplus generation is a distinctive feature of AIA. During 2012, we generated 2.8 billion dollars of surplus from the in-force book and invested around half of this in financing our profitable new business growth at an IRR above 20 per cent. Free surplus has increased by 700 million dollars over the year after investing in the growth we have achieved and the payment of our first full year dividend.

It is worth reminding you about the mechanics of the free surplus calculation following the acquisitions. You will be aware that free surplus does not include intangibles such as goodwill. Since the purchase prices of our acquisitions are more than the free surplus acquired, the difference will be deducted from the free surplus figure in the first half of 2013. As Mark mentioned, you will also see from the packs that we have remitted 1.6 billion dollars to the Group Corporate Centre during the year demonstrating the flexibility of our capital across the Group.

The board has recommended a final dividend of 24.67 Hong Kong cents per share in-line with the guidance we gave at the interims. This brings the total dividend for 2012 to 37 Hong Kong cents per share, representing a growth of 12 per cent compared with 2011.

In 2012 AIA has again delivered a record set of financial results across VONB, embedded value, IFRS earnings and free surplus generation with strong cash remittances to the Group. I shall now hand over to our Regional Chief Executives who will share with you how our markets achieved these excellent results, starting with Gordon Watson. Gordon.

Gordon Watson, Regional Chief Executive:

Thanks Garth. Good morning. Realising our vision comes down to executing 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 and not just the number of agents, and implementing our Profitable Partnership distribution model. And thirdly introducing innovation with consumer focused products and services.

Today we will update you on our largest 6 operations and some of the exciting developments in our other markets. So let me start with the largest, which is Hong Kong. Hong Kong continued to deliver strong results in 2012, with VONB growing at 20 per cent through a focused sales strategy supported by margin enhancement. Our principal distribution channel in Hong Kong is our Premier Agency, which continues to be seen as the benchmark in the marketplace and is driven by key programs we put in place in 2011. The number of Premier Agents continues to grow and we saw the 24 month retention rate of new agents up 20 per cent in 2012. Our state-of-the-art development program for high potential candidates who are new to the insurance industry, known as the Premier Academy Road to MDRT, continues to set the standard for Premier Agency Development in Hong Kong.

In the first 16 months we have graduated over 450 new recruits from this program. In 2012, AIA in Hong Kong was once again the undisputed market leader in terms of the most MDRT qualifiers, growing 9 per cent.

Another key milestone for Hong Kong's premier agency development is the penetration of the group insurance market. 44 per cent more agents sold group insurance in 2012 as we helped our agents learn how to utilise the group insurance sale to expand their prospecting base. This year Hong Kong has also made a lot of progress in building our Profitable Partnership model, targeting the High Net Worth segment. By understanding the needs of the High Net Worth segment we were able to develop a very strong value proposition, a set of competitive product designs and make key investments in the High Net Worth infrastructure and our service capabilities. The results have been promising as we have been able to double the VONB from our partnerships for this particular segment.

In the group insurance market, we are also expanding our reach through brokers with a 90 per cent increase in the number of cases closed in 2012. An inherent advantage we have is our large and diverse existing customer base. In 2012 we worked hard to analyze and segment customer data to help us make more informed business decisions. By having a more insightful view of our 1.4 million customers, allowed us to build better and more targeted mail and phone based marketing campaigns. Also by targeting existing customers with product offerings that fill a specific protection gap – we have seen our conversion rates for campaigns increase by two-thirds and this serves as an enabler for our agency to close more business. We are pleased with the progress in Hong Kong as we continue to perform well in one of the most dynamic markets in the region.

There is much more to come in 2013 as we refine our approach to building products, growing our distribution and improving our understanding of our customers. So let's move onto Korea.

At the half year, I mentioned that to build a sustainable business for the future, we had to make some structural changes to our business model. We have made significant progress on repositioning our agency channel and started now our multi-year transformation of our major direct marketing platform. I am glad to say that in the second half we were able to grow both ANP and VONB over the second half of 2011.

