

**AIA Group Limited**  
**友邦保險控股有限公司**  
Interim Report 2014



**THE REAL LIFE  
COMPANY**

Stock code: 1299

# INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 MAY 2014

## AIA DELIVERS ANOTHER EXCELLENT SET OF RESULTS

The Board of Directors of AIA Group Limited (stock code: 1299) is pleased to announce the Group's unaudited consolidated results for the six months ended 31 May 2014.

The main highlights of the results are:

### Record value of new business (VONB)

- 23 per cent growth in VONB to US\$792 million
- Annualised new premium (ANP) up 11 per cent to US\$1,690 million
- 4.6 pps increase in VONB margin to 46.2 per cent

### Strong and sustainable value creation

- 11 per cent growth in embedded value (EV) operating profit to US\$2,119 million
- US\$2 billion increase in EV Equity to US\$36.9 billion, up 6 per cent over the first half
- Embedded value of US\$35.1 billion after deducting the upfront payment for our regional bancassurance partnership with Citibank that was signed in the first half

### Outstanding IFRS operating profit growth and robust capital position

- 15 per cent growth in IFRS operating profit after tax (OPAT) to US\$1,457 million
- Net profit of US\$1,546 million including mark-to-market valuation of equity investments
- IFRS operating earnings per share up 15 per cent to 12.18 US cents
- US\$2.1 billion of free surplus generation in the first half, an increase of 9 per cent
- Solvency ratio for AIA Co. increased by 15 pps to 448 per cent on the HKICO basis

### Increased interim dividend

- 15 per cent growth in interim dividend to 16.00 Hong Kong cents per share

### Commenting on the results, Mark Tucker, AIA's Group Chief Executive and President, said:

"AIA has delivered another excellent set of financial results in the first half of 2014. We have achieved significant growth across all our key performance metrics including VONB up 23 per cent. Our strong performance is the direct result of the consistent execution of our growth strategy, the prudent management of our balance sheet and the resilience of our portfolio of life insurance operations in diversified markets across the Asia-Pacific region.

"We are pleased to declare a 15 per cent increase in our interim dividend reflecting our strong performance and our prudent, sustainable and progressive dividend policy.

"The Asia-Pacific region offers one of the most attractive and resilient life insurance markets in the world. A young and upwardly mobile population is driving rapid urbanisation and significant growth in disposable incomes across the region. Combined with low levels of social welfare support and existing private provision, these long-term structural trends provide the foundation for the large and growing need for AIA's products and services in the region.

"AIA remains exceptionally well-placed to benefit from these structural drivers through the quality and scale of our distribution, our trusted brand position established through our long history in Asia, the breadth of our product range and our financial strength. The execution of our clear strategy and rigorous financial discipline will enable us to continue to deliver large-scale profitable growth at attractive returns and we look forward to continuing to deliver value to our customers and for our shareholders."

## **About AIA**

AIA Group Limited and its subsidiaries (collectively “AIA” or the “Group”) comprise the largest independent publicly listed pan-Asian life insurance group. It has operations in 17 markets in Asia-Pacific – wholly-owned branches and subsidiaries in Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei, a 97 per cent subsidiary in Sri Lanka, a 26 per cent joint venture in India and a representative office in Myanmar.

The business that is now AIA was first established in Shanghai over 90 years ago. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$159 billion as of 31 May 2014.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia-Pacific, AIA serves the holders of more than 28 million individual policies and over 16 million participating members of group insurance schemes.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) traded on the over-the-counter market (ticker symbol: “AAGIY”).

## FINANCIAL SUMMARY

### Performance Highlights

US\$ millions, unless otherwise stated	Six months ended 31 May 2014	Six months ended 31 May 2013	YoY
<b>New Business Value</b>			
Value of new business (VONB)	792	645	23%
VONB margin	46.2%	41.6%	4.6 pps
Annualised new premium (ANP)	1,690	1,527	11%
<b>Embedded Value</b>			
Embedded value (EV) operating profit	2,119	1,908	11%
Value of in-force business (VIF) <sup>(1)</sup>	21,172	20,356	4%
Adjusted net worth (ANW) <sup>(1)</sup>	13,898	13,462	3%
Embedded value <sup>(1)</sup>	35,070	33,818	4%
EV Equity <sup>(1)(2)</sup>	36,915	34,871	6%
EV operating earnings per share (US cents)	17.71	15.93	11%
EV Equity per share (US cents) <sup>(1)(2)</sup>	306.48	289.53	6%
<b>IFRS</b>			
Total weighted premium income (TWPI)	9,004	8,495	6%
Operating profit after tax (OPAT)	1,457	1,269	15%
Net profit	1,546	1,935	(20)%
Operating earnings per share (US cents)			
– Basic	12.18	10.59	15%
– Diluted	12.15	10.58	15%
<b>Capital and Dividends</b>			
AIA Co. HKICO solvency ratio <sup>(1)</sup>	448%	433%	15 pps
Dividend per share (HK cents)	16.00	13.93	15%

(1) Comparatives for balance sheet items are shown at 30 November 2013.

(2) Includes goodwill and other intangible assets.

### New Business Performance by Segment

US\$ millions, unless otherwise stated	Six months ended 31 May 2014			Six months ended 31 May 2013			VONB Change
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	
Hong Kong	260	62.4%	401	168	48.7%	326	55%
Thailand	162	63.3%	256	146	55.1%	265	11%
Singapore	127	59.3%	214	110	74.8%	147	15%
Malaysia	70	43.9%	161	54	35.3%	152	30%
China	120	78.7%	152	76	63.7%	120	58%
Korea	35	18.6%	189	45	24.9%	182	(22)%
Other Markets	96	29.9%	317	112	33.3%	335	(14)%
<b>Subtotal</b>	<b>870</b>	<b>50.8%</b>	<b>1,690</b>	<b>711</b>	<b>46.0%</b>	<b>1,527</b>	<b>22%</b>
Adjustment to reflect additional Hong Kong reserving and capital requirements	(24)	n/m	n/m	(30)	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(54)	n/m	n/m	(36)	n/m	n/m	n/m
<b>Total</b>	<b>792</b>	<b>46.2%</b>	<b>1,690</b>	<b>645</b>	<b>41.6%</b>	<b>1,527</b>	<b>23%</b>

## Growth in Key Metrics on Constant Exchange Rates

US\$ millions, unless otherwise stated	Six months ended 31 May 2014	Six months ended 31 May 2013	YoY AER	YoY CER
Value of new business (VONB)	792	645	23%	28%
Annualised new premium (ANP)	1,690	1,527	11%	16%
Operating profit after tax (OPAT)	1,457	1,269	15%	19%

### Notes:

(1) A presentation for analysts and investors, hosted by Mark Tucker, Group Chief Executive and President, was held on 25 July 2014.

A webcast archive of the presentation and presentation slides are available on AIA's website:

<http://investors.aia.com/phoenix.zhtml?c=238804&p=irol-presentations>

- (2) All figures are presented in actual reporting currency (US dollar) and based on actual exchange rates (AER) unless otherwise stated. Change in constant exchange rates (CER) is calculated using constant average exchange rates for 2014 and 2013.
- (3) Economic assumptions are the same as those shown as at 30 November 2013 in our 2013 annual results preliminary announcement published on 21 February 2014. Non-economic assumptions used are based on those at 30 November 2013 updated to reflect the latest experience observed.
- (4) VONB is calculated based on assumptions applicable at the point of sale and before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests in the first half of 2014 and in the first half of 2013 were US\$4 million and US\$6 million respectively.
- (5) The results of our joint venture in India are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.
- (6) IFRS operating profit after tax (OPAT), net profit and operating earnings per share are shown after non-controlling interests unless otherwise stated.
- (7) AIA's previously-announced acquisitions of ING Management Holdings (Malaysia) Sdn. Bhd. (ING Malaysia) and Aviva NDB Insurance (ANI) completed in December 2012. The financial results of these two newly-acquired businesses are accounted for in the Group's 2013 results from the respective dates of completion.
- (8) TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded.
- (9) ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded and excluding pension business.
- (10) VONB includes pension business.
- (11) ANP and VONB margin exclude pension business.
- (12) Change is shown on a year-on-year basis unless otherwise stated.
- (13) Hong Kong refers to operations in Hong Kong and Macau; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan, New Zealand and Sri Lanka.
- (14) Certain prior year figures have been restated due to the Group's adoption of IFRS 10 and IAS 19 (revised) standards. Further details are disclosed in note 27 to the interim financial statements and Section 2 of the Supplementary Embedded Value Information.

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# FINANCIAL AND OPERATING REVIEW

## FINANCIAL REVIEW

**AIA has delivered excellent results with sustained growth across all of our key financial metrics from our strong operating performances and disciplined financial management.**

Value of new business grew by 23 per cent to US\$792 million and IFRS operating profit after tax increased by 15 per cent to US\$1,457 million. EV Equity was up by US\$2,044 million or 6 per cent to US\$36,915 million.

These record first-half performances were achieved despite the depreciation of local currencies against our US dollar reporting currency and demonstrate both resilience and strength from the broad geographical diversification of AIA's portfolio of businesses across the region.

Our large-scale growth was delivered while improving the capital efficiency and returns on new business investment and also generating increased free surplus from our in-force portfolio. Our regulatory solvency ratio for AIA Co. stands at 448 per cent, which is an increase of 15 pps compared with the end of November 2013. The Board of Directors has declared an interim dividend of 16.00 Hong Kong cents per share, an increase of 15 per cent on the prior year.

**Our financial performance demonstrates the consistent execution of our strategy and AIA's leading position across the growth markets of the Asia-Pacific region. AIA's ability to deliver large-scale profitable new business growth at attractive shareholder return, while maintaining our robust financial discipline and progressive dividend policy, provides a strong foundation for AIA to continue to deliver sustainable value for our shareholders.**

## Summary

### VALUE GROWTH

VONB grew by 23 per cent to US\$792 million compared with the first half of 2013. ANP grew by 11 per cent to US\$1,690 million and VONB margin increased by 4.6 pps to 46.2 per cent, as we continued to focus on optimising both volume and margin to deliver sustainable growth in new business value. The increased margin was mainly from a positive shift in product and portfolio mix following new product launches.

EV Equity grew by US\$2,044 million to US\$36,915 million at 31 May 2014. This represents an increase of 6 per cent over the first half from US\$34,871 million at 30 November 2013 and was mainly due to a strong EV operating performance including growth in VONB.

Economic assumptions remain unchanged from those shown in our Annual Report 2013.

### IFRS EARNINGS

IFRS operating profit after tax (OPAT) grew by 15 per cent compared with the first half of 2013 to US\$1,457 million. This excellent performance was the direct result of the strong underlying growth we have delivered across our businesses and our focus on improving operating margins. Each of our markets delivered strong growth in OPAT with the exception of Korea that was flat year-on-year.

AIA's IFRS net profit definition includes mark-to-market movements from our equity portfolio. Net profit decreased by 20 per cent compared with the first half of 2013 to US\$1,546 million from lower equity market gains. Net gains from equities, net of tax, contributed US\$47 million to net profit in the first half to 31 May 2014 compared with US\$659 million in the first half to 31 May 2013.

Shareholders' IFRS equity increased by 14 per cent over the first half to US\$28,030 million at 31 May 2014 from US\$24,682 million at 30 November 2013. The increase included US\$2,321 million of fair value gains mainly due to the accounting effect of lower interest rates on the treatment of debt securities that are classified as available for sale under the IFRS basis that AIA has adopted.

## **CAPITAL AND DIVIDENDS**

At 31 May 2014, the solvency ratio of AIA Co., our principal operating company, was 448 per cent of the prudent HKICO regulatory minimum capital requirement, which is an increase of 15 pps compared with the end of November 2013. The total available regulatory capital for AIA Co., our main regulated entity, was US\$6,452 million as measured under the HKICO basis. The increase was a result of strong retained earnings during the first half and positive market movements less the US\$800 million upfront payment for our long-term partnership with Citibank, N.A. (Citibank) and the final shareholder dividend for 2013.

The Board of Directors has declared an interim dividend of 16.00 Hong Kong cents per share in line with our prudent, sustainable and progressive dividend policy. This represents an increase of 15 per cent compared with the interim dividend in 2013 reflecting the strength of our results.

## **Outlook**

Asian economies have proved strong and resilient through recent economic cycles and policymakers have responded proactively to contain short-term economic challenges. Despite headwinds in the first half of the year, emerging market asset flows and foreign exchange rates have stabilised as Asian domestic economies remained strong. Asian economies continue to remain well-positioned as global interest rates begin to normalise. China's deliberate move towards stable, high-quality growth will be positive for the region over the long term and signs of improvement in U.S., U.K. and Japanese economies continue to offer further support to the region and supplement domestic drivers of growth across Asia.

AIA's strong financial results once again demonstrate the effective execution of our growth strategy, our disciplined focus on profitability and our financial strength. The quality, diversity and scale of AIA's distribution and product franchise across the region means that we are exceptionally well-placed to benefit from the long-term structural growth drivers in Asia and we remain confident of our considerable future growth opportunities in the region.

## **Partnership with Citibank**

On 19 December 2013, the Group signed an agreement with Citibank to enter into an exclusive bancassurance partnership for a 15-year period that encompasses 11 markets and 13 million customers across the Asia-Pacific region. The agreement includes an upfront payment of US\$800 million (Citibank Upfront Payment), which has been included in the financial results for the first half of 2014.



## New Business Growth

### VALUE OF NEW BUSINESS (VONB) AND ANNUALISED NEW PREMIUM (ANP) BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2014 <sup>(1)</sup>			Six months ended 31 May 2013 <sup>(1)</sup>			VONB Change	ANP Change
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP		
Hong Kong	260	62.4%	401	168	48.7%	326	55%	23%
Thailand	162	63.3%	256	146	55.1%	265	11%	(3)%
Singapore	127	59.3%	214	110	74.8%	147	15%	46%
Malaysia	70	43.9%	161	54	35.3%	152	30%	6%
China	120	78.7%	152	76	63.7%	120	58%	27%
Korea	35	18.6%	189	45	24.9%	182	(22)%	4%
Other Markets	96	29.9%	317	112	33.3%	335	(14)%	(5)%
<b>Subtotal</b>	<b>870</b>	<b>50.8%</b>	<b>1,690</b>	<b>711</b>	<b>46.0%</b>	<b>1,527</b>	<b>22%</b>	<b>11%</b>
Adjustment to reflect additional Hong Kong reserving and capital requirements <sup>(2)</sup>	(24)	n/m	n/m	(30)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(54)	n/m	n/m	(36)	n/m	n/m	n/m	n/m
<b>Total</b>	<b>792</b>	<b>46.2%</b>	<b>1,690</b>	<b>645</b>	<b>41.6%</b>	<b>1,527</b>	<b>23%</b>	<b>11%</b>

Notes:

(1) ANP and VONB margin exclude pension business.

(2) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.

VONB grew by 23 per cent to US\$792 million, an increase of US\$147 million compared with the first half of 2013, as we continued to focus on optimising both volume and margin to deliver sustainable growth in new business value.

China and Hong Kong once again delivered an excellent performance with VONB up 58 per cent and 55 per cent respectively driven by our product strategy combined with the quality of our agency distribution and the execution of our Premier Agency strategy. Malaysia, Singapore and Thailand also delivered strong double-digit VONB growth with Malaysia progressing well post the integration of the acquisition of ING Malaysia in 2013.

The industry-wide suspension of outbound telesales in Korea by regulators, as previously highlighted in our 2013 full-year results presentation, affected the performance of AIA's Korean business in the first half of 2014. Other Markets experienced a slower start from the depreciation of local currencies against our US dollar reporting currency and the effect of liquidity tightening on the banking sector, as previously highlighted in our first quarter 2014 new business highlights in April.

Growth momentum continued across both agency and partnership distribution channels with agency distribution delivering VONB growth of 27 per cent to US\$623 million and partnership distribution VONB growing by 12 per cent to US\$237 million compared with the first half of 2013. The reported growth for partnership distribution was moderated by local currency depreciation and the industry-wide suspension in Korea as highlighted above. Underlying partnership VONB growth was more than 30 per cent excluding these effects.

ANP grew by 11 per cent to US\$1,690 million compared with US\$1,527 million for the first half of 2013 and VONB margin was 46.2 per cent compared with 41.6 per cent for the first half of 2013. The reported ANP growth rate in Thailand, Singapore, Malaysia and our Other Markets was affected by local currency depreciation. Margin expansion of 4.6 pps was mainly driven by product mix improvements of 3.8 pps and 0.9 pps from assumption changes and other items, partly offset by a negative contribution of 0.1 pps from channel and geographical mix. Economic assumptions remain unchanged from those shown in our Annual Report 2013.

VONB is reported after a deduction of US\$78 million of which US\$24 million is for additional Hong Kong reserving and capital requirements and US\$54 million is for unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated by business unit.

## Embedded Value (EV) Equity

### EV EQUITY

US\$ millions, unless otherwise stated	As at 31 May 2014	As at 30 November 2013	Change
<b>EV</b>	<b>35,070</b>	33,818	4%
Goodwill and other intangible assets <sup>(1)</sup>	<b>1,845</b>	1,053	75%
<b>EV Equity</b>	<b>36,915</b>	34,871	6%

Note:

(1) Consistent with the IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

EV Equity grew by US\$2,044 million to US\$36,915 million at 31 May 2014. This represents an increase of 6 per cent over the first half from US\$34,871 million at 30 November 2013 and was mainly driven by a strong EV operating profit performance including growth in VONB over the first half.

EV Equity included goodwill and other intangible assets of US\$1,845 million at 31 May 2014 compared with US\$1,053 million at 30 November 2013, with the increase arising principally from the Citibank Upfront Payment.

### ANALYSIS OF EV MOVEMENT

An analysis of the movements in EV is shown as follows:

US\$ millions, unless otherwise stated	Six months ended 31 May 2014		
	ANW	VIF	EV
<b>Opening EV</b>	<b>13,462</b>	<b>20,356</b>	<b>33,818</b>
Citibank Upfront Payment	(800)	–	(800)
<b>Adjusted Opening EV</b>	<b>12,662</b>	<b>20,356</b>	<b>33,018</b>
Value of new business	(489)	1,281	792
Expected return on EV	1,814	(525)	1,289
Operating experience variances	(36)	108	72
Operating assumption changes	(2)	(10)	(12)
Finance costs	(22)	–	(22)
<b>EV operating profit</b>	<b>1,265</b>	<b>854</b>	<b>2,119</b>
Investment return variances	595	17	612
Other non-operating variances	(52)	(14)	(66)
<b>Total EV profit</b>	<b>1,808</b>	<b>857</b>	<b>2,665</b>
Dividends	(442)	–	(442)
Other capital movements	(42)	–	(42)
Effect of changes in exchange rates	(88)	(41)	(129)
<b>Closing EV</b>	<b>13,898</b>	<b>21,172</b>	<b>35,070</b>

US\$ millions, unless otherwise stated	Six months ended 31 May 2013		
	ANW	VIF	EV
<b>Opening EV</b>	13,135	18,238	31,373
Purchase price	(1,865)	–	(1,865)
Acquired EV	681	374	1,055
Effect of acquisitions	(1,184)	374	(810)
<b>Adjusted Opening EV</b>	11,951	18,612	30,563
Value of new business	(445)	1,090	645
Expected return on EV	1,515	(316)	1,199
Operating experience variances	(96)	173	77
Operating assumption changes	–	(1)	(1)
Interest costs on medium term notes and acquisition credit facility	(12)	–	(12)
<b>EV operating profit</b>	962	946	1,908
Investment return variances	307	158	465
Other non-operating variances	483	(605)	(122)
<b>Total EV profit</b>	1,752	499	2,251
Dividends	(380)	–	(380)
Other capital movements	(43)	–	(43)
Effect of changes in exchange rates	(38)	(130)	(168)
<b>Closing EV</b>	13,242	18,981	32,223

EV grew to US\$35,070 million at 31 May 2014, an increase of 4 per cent over the first half from US\$33,818 million at 30 November 2013. The growth in EV of US\$1,252 million is shown after a deduction for the Citibank Upfront Payment. Underlying growth excluding the payment was US\$2,052 million.

EV operating profit grew by 11 per cent to US\$2,119 million compared with the first half of 2013. The growth reflected a higher VONB of US\$792 million, an increased expected return of US\$1,289 million from a higher opening EV and overall positive operating experience variances and operating assumption changes which totalled US\$60 million, less finance costs of US\$22 million on medium term notes.

Non-operating EV movements included positive investment return variances of US\$612 million, largely due to increased market values of fixed income assets, and negative other non-operating variances of US\$66 million, offset by the payment of the 2013 final dividend of US\$442 million, negative other capital movements of US\$42 million and negative foreign exchange movements of US\$129 million.

EV includes adjusted net worth (ANW) and value of in-force business (VIF). ANW increased by 3 per cent over the half-year to US\$13,898 million at 31 May 2014 from US\$13,462 million at 30 November 2013 with the underlying increase of US\$1,236 million offset by the Citibank Upfront Payment. VIF increased by 4 per cent over the half-year to US\$21,172 million at 31 May 2014, compared with US\$20,356 million at 30 November 2013.

## EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity market and interest rate movements are shown below.

US\$ millions, unless otherwise stated	As at 31 May 2014 EV	Six months ended 31 May 2014 VONB	As at 30 November 2013 EV	Six months ended 31 May 2013 VONB
<b>Central value</b>	<b>35,070</b>	<b>792</b>	33,818	645
<b>Equity market risk</b>				
10 per cent increase in equity prices	35,756	n/a	34,455	n/a
10 per cent decrease in equity prices	34,373	n/a	33,164	n/a
<b>Interest rate risk</b>				
50 basis points increase in interest rates	35,232	833	34,027	675
50 basis points decrease in interest rates	34,790	755	33,414	603

Please refer to Section 3 of the Supplementary Embedded Value Information for additional information.

## IFRS Profit

### IFRS OPERATING PROFIT AFTER TAX (OPAT)<sup>(1)</sup> BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2014	Six months ended 31 May 2013 <sup>(2)</sup>	YoY
Hong Kong	460	399	15%
Thailand	279	260	7%
Singapore	203	183	11%
Malaysia	140	128	9%
China	132	104	27%
Korea	78	78	–
Other Markets	158	131	21%
Group Corporate Centre	7	(14)	n/m
<b>Total</b>	<b>1,457</b>	<b>1,269</b>	<b>15%</b>

Notes:

(1) Attributable to shareholders of AIA Group Limited.

(2) Due to the retrospective application of certain new and revised accounting standards, the Group's operating profit after tax has been increased by US\$1 million for the six months ended 31 May 2013. Further details are disclosed in note 6 to the interim financial statements.

OPAT grew by 15 per cent to US\$1,457 million compared with the first half of 2013. This excellent performance was the direct result of the strong underlying growth we have delivered across our businesses and our focus on improving operating margins. Each of our market segments delivered strong growth in OPAT with the exception of Korea that was flat year-on-year due to the industry-wide suspension as highlighted above.