We have come a long way in our agency distribution this year. 2012 really marks the first year of growth since the events in 2008. This turn-around was fueled by a 61 per cent increase in active new agents. This is not just about quantity, it's about quality, and the number of MDRT qualified agents we have in Korea has increased by 40 per cent.

Having made solid progress on Agency, we have initiated a transformation program for Direct Marketing, or DM channel. The initial focus has been in distribution capacity. We have become more innovative in our approach to TSR recruitment. We have expanded to the outskirts of Seoul and adopted more flexible working hours. This allows us to target a broader labor pool. Our efforts resulted in growing the number of TSRs in 2012.

Our distribution transformation efforts have been supported by marketing campaigns aimed at increasing awareness of the protection needs in the market. Our digital campaign, called Irreplaceable, shows what it would be like for a young boy to have to fill his father's shoes and this, I'm glad to say, has been viewed over one million times in YouTube. Maybe not quite as good as Gangnam Style by PSY which, I think, is about one billion. But one million I'm quite happy for a life insurer to achieve that.

I can say significant strides have been made in distribution this year in Korea, and we will continue to execute our strategy to revitalise this business. I really believe that we are well on our way to building a strong and sustainable platform for future profitable growth in this very important market. So now what I would like to do is share with you the growing opportunity in Asia for Group Insurance.

As many of my colleagues will tell you, Group Insurance is one of my favorite topics and I am excited to be talking about it today. Group Insurance VONB grew by 25 per cent last year. This included more than 60 per cent growth across our key markets including Hong Kong, Thailand, Singapore, Indonesia and the Philippines. Timing is everything and it really is a great time to be in this particular business in Asia.

The macroeconomic fundamentals driving growth across the region are increasing the demand for competitive benefits plans, amongst an employee population of over 1.5 billion. The result is a Group Insurance Market in Asia that exceeds US dollars 17 billion in premiums and is the fastest growing in the world. But we are very much still just at the beginning of this journey. The group insurance business in Asia still lacks scale if you compare with the United States. You know, if you look at the US, for example in 2011, Group Life premiums accounted for over 40 per cent of the entire Life Insurance market versus low single digits in Asia. As Asia begins to follow in the footsteps of the West, AIA is very well positioned to capitalise on this growth.

Over the last six decades, AIA has been developing group insurance solutions and building employer relationships – a business we have that now serves more than 100,000 corporate clients with more than 13 million members. Our business growth is generated from two sources. The first source is large group plans, sold through carefully cultivated relationships with employee benefits consultants and brokers. Group cases sold through these relationships were up 27 per cent in 2012. The second source is our agency distribution which has been and will continue to be critical to our employee benefit success.

In 2012 we focused on training this channel to sell packaged group insurance plans to small-and-medium sized enterprises. We made the product design, the sales process, the value proposition – all very simple and straightforward. The results of this, and further training and positioning, increased the number of agents selling group cases by 38 per cent in 2012.

One of the major advantages of this strategy is that the sale of group insurance provides a really excellent source of qualified prospects for individual insurances. So overall we had a solid year of results in Group Insurance, but this really is just the beginning. The combination of the size of this market, plus our existing core competency, presents a clear opportunity for AIA to continue to focus and grow this very exciting business opportunity

Thank you and at this point I will turn over to my friend and colleague Mr. Keng Hooi. Thank You.

Ng Keng Hooi, Regional Chief Executive:

Thanks Gordon. Good morning. I am happy to share with you the strong results for Singapore, Malaysia and China. Let me begin with Singapore.

AIA Singapore delivered VONB of 226 million in 2012, a 38 per cent increase on the prior year. This excellent growth came on top of the 58 per cent growth we reported in 2011 which was a record year in itself. In 2012, we continued to implement our Premier Agency strategy. We introduced a new agency structure that focused on quality recruitment and helped our agency leaders to develop new Premier Agents. Despite a high employment rate in Singapore, our strategy delivered a 12 per cent increase in the number of new recruits for AIA.