Excellent growth in China was mainly driven by underlying business growth and increased investment income. Hong Kong, Thailand, Singapore and Malaysia delivered strong performances as a result of underlying business growth and improved operational efficiency, partially offset by lower investment income following net funds remitted to the Group Corporate Centre. OPAT growth of 21 per cent in Other Markets was mainly driven by growth in Indonesia and the Philippines.

## TOTAL WEIGHTED PREMIUM INCOME (TWPI) BY SEGMENT

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013	YoY
Hong Kong	<b>1,929</b>	1,703	13%
Thailand	<b>1,555</b>	1,616	(4)%
Singapore	<b>1,134</b>	1,044	9%
Malaysia	<b>1,027</b>	1,002	2%
China	<b>850</b>	745	14%
Korea	<b>1,087</b>	1,027	6%
Other Markets	<b>1,422</b>	1,358	5%
<b>Total</b>	<b>9,004</b>	8,495	6%

TWPI increased by 6 per cent to US\$9,004 million with the reported growth rate affected by currency depreciation in Thailand, Singapore, Malaysia and our Other Markets. Persistency remained strong at 94.3 per cent in the first half of 2014.

## INVESTMENT INCOME<sup>(1)</sup>

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013	YoY
Interest income	<b>2,342</b>	2,196	7%
Dividend income	<b>214</b>	210	2%
Rental income	<b>61</b>	59	3%
<b>Total</b>	<b>2,617</b>	2,465	6%

Note:

(1) Excluding unit-linked contracts and consolidated investment funds.

Investment income increased by 6 per cent to US\$2,617 million compared with the first half of 2013, reflecting an increased level of invested assets at the start of 2014 and higher investment yields achieved over the first half.

## OPERATING EXPENSES

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013 <sup>(1)(2)</sup>	YoY
Operating expenses	<b>765</b>	738	4%

Notes:

(1) Due to the retrospective application of certain new and revised accounting standards, the Group's operating expenses have been reduced by US\$2 million for the six months ended 31 May 2013. Further details are disclosed in note 6 to the interim financial statements.

(2) US\$18 million expenses have been reclassified from operating expenses to investment management expenses for the six months ended 31 May 2013 to be consistent with current period presentation. Further details are disclosed in note 6 to the interim financial statements.

Operating expenses increased by 4 per cent to US\$765 million compared with the first half of 2013. The expense ratio decreased slightly to 8.5 per cent in the first half of 2014 from 8.7 per cent in the first half of 2013.

## NET PROFIT<sup>(1)</sup>

US\$ millions, unless otherwise stated	Six months ended 31 May 2014	Six months ended 31 May 2013 <sup>(2)</sup>	YoY
OPAT	1,457	1,269	15%
Net gains from equities, net of tax	47	659	(93)%
Other non-operating investment experience and other items, net of tax	42	7	500%
<b>Total</b>	<b>1,546</b>	<b>1,935</b>	<b>(20)%</b>

Notes:

(1) Attributable to shareholders of AIA Group Limited.

(2) Due to the retrospective application of certain new and revised accounting standards, the Group's operating profit after tax and net profit have been increased by US\$1 million for the six months ended 31 May 2013. Further details are disclosed in note 6 to the interim financial statements.

AIA's IFRS net profit definition includes mark-to-market movements from our equity portfolio. Net profit decreased by 20 per cent compared with the first half of 2013 to US\$1,546 million from lower equity market gains. Net gains from equities, net of tax, contributed US\$47 million in the first half to 31 May 2014 compared with US\$659 million in the first half to 31 May 2013. Other non-operating investment experience and other items, net of tax, increased to US\$42 million mainly from higher net realised gains from debt securities.

## Earnings Per Share (EPS)

IFRS OPAT earnings per share increased by 15 per cent to 12.18 US cents in the first half of 2014 from 10.59 US cents in the first half of 2013.

EPS based on IFRS net profit attributable to shareholders of AIA Group Limited decreased to 12.92 US cents in the first half of 2014 from 16.15 US cents in the first half of 2013 following mark-to-market movements in equity markets mentioned above.

## EARNINGS PER SHARE – BASIC

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	Six months ended 31 May 2014	Six months ended 31 May 2013 <sup>(2)</sup>	Six months ended 31 May 2014	Six months ended 31 May 2013 <sup>(2)</sup>
Profit (US\$ millions)	1,546	1,935	1,457	1,269
Weighted average number of ordinary shares (millions)	11,964	11,979	11,964	11,979
<b>Basic earnings per share (US cents)</b>	<b>12.92</b>	<b>16.15</b>	<b>12.18</b>	<b>10.59</b>

Notes:

(1) Attributable to shareholders of AIA Group Limited.

(2) Due to the retrospective application of certain new and revised accounting standards, the Group's operating profit after tax and net profit have been increased by US\$1 million for the six months ended 31 May 2013. Further details are disclosed in note 6 to the interim financial statements.

## EARNINGS PER SHARE – DILUTED

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	Six months ended 31 May 2014	Six months ended 31 May 2013 <sup>(2)</sup>	Six months ended 31 May 2014	Six months ended 31 May 2013 <sup>(2)</sup>
Profit (US\$ millions)	1,546	1,935	1,457	1,269
Weighted average number of ordinary shares (millions) <sup>(3)</sup>	11,989	11,996	11,989	11,996
<b>Diluted earnings per share (US cents)<sup>(3)</sup></b>	<b>12.90</b>	16.13	<b>12.15</b>	10.58

Notes:

- (1) Attributable to shareholders of AIA Group Limited.
- (2) Due to the retrospective application of certain new and revised accounting standards, the Group's operating profit after tax and net profit have been increased by US\$1 million for the six months ended 31 May 2013. Further details are disclosed in note 6 to the interim financial statements.
- (3) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under the share-based compensation plans as described in note 39 in our Annual Report 2013.

## Balance Sheet

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$ millions, unless otherwise stated	As at 31 May 2014	As at 30 November 2013 <sup>(1)</sup>	Change
<b>Assets</b>			
Financial investments	130,706	121,354	8%
Investment property	1,375	1,128	22%
Cash and cash equivalents	2,039	2,316	(12)%
<b>Invested assets</b>	<b>134,120</b>	124,798	7%
Deferred acquisition and origination costs	16,250	15,738	3%
Other assets	8,183	6,866	19%
<b>Total assets</b>	<b>158,553</b>	147,402	8%
<b>Liabilities</b>			
Insurance and investment contract liabilities	117,285	112,134	5%
Borrowings	2,932	1,950	50%
Other liabilities	10,157	8,491	20%
<b>Less total liabilities</b>	<b>130,374</b>	122,575	6%
<b>Equity</b>			
Total equity	28,179	24,827	14%
Less non-controlling interests	149	145	3%
<b>Total equity attributable to shareholders of AIA Group Limited</b>	<b>28,030</b>	24,682	14%

Note:

- (1) Due to the retrospective application of certain new and revised accounting standards, the Group's total assets have been increased by US\$817 million, total liabilities have been increased by US\$821 million and total equity has been reduced by US\$4 million for the year ended 30 November 2013. Please refer to note 2(a) and note 27 to the interim financial statements for further information.

## ASSETS

Total assets grew by 8 per cent to US\$158,553 million at 31 May 2014 compared with US\$147,402 million at 30 November 2013 mainly reflecting fair value gains from debt securities.

Cash and cash equivalents decreased to US\$2,039 million at 31 May 2014 compared with US\$2,316 million at 30 November 2013, reflecting increased investments in financial assets and the payment of the 2013 final dividend of US\$442 million.

Deferred acquisition and origination costs increased to US\$16,250 million at 31 May 2014 compared with US\$15,738 million at 30 November 2013, reflecting underlying growth in the business.

Other assets increased by 19 per cent to US\$8,183 million mainly from the increase in distribution and other rights of US\$800 million, increase in reinsurance assets of US\$244 million and other asset growth of US\$273 million.

## LIABILITIES

Total liabilities increased by 6 per cent to US\$130,374 million at 31 May 2014 compared with US\$122,575 million at 30 November 2013. Insurance and investment contract liabilities increased to US\$117,285 million at 31 May 2014 compared with US\$112,134 million at 30 November 2013, reflecting the growth of the in-force portfolio.

Borrowings increased to US\$2,932 million at 31 May 2014 mainly due to the issue in March 2014 of two medium term notes of a combined nominal amount of US\$1.0 billion.

Other liabilities increased by 20 per cent to US\$10,157 million at 31 May 2014 mainly from the US\$1,019 million increase in obligations under repurchase agreements and the US\$557 million increase in tax liabilities.

Details of contingencies are included in note 24 to the interim financial statements.

## EQUITY – MOVEMENT IN SHAREHOLDERS' EQUITY OF AIA GROUP LIMITED

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	<b>Twelve months ended 30 November 2013<sup>(1)</sup></b>	<b>Six months ended 31 May 2013<sup>(1)</sup></b>
<b>Opening shareholders' equity</b>	<b>24,682</b>	26,662	26,662
Net profit	<b>1,546</b>	2,824	1,935
Fair value gains/(losses) on assets	<b>2,321</b>	(3,712)	(868)
Foreign currency translation adjustments	<b>(35)</b>	(508)	(156)
Purchase of shares held by employee share-based trusts	<b>(89)</b>	(87)	(85)
Dividends	<b>(442)</b>	(595)	(380)
Other capital movements	<b>47</b>	98	45
<b>Total movement in shareholders' equity</b>	<b>3,348</b>	(1,980)	491
<b>Closing shareholders' equity</b>	<b>28,030</b>	24,682	27,153

Note:

(1) Comparative information has been restated due to the retrospective application of certain new and revised accounting standards for the six months ended 31 May 2013 and the year ended 30 November 2013. Please refer to note 2(a) and note 27 to the interim financial statements for further information.

Shareholders' IFRS equity excluding non-controlling interests increased by 14 per cent over 30 November 2013 to US\$28,030 million at 31 May 2014 compared with US\$24,682 million at 30 November 2013. This increase was mainly from net profit of US\$1,546 million, fair value gains on assets of US\$2,321 million primarily reflecting higher fixed income asset values, a decrease in foreign currency translation reserves of US\$35 million less the payment of the 2013 final dividend of US\$442 million.

Sensitivities to IFRS profit before tax and net assets arising from foreign exchange rate, interest rate and equity market risk are included in note 21 to the interim financial statements.



## Invested Assets

The carrying value of our invested assets, including financial investments, investment property and cash and cash equivalents, increased by 7 per cent to US\$134,120 million at 31 May 2014 compared with US\$124,798 million at 30 November 2013. The increase was as a result of an overall positive movement in the market value of the portfolio and the investment of operating cash flows arising from the business over the first half of 2014.

Invested assets include total assets held in respect of shareholders and policyholders, and those backing unit-linked contracts as well as assets from consolidated investment funds.

### TOTAL INVESTED ASSETS

US\$ millions, unless otherwise stated	As at 31 May 2014	Percentage of total	As at 30 November 2013 <sup>(1)</sup>	Percentage of total
Total policyholder and shareholder	113,647	85%	105,174	84%
Total unit-linked contracts and consolidated investment funds	20,473	15%	19,624	16%
<b>Total invested assets</b>	<b>134,120</b>	<b>100%</b>	<b>124,798</b>	<b>100%</b>

Note:

(1) Comparative information has been restated due to the retrospective application of certain new and revised accounting standards for the year ended 30 November 2013. Please refer to note 2(a) and note 27 to the interim financial statements for further information.

Details of the investment mix are as follows:

### POLICYHOLDER AND SHAREHOLDER INVESTED ASSETS

US\$ millions, unless otherwise stated	As at 31 May 2014	Percentage of total	As at 30 November 2013	Percentage of total
<b>Participating funds</b>				
Government and government agency bonds	7,760	7%	7,041	7%
Corporate bonds and structured securities	11,451	10%	11,150	11%
Loans and deposits	1,928	2%	1,944	2%
<b>Subtotal – Fixed income investments</b>	<b>21,139</b>	<b>19%</b>	<b>20,135</b>	<b>20%</b>
Equities	4,772	4%	4,569	4%
Cash and cash equivalents	330	–	269	–
Derivatives	200	–	215	–
Investment property	98	–	95	–
<b>Subtotal participating funds</b>	<b>26,539</b>	<b>23%</b>	<b>25,283</b>	<b>24%</b>
<b>Other policyholder and shareholder</b>				
Government and government agency bonds	33,928	30%	32,109	31%
Corporate bonds and structured securities	38,331	34%	33,283	32%
Loans and deposits	5,292	5%	5,393	5%
<b>Subtotal – Fixed income investments</b>	<b>77,551</b>	<b>69%</b>	<b>70,785</b>	<b>68%</b>
Equities	6,887	6%	6,315	6%
Cash and cash equivalents	1,206	1%	1,531	1%
Derivatives	187	–	227	–
Investment property	1,277	1%	1,033	1%
<b>Subtotal other policyholder and shareholder</b>	<b>87,108</b>	<b>77%</b>	<b>79,891</b>	<b>76%</b>
<b>Total policyholder and shareholder</b>	<b>113,647</b>	<b>100%</b>	<b>105,174</b>	<b>100%</b>

## UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS

US\$ millions, unless otherwise stated	As at 31 May 2014	Percentage of total	As at 30 November 2013 <sup>(2)</sup>	Percentage of total
<b>Unit-linked contracts and consolidated investment funds</b>				
Debt securities <sup>(1)</sup>	4,237	21%	3,740	19%
Loans and deposits	156	1%	147	–
Equities <sup>(1)</sup>	15,575	76%	15,218	78%
Cash and cash equivalents <sup>(1)</sup>	503	2%	516	3%
Derivatives	2	–	3	–
<b>Total unit-linked contracts and consolidated investment funds</b>	<b>20,473</b>	<b>100%</b>	<b>19,624</b>	<b>100%</b>

Notes:

(1) Including third-party interests.

(2) Comparative information has been restated due to the retrospective application of certain new and revised accounting standards for the year ended 30 November 2013. Please refer to note 2(a) and note 27 to the interim financial statements for further information.

Invested assets held in respect of policyholders and shareholders increased to US\$113,647 million at 31 May 2014 compared with US\$105,174 million at 30 November 2013. The increase was mainly as a result of an overall positive movement in the market value of the portfolio and the investment of operating cash flows arising from the business over the first half of 2014.

Fixed income investments, including debt securities, loans, and term deposits, held in respect of policyholders and shareholders, totalled US\$98,690 million at 31 May 2014 compared with US\$90,920 million at 30 November 2013.

Government and government agency bonds represented 42 per cent of our fixed income investments at 31 May 2014 compared with 43 per cent at 30 November 2013. Corporate bonds and structured securities accounted for 50 per cent of fixed income investments at 31 May 2014 compared with 49 per cent at 30 November 2013.

Total equity securities held in respect of policyholders and shareholders totalled US\$11,659 million at 31 May 2014, compared with US\$10,884 million at 30 November 2013. The increase in carrying value was mainly attributable to new purchases as well as an increase in market value. Equity securities totalling US\$4,772 million were held in participating funds.

Cash and cash equivalents held in respect of policyholders and shareholders totalled US\$1,536 million at 31 May 2014 compared with US\$1,800 million at 30 November 2013, reflecting increased investments in financial assets and the payment of shareholder dividends totalling US\$442 million.

Invested assets held in respect of unit-linked contracts and consolidated investment funds totalled US\$20,473 million at 31 May 2014 compared with US\$19,624 million at 30 November 2013.

## Capital

### FREE SURPLUS GENERATION

The Group's free surplus at 31 May 2014 represented the excess of adjusted net worth over liabilities and required capital calculated on the HKICO basis.

Free surplus post the Citibank Upfront Payment reduced by US\$23 million to US\$6,704 million at 31 May 2014.

Free surplus generated increased by 9 per cent compared with the first half of 2013 to US\$2,117 million from strong growth in our in-force business and positive market gains.

This was offset by investment in new business of US\$781 million, unallocated Group Office expenses including interest costs of US\$75 million, the payment of the 2013 final dividend of US\$442 million and negative other capital movements of US\$42 million.

Underlying free surplus before the Citibank Upfront Payment and others grew by US\$777 million.

The following table shows the change in free surplus:

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013
<b>Opening free surplus</b>	<b>6,727</b>	6,608
Citibank Upfront Payment and others	<b>(800)</b>	(1,434)
<b>Adjusted opening free surplus</b>	<b>5,927</b>	5,174
Free surplus generated	<b>2,117</b>	1,940
Free surplus used to fund new business	<b>(781)</b>	(684)
Unallocated Group Office expenses <sup>(1)</sup>	<b>(75)</b>	(72)
Dividends	<b>(442)</b>	(380)
Other capital movements	<b>(42)</b>	(43)
<b>Closing free surplus</b>	<b>6,704</b>	5,935

Note:

(1) Unallocated Group Office expenses included interest costs of US\$22 million on medium term notes for the six months ended 31 May 2014 and interest costs of US\$12 million on medium term notes for the six months ended 31 May 2013.

## NET FUNDS TO GROUP CORPORATE CENTRE

Working capital comprises debt and equity securities, deposits and cash and cash equivalents held by Group Corporate Centre. Working capital, after the Citibank Upfront Payment grew by 6 per cent over the first half to US\$5,908 million at 31 May 2014 compared with US\$5,556 million at 30 November 2013. The increase was mainly due to net remittances from business units of US\$782 million plus the issue of two medium term notes in March 2014 with net proceeds of US\$984 million less the Citibank Upfront Payment and the payment of the 2013 final dividend of US\$442 million.

The movements in working capital are summarised as follows:

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013
<b>Opening working capital</b>	<b>5,556</b>	5,185
Group Corporate Centre net (loss)/profit	<b>(13)</b>	9
Capital flows from business units		
Hong Kong	<b>377</b>	616
Thailand	<b>292</b>	282
Singapore	<b>–</b>	25
Malaysia	<b>108</b>	112
Korea	<b>24</b>	–
Other Markets	<b>(19)</b>	(63)
<b>Net funds remitted to Group Corporate Centre</b>	<b>782</b>	972
Citibank Upfront Payment	<b>(800)</b>	–
Payment for acquisitions	<b>–</b>	(1,865)
Increase in borrowings	<b>984</b>	1,726
Payment of dividend	<b>(442)</b>	(380)
Purchase of shares held by the employee share-based trust	<b>(89)</b>	(85)
Other changes in working capital	<b>(70)</b>	(179)
<b>Closing working capital</b>	<b>5,908</b>	5,383

## Regulatory Capital

The Group's lead insurance regulator is the Hong Kong Office of the Commissioner of Insurance (HKOCI). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer. At 31 May 2014, the total available regulatory capital for AIA Co. amounted to US\$6,452 million as measured under the HKICO basis. AIA Co. has a solvency ratio of 448 per cent of the regulatory minimum capital requirement. This compares with 433 per cent reported at the end of November 2013. The increase was a result of strong retained earnings during the first half and positive market movements less the Citibank Upfront Payment and the final shareholder dividend for 2013.

A summary of the total available regulatory capital and solvency ratios of AIA Co. is as follows:

<b>US\$ millions, unless otherwise stated</b>	<b>As at 31 May 2014</b>	<b>As at 30 November 2013</b>
Total Available Regulatory Capital	<b>6,452</b>	6,057
Regulatory Minimum Required Capital (100%)	<b>1,439</b>	1,399
Solvency ratio (%)	<b>448%</b>	433%

AIA has given an undertaking to the HKOCI that it will maintain a solvency ratio of not less than 150 per cent in each of AIA Co. and AIA International. The Group's individual branches and subsidiaries are also subject to supervision in the jurisdictions in which they operate. This means that local operating units, including branches and subsidiaries, must meet the regulatory capital requirements of their local prudential regulators. The various regulators overseeing the Group's branches and subsidiaries actively monitor their capital position. The local operating units were in compliance with the capital requirements of their respective local regulators in each of our geographical markets at 31 May 2014.

## Establishment of a Global Medium Term Note Programme

AIA established a US\$2 billion Medium Term Note (MTN) programme on 27 February 2013. Subsequently, on 21 February 2014, we expanded the MTN programme to become a US\$3 billion Global Medium Term Note (GMTN) Programme. We issued two senior unsecured fixed rate notes under this expanded programme in March 2014. The notes are for terms of 5 years and 30 years at nominal amounts of US\$500 million each and bear annual interest of 2.250 per cent and 4.875 per cent respectively. A total nominal amount of US\$2,125 million has been drawn down through the GMTN programme to date.

## Credit Ratings

At 31 May 2014, AIA Co. has published financial strength ratings of AA- (Very Strong) with a stable outlook and the AIA Group Limited rating is A (Strong) with stable outlook from Standard & Poor's.

## Dividends

The Board of Directors has declared an interim dividend of 16.00 Hong Kong cents per share, an increase of 15 per cent compared with the interim dividend in 2013.

## **BUSINESS REVIEW**

### **Distribution**

#### **AGENCY**

The exceptional scale and reach of AIA's proprietary agency channel allows us advantaged access to the enormous potential for growth across the region by developing long-term face-to-face relationships with customers and their families.

The consistent execution of our Premier Agency strategy delivered excellent VONB growth of 27 per cent to US\$623 million compared with the first half of 2013. VONB margin increased by 8.5 pps to 58.4 per cent and ANP grew by 9 per cent to US\$1,068 million. This has been achieved through the development of world-class training programmes for our agents, strengthening and upgrading recruitment capabilities and supporting our agents with industry-leading technology to enhance service to our customers. Overall, our agency business accounted for 72 per cent of the total VONB for the Group in the first half of 2014.

AIA has established a strategic partnership with GAMA International, a worldwide association dedicated to supporting the professional development of field leaders in the financial services industry. Through this partnership, we launched our new agency leader training and development programmes in the first half of 2014. To maximise the impact across our markets, selected agency leaders have been certified as trainers to contribute their invaluable experiences and perspectives and augment classroom-based training for other agents and agency leaders. As a result of our commitment to quality training and recruitment, our active new agents grew by 18 per cent compared with the first half of 2013.

Our Premier Agency strategy is focused on developing the core of our agency force to achieve best-in-class standards across activity, productivity and recruitment within the different development stages of our markets. Our number of Million Dollar Round Table (MDRT) qualifiers, an important external industry measure of the top financial planners and advisers, is a reflection of this strategy. AIA is now the second-largest insurer for MDRT members worldwide with an increase of 35 per cent compared with the prior year. We remain on track to deliver our planned growth in MDRT qualifiers for the full year of 2014 with a number of markets showing strong performance in the first half, particularly Hong Kong, Singapore, China and Vietnam.

Our industry-leading interactive point-of-sale technology, iPoS, has continued to provide our customers with an enhanced experience, enabling agents to help them better identify their key financial needs, explore our products and services and complete a paperless insurance application. Designed to be highly intuitive and interactive, iPoS has been widely adopted by our agents, allowing for a greater number of higher-quality interactions with customers and a reduced administrative workload. We launched the second generation of iPoS in the first half of 2014 to bring greater functionality to our agency leaders including advanced activity management and the capability to use customer analytics to further enhance the productivity and service levels of our agents.