In 2012, AIA became one of the first insurers in Singapore to launch a fully mobile and secure interactive point of sale system using iPad devices to improve the sales process. In addition to providing an attractive solution to customers, we believe iPoS helps to increase agents' productivity and attract the next generation of tech-savvy agents. The adoption rate by our agents has been very positive.

Our partnership distribution in Singapore also reported excellent growth, particularly in the IFA and private bank channels which target the more affluent segment. In 2012, we continued to help Singaporean families to fill their protection gaps. VONB from our three flagship protection products increased 60 per cent year-on-year.

We are the market leader in group insurance focusing on our broker partnerships and on the SME market through our Premier Agency. As a result, our VONB for group insurance increased by 62 per cent compared with 2011. As you can see, AIA Singapore has delivered excellent results in 2012.

Now turning to Malaysia. Our Malaysian business has delivered a good set of results in 2012 with 17 per cent growth in VONB. Agency is our core distribution channel in Malaysia. In 2012 our priority was the on-going focus on upgrading our agency force through improved recruitment and selection processes. We launched Premier Academy training programmes to support the induction of new agents and to further promote the Premier Agency culture.

We achieved strong performance in our partnership channels in bancassurance and direct marketing, more than doubling the VONB from these channels compared with 2011. These channels represent an attractive and valuable complement to our agency distribution.

Protection sales for new and existing customers through up-selling campaigns also contributed to our 2012 performance. We concentrated on promotion of regular premium unit-linked products resulting in a 31 per cent increase in VONB. Our Takaful business had a successful start – accounting for over 10 per cent of our VONB in Malaysia in its first full year of operation. This demonstrates that our multi-channel strategy is working well and puts AIA in a strong position to capture the immense opportunity of the Muslim market segment.

Another exciting development was the acquisition of ING Malaysia which we completed in December 2012. As we said to you in October, this transaction represents a highly attractive and unique opportunity for AIA. We have already made significant progress in the integration of the two businesses under the experienced leadership of Bill Lisle. He is strongly supported by our new executive team drawn from the leadership ranks of both AIA and ex-ING. Throughout this process, we have actively engaged and communicated with all the relevant parties --- staff, agency, business partners and regulators -- to ensure a smooth integration. The new executive team is making a good start in our bancassurance partnership with Public Bank.

We are now working hard to implement our integration plans which will see the two businesses operating with a single new business platform, product range, brand, and agency structure. This is a lot more work to do in integrating two of the largest companies in Malaysia. We are all very committed to optimising the full potential of our enlarged business and delivering a very positive outcome for all our stakeholders.

Now let me turn to China. AIA is the leading non-mainland life insurance company in China where we celebrated our 20th anniversary in 2012. Over the past two decades, we have led the development of professional agency distribution and product innovation in China. Our VONB increased by 22 per cent in 2012 and VONB margin increased by 10.3 percentage points to 57.5 per cent.

Our agency strategy in China is about quality and professionalism. We manage our agents and leaders proactively and provide them with best-in-class training. Our leaders are trained to understand the need for quality recruitment to grow the next generation of high-quality Premier Agents. Our agents are trained to serve the increasingly sophisticated consumers in China with a comprehensive range of products attractive to all parties – Customers, Agents and AIA. Our Premier Agency programme in China has delivered an increase in the number of active agents as well as in their average incomes but most importantly, quality continues to improve with the number of MDRT qualifiers in China up by 19 per cent compared with 2011.

AIA has successfully positioned itself as a leader in the comprehensive protection insurance market in China. We have a competitive advantage in this area but profitable growth is about managing all of the components I talked about and more. It is about developing our leadership team, clear and proactive agency management, delivering the right mix of best-in-class products and a focus on increasing the average incomes of our agents through better training and support, resulting in higher levels of professionalism.

As you can see, the opportunities for AIA in Singapore, Malaysia and China are significant and our delivery in 2012 was strong. Our continued focus on executing our strategy will help us continue to deliver sustainable profitable growth. Now let me hand over to Phong. Thank you.

Huynh Thanh Phong, Regional Chief Executive Officer:

Thank you, Keng Hooi. Good morning everyone. Thailand and our Other Markets have delivered another set of excellent results in 2012. Producing such strong financials highlight the significant progress we have made against our goal of delivering sustainable long-term growth. Let me begin with our market leading business in Thailand.