## **PARTNERSHIPS**

Our partnership distribution channel develops strategic partnerships through bancassurance, direct marketing and other intermediated distribution channels to expand our distribution reach and provide the Group with additional sources of sustainable profitable growth. Partnership distribution delivered US\$237 million of VONB or 12 per cent growth compared with the first half of 2013 with ANP growth of 14 per cent. The reported growth was moderated by significant local currency depreciation against our US dollar reporting currency and the regulatory industry-wide suspension of outbound telesales in Korea. Underlying VONB growth was over 30 per cent excluding these effects. Overall, our partnership business accounted for 28 per cent of the total VONB for the Group in the first half of 2014.

### **Bancassurance**

Bancassurance remains at the heart of our partnership development strategy and we continue to develop and expand our collaborative long-term relationships with domestic and international banks. We also look to broaden our distribution reach and customer access with our bank partners by developing new business streams through direct marketing, private banking and group insurance.

In the first half of 2014, we worked alongside our partners to expand branch network coverage and increase the scale and productivity of in-branch specialists through disciplined recruitment and training programmes combined with rigorous activity management. AIA continued to roll out our proprietary iPoS platform to our partners across the region in the first half of 2014 to enhance lead generation activity management while providing customers with an integrated sales experience.

As part of our ongoing partnership strategy, we signed a landmark distribution agreement with Citibank, N.A. (Citibank) in December 2013. This exclusive 15-year agreement builds on our established bancassurance capabilities and is one of the widest-reaching bancassurance distribution partnerships ever secured in Asia, covering 11 markets and 13 million customers across the region. The markets covered are Hong Kong, Singapore, Thailand, China, Indonesia, the Philippines, Vietnam, Malaysia, Australia, India and Korea. The new partnership was launched in seven markets in the first half of the year beginning with Hong Kong and Singapore in March. The remaining markets are scheduled to be rolled out progressively over the rest of 2014. We anticipate a gradual build-up of scale over time and AIA and Citibank are working closely together to lay the foundations for meeting the long-term savings and protection needs of Citibank's customers across Asia.

### **Direct Marketing and Other Partnership Channels**

As previously highlighted in our 2013 full-year results presentation, the industry-wide suspension of outbound telesales by regulators in Korea impacted the results from our direct marketing channel in the first half of 2014. VONB was affected by the loss of production and the additional expenses incurred including financial support provided to our telesales representatives during the suspension. AIA's other partnership channels, including private banks, IFAs, brokers and specialist advisers, generated strong VONB growth in the first half of 2014. This was mainly driven by the excellent VONB delivery from our IFA business and our continued emphasis on enhancing our relationships with IFA and broker partners through a dedicated service approach and targeted new product launches.

## **GROUP INSURANCE**

AIA has extensive group insurance experience across the Asia-Pacific region. With more than 16 million in-force insured members and 120,000 corporate clients, we have market-leading positions in Australia, Singapore, Thailand, Hong Kong and Malaysia and we continued to build our presence in other growth markets including China, Indonesia and the Philippines in the first half of 2014.

We aim to capture the significant growth potential from this market through two distinct channels that allow the provision of life and health benefits to employees of both small-and-medium sized enterprises (SMEs) and larger domestic and multinational companies.

AIA's Premier Agency remains our core channel for increasing the penetration of group insurance among SMEs. We pursue a segmented strategy providing targeted support and training to those agents who have already built relationships with small business owners or who are separately identified as having high potential in this market. AIA has a distinct advantage in this market given the broad reach and quality of our agency distribution channel across the region.

Our Employee Benefits Partnership Platform enables our broker partners and consultants to work with AIA to provide a seamless, integrated service to their multinational clients across the region. We launched the AIA Asia Benefits Network in the first half of 2014 to allow multinational corporations to aggregate their local group insurance contracts with AIA into a single, exclusive regional risk pool through our network. The network provides our clients with an efficient single point of contact for their group insurance needs across the region with favourable contract terms and helps reinforce long-term relationships with AIA.

Our segmented strategy combined with the market's vast potential and low existing penetration levels provide AIA with significant opportunities for profitable growth in this market.

## **Marketing**

Over the course of more than 90 years, AIA has worked hard to build significant trust in our brand. Last year, we took an important step to strengthen our brand further through the launch of The Real Life Company brand positioning across 15 of our markets. This positioning reflects our commitment to provide financial solutions for our customers to help them meet the opportunities and challenges that real life presents. In the first half of 2014, we continued to communicate the strength of the AIA brand via award-winning campaigns in many of our largest markets including our first-ever integrated campaign across multiple media channels in China.

In early 2014, we announced the expansion of our partnership with Tottenham Hotspur Football Club (Spurs), becoming the club's exclusive Official Shirt Partner for the next five years. Our partnership provides us with many opportunities to engage with our customers, agents and staff to promote positive awareness of our brand. The partnership with Spurs also provides us with a significant opportunity to further connect with our local communities through the roll-out of Corporate Social Responsibility activities with the club.

### **CUSTOMER ENGAGEMENT**

We aim to deliver the best possible customer experience by focusing our service and advice on the areas that customers value the most in their ongoing relationships with AIA.

Our distribution platforms and scale also place us in an advantaged position to expand sales to our existing customers. This has a significant potential for value enhancement given our existing base of more than 28 million individual policies and over 16 million group insurance scheme members, combining existing customer marketing initiatives with the use of advanced data analytics. VONB from our existing customer marketing initiatives increased by 62 per cent compared with the first half of 2013.

### **THE RIGHT PRODUCTS TO ADDRESS REAL NEEDS**

AIA offers a wide range of products to meet the life and health protection needs and long-term wealth aspirations of our customers during different stages of their lives. At the start of the year, we launched new products designed for the family segment in China which include enhanced coverage for serious childhood illnesses. In Malaysia, we offered an affordable protection plan aimed at young people who do not yet have the resources to cope with the financial strain from an inability to work due to accident or illness.

Unit-linked products remain central to enabling our customers to grow their wealth while addressing their protection needs. In the first half of 2014, we launched new unit-linked products in Singapore and Malaysia that offer greater flexibility to adjust the balance between protection cover and wealth accumulation over the lifetime of the policies as customer needs change during the different stages of life.



## **Employee and Community Engagement**

### **EMPLOYEE ENGAGEMENT**

Our highly-committed agency force and over 20,000 employees across the Group are at the heart of The Real Life Company brand positioning. As such, our people are fundamental to our ability to support customers through the opportunities as well as the financial challenges of real life. We place a great emphasis on employee engagement and continue to strive toward building the industry-leading workforce and leadership capabilities to enable us to attract consistently the best talent in the region.

We strive to create an environment in which a structured and comprehensive learning and development framework helps employees at all levels realise their potential and ambitions, by growing professionally as well as personally. Over the course of the first half of 2014, new leadership development programmes were introduced to help deliver sustainable performance. We also conduct an annual group-wide Organisation and People Review to ensure that we have the right people, capabilities and structures in place to support our strategic priorities.

### **CORPORATE SOCIAL RESPONSIBILITY**

AIA continues to focus its Corporate Social Responsibility (CSR) efforts on encouraging and enabling people across the Asia-Pacific region to lead healthier lives, including assistance in challenging living conditions.

In Malaysia, Singapore and Indonesia, AIA sponsored running events which attracted over 25,000 participants through an effective use of social media to generate interest including encouraging individuals to make a healthy living pledge.

Our agents in Hong Kong continued their fundraising efforts in supporting Lifeline Express' mission of restoring sight to cataract sufferers in rural China. In addition, nearly 400 agents and employees in Hong Kong, along with their families and friends, participated in the annual Médecins Sans Frontières (MSF) Orienteering Competition for the 13th consecutive year, raising funds for MSF which delivers emergency aid to people with no access to healthcare due to armed conflicts, epidemics or natural disasters.

Continuing the success of its Young Leaders Development Programme, AIA launched its CSR competition to encourage university students in China to develop their own CSR and charity initiatives. The competition attracted the interest of students from universities across China. These students formed teams to submit 312 proposals with 10 winners to be selected in September 2014.

Through all of our CSR activities, AIA remains deeply committed to contributing to the well-being of the communities in which we operate.

## Geographical Markets

### HONG KONG

US\$ millions, unless otherwise stated	Six months ended	Six months ended	YoY
	31 May 2014	31 May 2013	
VONB <sup>(1)</sup>	260	168	55%
VONB margin <sup>(2)</sup>	62.4%	48.7%	13.7 pps
ANP	401	326	23%
TWPI	1,929	1,703	13%
Operating profit after tax <sup>(3)</sup>	460	399	15%

### Financial Highlights

AIA's Hong Kong business delivered another excellent performance in the first half of 2014 driven by the quality of our agency distribution and the effective execution of our Premier Agency strategy. VONB grew by 55 per cent to US\$260 million compared with the first half of 2013. The significant growth was achieved from a positive shift in product mix combined with increased active agent numbers and higher production from our partnership channels. VONB margin of 62.4 per cent sustained the improvement previously reported in the second half of last year, while ANP increased by 23 per cent to US\$401 million compared with the first half of 2013. IFRS operating profit after tax grew by 15 per cent to US\$460 million, primarily due to strong business growth and increased investment income.

### Business Highlights

AIA remains committed to delivering sustained growth in Hong Kong through its leading agency force. Our AIA Premier Academy provides comprehensive development programmes to support our new recruits as they build a professional long-term career with AIA and has proved highly successful since its inception in 2011. Our concerted efforts on recruitment and productivity have delivered a 23 per cent increase in the number of active new agents and a 32 per cent increase in VONB per active agent compared with the first half of 2013.

Our partnership distribution channel also delivered excellent VONB growth in the first half of 2014 with a strong performance in the IFA channel. This performance reinforces our commitment to this channel as evidenced by an enhanced service proposition and targeted product offerings with our IFA protection programme launch. In March 2014, AIA's Hong Kong operation began our exclusive bancassurance partnership with Citibank with a focus on initial product launches and the recruitment and training of in-branch insurance specialists.

Our group insurance business also delivered solid results generating a 25 per cent increase in VONB compared with the first half of 2013 as we continued to secure business from large domestic and international corporate clients through brokers and from SMEs through our agency network.

AIA has an established track record of providing innovative critical illness products to safeguard the health of our customers in Hong Kong. We expanded our product range in the first half of 2014 with the launch of a high-end protection plan that provides comprehensive cover for a range of illnesses including certain first-in-market protection. We also launched a successful integrated marketing campaign with packaged comprehensive retirement solutions for our customers to raise awareness about pre-retirement planning.

## THAILAND

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013	YoY
VONB <sup>(1)</sup>	<b>162</b>	146	11%
VONB margin <sup>(2)</sup>	<b>63.3%</b>	55.1%	8.2 pps
ANP	<b>256</b>	265	(3)%
TWPI	<b>1,555</b>	1,616	(4)%
Operating profit after tax <sup>(3)</sup>	<b>279</b>	260	7%

### Financial Highlights

AIA's operation in Thailand achieved solid results in the first half of 2014 with VONB growth of 11 per cent to US\$162 million compared with the first half of 2013. This was achieved despite the depreciation of Thai baht by 8 per cent against our US dollar reporting currency. This strong performance reflects our resilient nationwide agency network, broad range of savings and protection products and secure and trusted brand from our long and continuous history in the country.

The increase in VONB margin of 8.2 pps to 63.3 per cent is the result of a higher proportion of protection business within our product mix and the positive effect of the revised agency compensation structure that was launched towards the end of 2013. IFRS operating profit after tax grew by 7 per cent to US\$279 million driven by improved investment income and operational efficiency. As previously disclosed in our Annual Report 2013, we have assumed the corporate tax rate in Thailand to be 20 per cent for assessment year 2014, returning to 30 per cent from assessment year 2015 onward.

### Business Highlights

The implementation of a revised agency compensation framework towards the end of 2013 reflected our commitment to improving the quality and professionalism of our market-leading nationwide agency network in Thailand. This framework and the ongoing execution of our Premier Agency strategy has increased active agent productivity at the same time as improving our product mix, generating higher margins and delivering excellent underlying growth in agency VONB compared with the first half of 2013. We further enhanced our training programmes via our AIA Premier Academy and the number of investment consultants qualified to sell unit-linked products increased by 33 per cent compared with the first half of 2013.

While our proprietary agency force remains a powerful competitive advantage for AIA in Thailand, our partnership distribution business continued to make good progress, particularly in direct marketing as we benefited from strengthened relationships with our marketing partners and our continuing investment in new call centres.

Our business in Thailand focuses on the provision of long-term savings and protection products rather than the pursuit of market share gains by writing business that does not meet our return requirements. Our new upmarket comprehensive health plan launched in late 2013 has met with strong demand from both new and existing customers and has become one of our bestselling products in the first half of 2014. This new plan offers our customers flexibility, simplicity and greater coverage levels and has contributed to a significantly higher rider attachment ratio for our business.

The political situation in Thailand has continued to evolve over the first half of the year but the fundamentals underpinning our business have remained strong as demonstrated by our results for the first half. We will continue to execute our Premier Agency strategy to take advantage of AIA's unique position in one of the most under-penetrated markets for life insurance in Asia.

## SINGAPORE

US\$ millions, unless otherwise stated	Six months ended 31 May 2014	Six months ended 31 May 2013	YoY
VONB <sup>(1)</sup>	127	110	15%
VONB margin <sup>(2)</sup>	59.3%	74.8%	(15.5) pps
ANP	214	147	46%
TWPI	1,134	1,044	9%
Operating profit after tax <sup>(3)</sup>	203	183	11%

### Financial Highlights

AIA's operation in Singapore delivered a solid performance in the first half of 2014 with VONB growth of 15 per cent to US\$127 million. ANP increased by 46 per cent to US\$214 million and VONB margin of 59.3 per cent continued trending in line with the second half of last year, as the business returned to a more balanced mix of savings and protection products following the completion of the HealthShield plan upgrade in February. IFRS operating profit after tax increased by 11 per cent to US\$203 million in line with the underlying business growth and benefiting from positive claims experience.

### Business Highlights

The implementation of our Premier Agency strategy in Singapore has continued to deliver strong gains in productivity and growth in active agent numbers. Our agency referral and recruitment programmes combined with increased activity from recruitment seminars generated a 19 per cent increase in the number of active agents in the first half of 2014. We also benefited from the successful completion of our recruitment offer to agents from HSBC Insurance Singapore following our agreement in November last year.

Our targeted recruitment strategy continued to be supported by training programmes through our AIA Premier Academy to enhance productivity. Our combined initiatives generated double-digit growth in active agent productivity compared with the first half of 2013.

Partnership distribution also delivered solid VONB growth as we continued to develop stronger relationships with IFAs and launch new savings and protection products for this channel. In addition to the strong performance of our existing local bank partners, in March 2014 we launched our exclusive bancassurance partnership with Citibank in Singapore with a clear focus on extending the provision of protection and long-term savings products over time.

As a leader in Singapore's insurance market, AIA is committed to motivating Singaporeans to lead healthier lives and supporting government efforts to promote preventive care among families. We expanded our next generation unit-linked series with the launch of a new product that offers greater flexibility to adjust the balance between protection cover and wealth accumulation over the lifetime of the product as customers' needs change throughout their various life stages. This product has been very well received by the market and generated excellent VONB growth in the first half of the year.

## MALAYSIA

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013	YoY
VONB <sup>(1)</sup>	<b>70</b>	54	30%
VONB margin <sup>(2)</sup>	<b>43.9%</b>	35.3%	8.6 pps
ANP	<b>161</b>	152	6%
TWPI	<b>1,027</b>	1,002	2%
Operating profit after tax <sup>(3)</sup>	<b>140</b>	128	9%

### Financial Highlights

Our business in Malaysia delivered an excellent performance in the first half of 2014 with VONB growth of 30 per cent to US\$70 million. VONB margin increased by 8.6 pps to 43.9 per cent and ANP grew by 6 per cent to US\$161 million. The margin uplift was attributable to a positive shift in product mix following the successful launch of our new unified product range in the middle of last year. IFRS operating profit after tax grew by 9 per cent to US\$140 million mainly due to operational improvements. Expense synergies continued to track ahead of plan.

### Business Highlights

AIA's Malaysian business made further progress on the integration of ING Malaysia, following our acquisition in December 2012, with the launch of our new unified agency compensation structure at the end of 2013 – well ahead of our initial plan. The new compensation structure is designed to drive recruitment and to reward higher productivity levels and has been well received by the agency force. Overall productivity levels have increased by 15 per cent per active agent compared with the first half of 2013.

We continued to build on our successful recruitment drive in 2013 by extending our programme to support our agency leaders in proactively engaging the under-35 age group. Our recruitment efforts were backed by marketing campaigns and resulted in a 54 per cent increase in the number of active new agents compared with the first half of 2013.

The proportion of active agents using our interactive point-of-sales platform, iPoS, has grown to more than 90 per cent in the first half of 2014 enabling our agents to reduce their administrative workload and attracted a new generation of younger agents to AIA.

Our partnership with Public Bank in Malaysia has continued to build on the solid start it achieved in 2013 with a positive mix of regular premium unit-linked product sales including protection riders. Our market-leading group insurance business in Malaysia delivered strong VONB growth and launched a new portable protection product that allows group employee members to purchase additional individual protection.

Following last year's launch of our new unified product range, we introduced additional protection riders for our flagship regular premium unit-linked products targeted at women and young adults. These riders provide enhanced levels of protection cover appropriate to the needs of these customer segments at different stages of life and the take-up has been very positive.

## CHINA

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013	YoY
VONB <sup>(1)</sup>	<b>120</b>	76	58%
VONB margin <sup>(2)</sup>	<b>78.7%</b>	63.7%	15.0 pps
ANP	<b>152</b>	120	27%
TWPI	<b>850</b>	745	14%
Operating profit after tax <sup>(3)</sup>	<b>132</b>	104	27%

### Financial Highlights

The consistent execution of our differentiated growth strategy in China produced excellent results in the first half of 2014. VONB grew by 58 per cent compared with the first half of 2013 to US\$120 million. This record result benefited from a very successful new product launch and marketing campaign in the first quarter targeted at protecting young families. VONB margin benefited from a higher proportion of longer-term products within the mix. As a result of the timing of these campaigns, we would expect a more balanced mix of savings and protection business in the second half of the year.

ANP grew by 27 per cent compared with the first half of 2013 to US\$152 million from growth in active agent numbers and improved productivity. IFRS operating profit after tax built on the substantial growth in 2013 to deliver another significant increase of 27 per cent to US\$132 million reflecting further growth in the scale of the business and improved operational efficiency.

### Business Highlights

AIA's agency channel in China is differentiated by the successful execution of our Premier Agency strategy, which develops high-quality agents who are capable of helping customers meet their long-term savings and protection needs. The success of our recruitment efforts together with new induction programmes has led to an overall increase of 46 per cent in the number of active new agents compared with the first half of 2013. The ability of our highly-trained agency force to meet customers' protection needs and the increased adoption of our interactive point-of-sales platform in China have also improved productivity during the first half of 2014 by 9 per cent per active agent.

In April 2014, we launched our exclusive new bancassurance partnership with Citibank to cover six major cities, namely Shanghai, Beijing, Shenzhen, Guangzhou, Nanjing and Wuxi, to meet the long-term savings and protection needs of Citibank's customers in China.

The strength of our agency force in China is matched by our track record of launching innovative long-term savings products alongside our existing comprehensive protection range. In the first half of 2014, we launched two new long-term products which were specifically designed to target the protection and education-funding needs of the young family segment in China. These products were launched in conjunction with highly successful marketing campaigns and have delivered excellent growth.

## KOREA

US\$ millions, unless otherwise stated	Six months ended 31 May 2014	Six months ended 31 May 2013	YoY
VONB <sup>(1)</sup>	35	45	(22)%
VONB margin <sup>(2)</sup>	18.6%	24.9%	(6.3) pps
ANP	189	182	4%
TWPI	1,087	1,027	6%
Operating profit after tax <sup>(3)</sup>	78	78	–

### Financial Highlights

As previously noted in our 2013 full-year results presentation, the industry-wide suspension of outbound telesales in Korea by regulators affected the performance of AIA's direct marketing business in the first half of 2014. Overall VONB reduced by 22 per cent to US\$35 million after including the costs of the financial support provided to our telesales representatives during the suspension. ANP from our direct marketing business returned to pre-suspension levels in the second quarter of the year, although with lower margins as a consequence of increased regulatory changes. Total ANP increased by 4 per cent to US\$189 million as solid growth in other channels offset the lower direct marketing sales. This compares well when measured against the first quarter decline in industry new business volumes of 52 per cent for the Korean life insurance market as a whole. IFRS operating profit after tax was flat at US\$78 million for the first half of the year.

### Business Highlights

The Korean financial regulator imposed an industry-wide temporary suspension of outbound telesales in late January 2014 in response to personal data leakage, involving three credit card companies, which was not directly related to AIA or the insurance industry. Existing customer outbound telesales marketing activities were allowed to resume in mid-February and the remaining ban was lifted in March. The timely action we took during this period allowed us to maintain our telesales force and we moderated some of the production loss from outbound telesales by expanding our inbound business. We also began an extensive personal data re-verification process with the clear objective of restoring growth in our direct marketing telesales business.

Our focus on the quality recruitment of agents combined with superior training to enhance their advisory skills is the fundamental driver of the excellent VONB growth delivered by our agency distribution in the first half of 2014. To complement the "Next AIA" recruitment and development initiatives launched in 2013 aimed at improving the activity levels of new recruits, we also rolled out new training and mentoring programmes designed to advance the management and recruitment capabilities of our high-calibre agency leaders.

Our bancassurance channel continued to deliver solid VONB growth, building on the performance in 2013, as we continued to offer new products selectively through this channel.

Our product strategy is designed to meet the long-term savings and protection needs of our customers in Korea. We expanded our protection product portfolio last year with the launch of a direct marketing simplified issue health product and we subsequently extended the product to our agency distribution. It continued to be one of our top-selling products in the first half.

## OTHER MARKETS

US\$ millions, unless otherwise stated	Six months ended 31 May 2014	Six months ended 31 May 2013	YoY
VONB <sup>(1)</sup>	96	112	(14)%
VONB margin <sup>(2)</sup>	29.9%	33.3%	(3.4) pps
ANP	317	335	(5)%
TWPI	1,422	1,358	5%
Operating profit after tax <sup>(3)</sup>	158	131	21%

Other Markets include AIA's operations in Australia, Indonesia, New Zealand, the Philippines, Sri Lanka, Taiwan and Vietnam. The financial results from our 26 per cent shareholding in our joint venture with Tata in India is included in IFRS operating profit after tax on an equity accounted basis.

### Financial Highlights

Our Other Markets experienced a slower start to the year. This was due in large part to the depreciation of local currencies against our US dollar reporting currency and the effect of liquidity tightening in the banking sector. Both were previously highlighted in our first quarter 2014 new business release in April. As a result, reported VONB of US\$96 million was lower than the first half of 2013 but with VONB recovering strongly in the second quarter. IFRS operating profit after tax grew by 21 per cent to US\$158 million mainly driven by improved business mix and increased scale.