Thailand has delivered very strong VONB growth of 26 per cent in 2012. This growth is a direct result of our focus on execution to increase agency productivity at the same time as improving product margins. As I mentioned at the interim results, we have fully implemented the LIMRA profiling tools in 2012 which has led to an improvement in our recruitment efficiency as well as the quality of our recruits. Our Premier Academy trains our new agents and enhances their skills in selling the more sophisticated protection products and riders. This contributed to improvements in productivity and in product mix resulting in a 5 percentage point increase in VONB margin this year.

The success of our recruitment and agency management initiatives through our Premier Agency strategy is evidenced by the 26 per cent increase in the number of MDRT qualifiers, helping us to retain our number one position in Thailand and demonstrating the improvement in quality we continue to achieve.

In focusing our agency training in Thailand on the right mix of products and advice to meet our customers' needs, we also reinforced our position as a leader in the life and health market. We launched our new range of participating critical illness products, called AIA Health Lifetime in 2012. Within just three months of launch, it became a top 5 product for us.

With more than 7 million customers in Thailand, we have unparalleled scale and a unique opportunity to cross sell and up sell. Our successful double sum assured campaign helped strengthen AIA's profile amongst our customers as well as improve their protection coverage.

These strategies resulted in an increase of 30 per cent in protection VONB for the year. Our group insurance business continued its strong performance, particularly in the SME segment, and our VONB increased by over 90 per cent. All in all, AIA Thailand delivered another impressive set of results for 2012. Now let me turn to our Other Markets.

Our Other Markets also delivered excellent growth in 2012 with VONB up 45 per cent compared with 2011. Let me now share with you a few highlights regarding our achievements in Australia, Indonesia and the Philippines.

Australia performed strongly during 2012 in terms of VONB growth and was the fastest growing life insurance company in the country. We focused on channel diversification, expanding our distribution mix into the higher margin IFA segment and leveraging our strong reputation in the risk insurance market. As a result, VONB from the Premier IFA channel grew by 78 per cent this year. The successful implementation of our Premier IFA model, combining competitive products with best-in-class adviser services, was a key driver of improved new business profitability in Australia, helping AIA capture three Life Company of the Year awards and solidifying our position as a leading independent risk specialist.

In Indonesia, our VONB growth in 2012 was outstanding across all channels. We made very good progress on our Premier Agency strategy including enhancing our training for new and existing agents. We also launched our next generation of unit-linked products. This resulted in a major increase in our sales of protection and unit-linked business accompanied by an increase in agency productivity. Our number of active agents grew by 37 per cent compared with 2011. On the bancassurance side, we introduced new health products and also launched a line of Takaful products with our partner CIMB Niaga.

The Philippines, where we are the clear market leader, represents a significant opportunity for AIA to provide savings and protection business to a population with one of the most youthful demographic profiles in Asia. The implementation of our Premier Agency strategy and our successful bank assurance joint venture with Bank of the Philippine Islands generated strong growth in 2012. Our Premier Agency initiatives helped grow active agents by 16 per cent and increase the number of MDRT qualifiers by 59 per cent this year. The successful execution of our joint venture business with BPI resulted in a trebling of VONB from this channel

As you can see from our Other Market results, we have had another outstanding and productive year with excellent progress from the strategy and initiatives that we have put in place. Across all of our markets in Asia, we have achieved very positive results in 2012. We know that the market opportunities for long-term savings and protection insurance in Asia are vast and growing quickly and most importantly, that AIA is very well placed to capture such significant upside growth.

As Gordon and Keng Hooi have also highlighted earlier, we are all very focused on executing our plans to turn these significant opportunities into sustained profitable growth for AIA. Let me now hand back to Mark. Thank you.

Mark Tucker, Chief Executive Officer and President:

Thanks Phong. I think the RCEs have given you a good sense of the many initiatives that are happening throughout AIA and that will continue to drive our future growth.