### Business Highlights

**Australia:** Our Premier IFA model is focused on the provision of individual protection insurance to help address the significant protection gap that currently exists in Australia. To further differentiate our protection proposition in the retail IFA market, we launched the AIA Vitality wellness programme. The programme has received a number of innovation awards and the initial take-up has been very positive. We continued to take the lead in scheme restructuring in the group insurance market and our experienced claims assessment and rehabilitation teams have maintained our proactive stance to claims management. Our Australian business delivered a solid performance in the first half with reported VONB growth affected by currency depreciation and by the one-off launch costs associated with the new AIA Vitality initiative.

**Indonesia:** Our reported results in Indonesia were affected by a significant weakening of the Indonesian rupiah by 17 per cent against the US dollar compared with the first half of 2013. In bancassurance, we focused on expanding our in-branch specialist sales force and we also began to roll out our advanced second generation of iPoS to our bank partners including enhanced activity management and lead generation tools. Through our Premier Agency strategy, we continued to improve the fundamental drivers of our agency distribution platform. Our training and development initiatives have generated positive results as the number of active new agents more than doubled compared with the first half of 2013.

**New Zealand:** AIA continued to develop its targeted service model for the IFA channel in New Zealand in the first half of the year. We also made good progress on the diversification of our distribution capabilities as we expanded our direct marketing platform and recruited agents to join our newly-established agency force to engage with the fast-growing Asian communities in New Zealand.



**Philippines:** Our reported results in the Philippines were also affected by currency depreciation. Agency business achieved solid underlying VONB growth compared with the first half of 2013 as we continued to focus on agent recruitment and launch new programmes to improve the activity levels of our expanding agency force. Overall, the number of active new agents grew by 64 per cent in the first half building on the strong growth from the prior year. Together with our partner the Bank of the Philippine Islands (BPI), AIA focused on improving lead generation and growing the number of in-branch insurance specialists through increased training and activity management.

**Sri Lanka:** Following the successful integration into the Group, AIA's operation in Sri Lanka continued to expand its distribution capabilities to capture the significant market opportunities that exist. We extended our agency distribution platform by opening new branches across Sri Lanka. In addition to our partnership with National Development Bank PLC (NDB), we expanded our bancassurance platform by entering into agreements with two new bank partners in the first half of 2014.

**Taiwan:** Our Taiwanese operation delivered a solid performance in the first half of 2014. This was achieved through our continued focus on strengthening our multi-channel distribution platform. Our Premier Agency strategy generated solid VONB growth through an increase in the number of active agents. Our newly-established broker partnerships and direct marketing business also delivered strong results.

**Vietnam:** AIA's operations in Vietnam once again delivered excellent VONB growth in the first half of the year. The execution of our Premier Agency strategy focusing on recruitment increased the number of active new agents by 64 per cent in the first half of 2014. The improvements that we made to our product range last year have allowed greater flexibility around rider attachments and helped improve VONB margin compared with the first half of 2013.

Notes:

Throughout the Distribution section:

- (1) VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.

Throughout the Geographical Markets section:

- (1) VONB figures shown in the tables are based on local statutory reserving and capital requirements and include pension business.
- (2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.
- (3) Certain prior year figures have been restated due to the Group's adoption of IFRS 10 and IAS 19 (revised) standards. Further details are disclosed in note 27 to the interim financial statements and Section 2 of the Supplementary Embedded Value Information.

## **RISK MANAGEMENT**

AIA recognises and emphasises the importance of sound risk management in every aspect of our business. AIA's Risk Management Framework (RMF) is constantly evolving to meet the challenges of a business growing in scale and complexity against a backdrop of political, social and economic change. This is achieved through the recruitment of experienced risk management professionals both locally and at Group level and ongoing investment in new systems and techniques to identify, quantify and mitigate risk. These initiatives are actively sponsored by our executive and Board risk committees.

In 2014 our priorities in risk management have been to enhance our approach to identifying emerging risks, further aligning our local and Group risk agendas with business priorities and extending the use of risk metrics in key operating processes.

The regulatory environment continues to evolve both locally and globally with an increased emphasis on risk management frameworks and new solvency measures and standards being announced in a number of Asian jurisdictions. AIA is confident that our RMF is fully consistent with these new standards and we are committed to supporting local regulators in enhancing the quality of risk management in the wider insurance industry.

AIA's RMF is described on pages 54 to 61 and notes 36 and 37 to the financial statements on pages 183 to 192 of our Annual Report 2013.

## CORPORATE GOVERNANCE

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 31 May 2014, the Company has complied with all applicable code provisions set out in the Corporate Governance Code except for Code Provision F.1.3 which provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Group Company Secretary reports to the Group General Counsel who is ultimately accountable for the Company Secretarial function and who in turn reports directly to the Group Chief Executive.

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All of the Directors confirmed, following specific enquiry by the Company, that they have complied with the standards set out in the Model Code and the Directors' and Chief Executives' Dealing Policy throughout the six months ended 31 May 2014.

### UPDATED INFORMATION OF DIRECTORS

Changes in the Directors' information since 21 February 2014 are set out below:

<b>Name of Director</b>	<b>Change</b>
Mr. Edmund Sze-Wing Tse <i>Non-executive Director</i>	Resigned as Non-executive Director of PICC Property and Casualty Company Limited with effect from 10 July 2014.
Mr. Jack Chak-Kwong So <i>Independent Non-executive Director</i>	Appointed as Independent Non-executive Director of China Resources Power Holdings Company Limited with effect from 11 June 2014.
Mr. Chung-Kong Chow <i>Independent Non-executive Director</i>	Ceased to act as an Independent Non-executive Director of Anglo American plc and as Chairman of Hong Kong General Chamber of Commerce with effect from 24 April 2014 and 6 June 2014 respectively.
Dr. Qin Xiao <i>Independent Non-executive Director</i>	Resigned as Independent Non-executive Director of the Company with effect from 30 May 2014 and ceased to be a member of the Remuneration Committee and Nomination Committee upon his resignation.
Mr. George Yong-Boon Yeo <i>Independent Non-executive Director</i>	Appointed as a member of the newly-formed Vatican Council for the Economy with effect from March 2014.  Appointed as a member of the International Advisory Committee of Mitsubishi Corporation with effect from 1 June 2014.
Mr. Mohamed Azman Yahya <i>Independent Non-executive Director</i>	Appointed as an Independent Non-executive Director and member of the Remuneration Committee and Nomination Committee of the Company with effect from 24 February 2014.

The Directors' updated biographies are available on the Company's website.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 31 May 2014, the following are the persons, other than the Directors or Chief Executive of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of Shareholder	Number of shares or underlying shares (Note 5)		Percentage of the total number of shares in issue (Note 6)		Capacity
	Long Position (L)	Short Position (S)	Long Position (L)	Short Position (S)	
JPMorgan Chase & Co.	1,298,956,453(L)		10.78(L)		Note 1
	19,322,919(S)		0.16(S)		
	794,001,037(P)		6.59(P)		
Citigroup Inc.	1,083,128,432(L)		8.99(L)		Note 2
	6,083,940(S)		0.05(S)		
	3,703,592(P)		0.03(P)		
Citigroup Financial Products Inc.	1,074,197,000(L)		8.92(L)		Note 3
	856,100(S)		0.01(S)		
Citigroup Global Markets Holdings Inc.	1,074,197,000(L)		8.92(L)		Note 3
	856,100(S)		0.01(S)		
Citigroup Global Markets (International) Finance AG	1,074,077,000(L)		8.92(L)		Note 4
	856,100(S)		0.01(S)		
Citigroup Global Markets Asia Limited	1,054,334,400(L)		8.75(L)		Interest of controlled corporation
Citigroup Global Markets Hong Kong Holdings Limited	1,054,334,400(L)		8.75(L)		Interest of controlled corporation
Citigroup Global Markets Overseas Finance Limited	1,054,334,400(L)		8.75(L)		Interest of controlled corporation
The Capital Group Companies, Inc.	848,133,207(L)		7.04(L)		Interest of controlled corporation
BlackRock, Inc.	705,500,204(L)		5.86(L)		Interest of controlled corporation
	4,258,000(S)		0.04(S)		

Notes:

(1) The interests held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Beneficial owner	226,852,868	19,322,919
Investment manager	278,102,548	–
Custodian corporation/approved lending agent	794,001,037	–

(2) The interests held by Citigroup Inc. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Interests held jointly with another person	1,054,334,400	–
Interest of controlled corporation	10,009,240	6,083,940
Custodian corporation/approved lending agent	3,703,592	–
Security interest in shares	15,081,200	–

(3) The interests held by each of Citigroup Financial Products Inc. and Citigroup Global Markets Holdings Inc. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Interest of controlled corporation	1,059,115,800	856,100
Security interest in shares	15,081,200	–

(4) The interests held by Citigroup Global Markets (International) Finance AG were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Interest of controlled corporation	1,058,995,800	856,100
Security interest in shares	15,081,200	–

(5) The interests or short positions include underlying shares as follows:

Name of Shareholder	Long position				Short position			
	Physically settled equity listed derivatives	Cash settled equity listed derivatives	Physically settled equity unlisted derivatives	Cash settled equity unlisted derivatives	Physically settled equity listed derivatives	Cash settled equity listed derivatives	Physically settled equity unlisted derivatives	Cash settled equity unlisted derivatives
JPMorgan Chase & Co.	3,694,000	–	8,923,628	390,000	2,925,000	2,765,600	8,986,719	2,000,000
Citigroup Inc.	–	–	1,059,562,240	–	–	–	5,227,840	–
Citigroup Financial Products Inc.	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Holdings Inc.	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets (International) Finance AG	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Asia Limited	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Hong Kong Holdings Limited	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Overseas Finance Limited	–	–	1,054,334,400	–	–	–	–	–
BlackRock, Inc.	–	3,046,600	–	–	3,676,000	–	–	–

(6) Based on 12,044,754,860 shares in issue as at 31 May 2014.

Save as disclosed above, as at 31 May 2014, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section entitled “Directors’ and Chief Executive’s Interests and Short Positions in Shares and Underlying Shares”, holds any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 31 May 2014, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO, or as otherwise notified to the Company pursuant to the Model Code, are as follows:

(i) Interests and short positions in the shares and underlying shares of the Company:

Name of Director	Number of shares or underlying shares	Class	Percentage of the total number of shares in issue <sup>(3)</sup>	Capacity
Mr. Mark Edward Tucker	18,774,940(L) <sup>(1)</sup>	Ordinary	0.16	Beneficial owner
Mr. Edmund Sze-Wing Tse	3,560,400(L) <sup>(2)</sup>	Ordinary	0.03	Interest of controlled corporation
Mr. Chung-Kong Chow	86,000(L) <sup>(2)</sup>	Ordinary	< 0.01	Beneficial owner

Notes:

- (1) The interests include 2,655,962 shares of the Company, 11,072,844 share options under the Share Option Scheme, 5,041,066 restricted share units under the Restricted Share Unit Scheme and 5,068 matching restricted stock purchase units under the Employee Share Purchase Plan.
- (2) The interests are ordinary shares of the Company.
- (3) Based on 12,044,754,860 shares in issue as at 31 May 2014.

(ii) Interests and short positions in the shares of associated corporation:

Name of Director	Associated Corporation	Number of shares	Class	Percentage of the total number of shares in issue	Capacity
Mr. Edmund Sze-Wing Tse	Philam Life	1(L)	Ordinary	< 0.01	Trustee

Save as disclosed above, as at 31 May 2014, none of the Directors or Chief Executive of the Company holds any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO, or as otherwise notified to the Company pursuant to the Model Code.

## PURCHASE, SALE AND REDEMPTION OF THE SECURITIES OF THE COMPANY

Save for the purchase of 18,941,147 shares of the Company under the Restricted Share Unit Scheme and the Employee Share Purchase Plan at a total consideration of approximately US\$89 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 May 2014. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

## SHARE-BASED COMPENSATION

### Long-term Incentive (LTI) Plans

#### APPROVED AIA LTI PLANS

The Company adopted the Restricted Share Unit Scheme and the Share Option Scheme on 28 September 2010. For further information on these schemes, please refer to pages 94 to 98 of the Company's Annual Report 2013.