Let me finish by reminding you of the significant opportunities that AIA has from its advantaged position in Asia and how we will execute to sustain today's strong results. You have heard me talk many times about the immense future growth opportunities in the region. Asian economies have much stronger and more resilient fundamentals than almost any other parts of the world.

Public debt is less than half of GDP with a forecast GDP growth rate of over 6 per cent per annum, significantly exceeding just over 1 per cent for the G7 countries. The rapid growth in the urban population, expected to increase by 360 million people comes with a phenomenal increase in the number of households with disposable incomes above 10 thousand dollars, which is a critical level, as you know, when it comes to purchasing life insurance.

In contrast, the take up of pensions and life insurance per capita across the region is very low and this all adds up to a vast latent need for life insurance of all types – long-term savings, mortality protection and accident and health. The facts on this slide are powerful reminders of Asia's potential, but they only tell part of the story. This growth, remember, comes with strong levels of profitability and superior margins. Our business is strongly supported by these major economic and demographic drivers of growth and profitability in Asia and we are 100 per cent focused in this attractive region without dilution or distraction.

However, just being in Asia is not enough in itself. You need to do much more than this and AIA is ideally positioned to really seize this opportunity. We have a rare and advantaged franchise built up over many decades. Our 100 per cent ownership structure allows us to capture the full economics for our shareholders. We have the market-leading brand and a considerable scale presence from our large existing customer base. Our proprietary distribution provides direct access to both new and existing customers, helping provide the advice that will tap into the significant and growing needs of consumers in Asia. We have a strong track record in innovation and a broad capability across a full range of products to meet our customers' needs, and also respond to evolving market trends.

Finally, as you have seen from today's results, our financial strength and the cash flows generated from our in force book of business allow us to finance significant growth and our progressive dividend policy. As well as an advantaged platform maintaining a clear focus on the essential priorities is the next step. There are of course many things that we could do given the immense range of opportunities we have, but we remain very focused on the key priorities that will make a material difference to AIA's future growth.

Firstly, effective distribution. We will continue to drive our successful Premier Agency model. The entry barriers of this type of premier sales force are enormously high and it is a major competitive advantage for AIA. This will be complemented by our partnership channel growth and, as Gordon had explained, group insurance expansion. Taken together, this is a very exciting prospect.

Secondly, product targeting. Our greater customer understanding will enable us increasingly to tailor new products and systematically target our campaigns to meet individual needs, and this in turn will drive further new business volumes.

Thirdly, customer engagement. We have a significant advantage over our competitors with our large existing customer base.

As you have heard from Gordon, Keng Hooi and Phong, many of the initiatives described here are already delivering results, but it is important to note that they are still in their early stages of development and we believe they will continue to drive significant upside in our business for some time to come.

Finally, quality execution is needed to deliver the results shown. Our excellent track record of sustained growth since the IPO demonstrates the effective execution of our strategy and I am very proud of my colleagues' right across the region for all of their achievements. In the last three years, we have more than doubled VONB – 2.2 times to be exact. Over the same period, our embedded value has increased by over 50 per cent – this is more than 10 billion dollars – to over 31 billion dollars. And we have not only self-financed that growth, but also introduced and maintained a progressive dividend policy for shareholders. This is an outstanding level of growth and it is all the more noteworthy because it has been achieved with significant and impressive scale.

To summarise, 2012 was another record year for AIA. As we enter our third year as an independent company, we have an immense growth opportunity from the significant need for savings and protection products of our present and our potential customers right across Asia. To capture these opportunities you need an exceptional distribution and product platform and we have that. You need to create demand by giving the right advice and by working with customers for the long-term and we do that very well. You need to execute a clear strategy by focusing on priorities that make a difference and we have demonstrated our ability to do this with today's results and through our track record since IPO.

We continue to combine scale new business growth with the capacity to grow dividends and to ensure that our activities are value enhancing for shareholders. This is a powerful and rare combination and shows that there is a great deal more to come from this business and we remain as confident and excited by the opportunity as ever.

Thank you for listening this morning, and we are very happy now to move on to the Q&A.