Under these schemes, the Company may award restricted share units and/or share options to employees, Directors (excluding Independent Non-executive Directors) or officers of the Company or any of its subsidiaries.

#### RESTRICTED SHARE UNIT SCHEME

The Restricted Share Unit Scheme is effective for a period of 10 years, commencing on the date of shareholder adoption (unless it is terminated earlier in accordance with its terms) (the Restricted Share Unit Scheme Period), after which period no further restricted share unit shall be awarded or accepted, but the provisions of the Restricted Share Unit Scheme shall remain in full force and effect in order to give effect to the vesting of the restricted share units awarded and accepted prior to the expiration of the Restricted Share Unit Scheme Period.

During the six months ended 31 May 2014, 19,033,470 restricted share units were awarded by the Company under the Restricted Share Unit Scheme.

Movements in restricted share unit awards are summarised below:

Executive Director, Key Management Personnel and other eligible employees	Date of grant (day/month/year) <sup>(1)</sup>	Vesting date(s) (day/month/year)	Restricted share units outstanding as at 1 December 2013	Restricted share units awarded during the six months ended 31 May 2014	Restricted share units vested during the six months ended 31 May 2014	Restricted share units cancelled/lapsed during the six months ended 31 May 2014 <sup>(7)</sup>	Restricted share units outstanding as at 31 May 2014
<b>Executive Director</b>	1/6/2011	See note <sup>(2)</sup>	492,045	–	–	–	492,045
Mr. Mark Edward Tucker	1/6/2011	1/4/2014 <sup>(3)</sup>	1,433,149	–	(1,433,149)	–	–
	1/6/2011	See note <sup>(4)</sup>	806,147	–	(268,715)	–	537,432
	15/3/2012	15/3/2015 <sup>(3)</sup>	1,434,842	–	–	–	1,434,842
	11/3/2013	11/3/2016 <sup>(3)</sup>	1,314,873	–	–	–	1,314,873
	5/3/2014	5/3/2017 <sup>(3)</sup>	–	1,261,874	–	–	1,261,874
<b>Key Management Personnel (excluding Executive Director)</b>	1/6/2011	1/4/2014 <sup>(3)</sup>	2,253,565	–	(2,253,565)	–	–
	1/6/2011	See note <sup>(4)</sup>	3,729,321	–	(1,243,104)	–	2,486,217
	15/3/2012	15/3/2015 <sup>(3)</sup>	1,949,178	–	–	–	1,949,178
	11/3/2013	11/3/2016 <sup>(3)</sup>	1,779,549	–	–	–	1,779,549
	5/3/2014	5/3/2017 <sup>(3)</sup>	–	1,546,053	–	–	1,546,053
	14/4/2014	14/4/2017 <sup>(3)</sup>	–	203,016	–	–	203,016
	14/4/2014	See note <sup>(6)</sup>	–	487,238	–	–	487,238
<b>Other eligible employees</b>	1/6/2011	See note <sup>(4)</sup>	2,626,073	–	(851,615)	(71,214)	1,703,244
	1/6/2011	1/4/2014 <sup>(3)</sup>	12,770,760	–	(12,256,123)	(514,637)	–
	18/10/2011	1/8/2014 <sup>(3)</sup>	146,193	–	–	–	146,193
	18/10/2011	18/10/2014 <sup>(3)</sup>	1,031,469	–	–	(185,775)	845,694
	18/10/2011	18/10/2014 <sup>(5)</sup>	59,581	–	–	(32,427)	27,154
	15/3/2012	15/3/2015 <sup>(3)</sup>	15,543,206	–	(47,367)	(1,023,888)	14,471,951
	15/3/2012	15/3/2015 <sup>(5)</sup>	81,831	–	–	–	81,831
	6/9/2012	6/9/2015 <sup>(3)</sup>	218,664	–	–	–	218,664
	11/3/2013	11/3/2016 <sup>(3)</sup>	15,990,781	–	(19,750)	(943,560)	15,027,471
	1/8/2013	1/8/2016 <sup>(3)</sup>	264,994	–	–	–	264,994
	1/8/2013	11/3/2016 <sup>(3)</sup>	75,865	–	–	–	75,865
	5/3/2014	5/3/2017 <sup>(3)</sup>	–	15,535,289	–	(112,012)	15,423,277

Notes:

- (1) The measurement dates (i.e. the dates used to determine the value of the awards for accounting purposes) for awards made in 2011 were determined to be 15 June 2011 and 2 November 2011. The measurement dates for awards made in 2012 were determined to be 15 March 2012 and 6 September 2012. The measurement dates for awards made in 2013 were determined to be 11 March 2013 and 1 August 2013. The measurement dates for awards made in the first half of 2014 were determined to be 5 March 2014 and 14 April 2014. The measurement dates were determined in accordance with IFRS 2.
- (2) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). 25 per cent of the restricted share units (246,021 restricted share units) vested on 1 June 2012; 25 per cent (246,021 restricted share units) vested on 1 June 2013; and 50 per cent (492,045 restricted share units) vested on 1 June 2014.
- (3) The vesting of these restricted share units is subject to the achievement of performance conditions shown on page 96 of the Company's Annual Report 2013.
- (4) The vesting of these restricted share units is service-based only. One-third of restricted share units vested on 1 April 2014; one-third vest on 1 April 2015; and one-third vest on 1 April 2016.
- (5) The vesting of these restricted share units is service-based only.
- (6) The vesting of these restricted share units is service-based only. One-half of restricted share units vest on 14 April 2015; and one-half vest on 14 April 2016.
- (7) There are no cancelled restricted share units during the six months ended 31 May 2014.

## SHARE OPTION SCHEME

The Share Option Scheme is effective for a period of 10 years, commencing on the date of shareholder adoption (unless it is terminated earlier in accordance with its terms) (the Share Option Scheme Period), after which period no further share options will be awarded or accepted, but the provisions of the Share Option Scheme shall remain in full force and effect in order to give effect to the exercise of any share options awarded and accepted prior to the expiration of the Share Option Scheme Period.

During the six months ended 31 May 2014, 6,678,445 share options were awarded by the Company under the Share Option Scheme. No share options have been awarded to substantial shareholders, or in excess of the individual limit. Details of the valuation of the share options are set out in note 22 to the interim financial statements.

Movements in share option awards are summarised below:

Executive Director, Key Management Personnel and other eligible employees	Date of grant (day/month/ year) <sup>(1)</sup>	Period during which share options exercisable (day/ month/year)	Share options outstanding as at 1 December 2013	Share options awarded during the six months ended 31 May 2014	Share options vested during the six months ended 31 May 2014	Share options cancelled/ lapsed during the six months ended 31 May 2014 <sup>(9)</sup>	Share options exercised during the six months ended 31 May 2014 <sup>(9)</sup>	Exercise price (HK\$)	Share options outstanding as at 31 May 2014	Closing
										price of shares immediately before the date on which share options were awarded (HK\$)
<b>Executive Director</b>	1/6/2011	1/4/2014 – 31/5/2021 <sup>(2)</sup>	2,149,724	-	2,149,724	-	-	27.35	2,149,724	27.45
Mr. Mark Edward Tucker	1/6/2011	1/4/2014 – 31/5/2021 <sup>(3)</sup>	2,418,439	-	806,146	-	-	27.35	2,418,439	27.45
	15/3/2012	15/3/2015 – 14/3/2022 <sup>(4)</sup>	2,152,263	-	-	-	-	28.40	2,152,263	27.95
	11/3/2013	11/3/2016 – 10/3/2023 <sup>(5)</sup>	2,183,144	-	-	-	-	34.35	2,183,144	33.80
	5/3/2014	5/3/2017 – 4/3/2024 <sup>(6)</sup>	-	2,169,274	-	-	-	37.56	2,169,274	37.35
<b>Key Management Personnel (excluding Executive Director)</b>	1/6/2011	1/4/2014 – 31/5/2021 <sup>(2)</sup>	3,380,346	-	3,380,346	-	-	27.35	3,380,346	27.45
	1/6/2011	1/4/2014 – 31/5/2021 <sup>(3)</sup>	4,919,047	-	1,639,679	-	-	27.35	4,919,047	27.45
	15/3/2012	15/3/2015 – 14/3/2022 <sup>(4)</sup>	2,923,765	-	-	-	-	28.40	2,923,765	27.95
	11/3/2013	11/3/2016 – 10/3/2023 <sup>(5)</sup>	2,954,666	-	-	-	-	34.35	2,954,666	33.80
	5/3/2014	5/3/2017 – 4/3/2024 <sup>(6)</sup>	-	2,657,795	-	-	-	37.56	2,657,795	37.35
	14/4/2014	14/4/2017 – 13/4/2024 <sup>(7)</sup>	-	332,282	-	-	-	39.45	332,282	39.65
<b>Other eligible employees</b>	1/6/2011	1/4/2014 – 31/5/2021 <sup>(2)</sup>	1,744,437	-	1,624,407	(120,030)	(470,007)	27.35	1,154,400	27.45
	1/6/2011	1/4/2014 – 31/5/2021 <sup>(3)</sup>	3,695,966	-	1,160,768	(213,640)	(284,852)	27.35	3,197,474	27.45
	15/3/2012	15/3/2015 – 14/3/2022 <sup>(4)</sup>	1,987,840	-	13,114	(193,034)	-	28.40	1,794,806	27.95
	11/3/2013	11/3/2016 – 10/3/2023 <sup>(5)</sup>	1,781,484	-	6,918	(132,374)	-	34.35	1,649,110	33.80
	5/3/2014	5/3/2017 – 4/3/2024 <sup>(6)</sup>	-	1,519,094	-	-	-	37.56	1,519,094	37.35



Notes:

- (1) The measurement date (i.e. the date used to determine the value of the awards for accounting purposes) for awards made in 2011 was determined to be 15 June 2011. The measurement date for awards made in 2012 was determined to be 15 March 2012. The measurement date for awards made in 2013 was determined to be 11 March 2013. The measurement dates for awards made in the first half of 2014 were determined to be 5 March 2014 and 14 April 2014. The measurement dates were determined in accordance with IFRS 2.
- (2) The vesting of share options is service-based only and has no further performance conditions. All share options vested on 1 April 2014.
- (3) The vesting of share options is service-based only and has no further performance conditions. One-third of share options vested on 1 April 2014; one-third vest on 1 April 2015; and one-third vest on 1 April 2016.
- (4) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 15 March 2015.
- (5) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 11 March 2016.
- (6) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 5 March 2017.
- (7) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 14 April 2017.
- (8) There are no cancelled share options during the six months ended 31 May 2014.
- (9) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK\$39.45.

## **Employee Share Purchase Plan**

For information on Employee Share Purchase Plan, please refer to page 99 of the Company's Annual Report 2013.

# FINANCIAL STATEMENTS

## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)



羅兵咸永道

#### Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 38 to 95, which comprises the interim consolidated statement of financial position of AIA Group Limited (the Company) and its subsidiaries (together, "the Group") as at 31 May 2014 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" (HKAS 34) issued by the Hong Kong Institute of Certified Public Accountants or International Accounting Standard 34 "Interim financial reporting" (IAS 34) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34 and IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34 and IAS 34.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong  
25 July 2014

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## INTERIM CONSOLIDATED INCOME STATEMENT

US\$m	Notes	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited and restated)
<b>Revenue</b>			
<i>Turnover</i>			
Premiums and fee income		8,407	7,764
Premiums ceded to reinsurers		(552)	(461)
Net premiums and fee income		<u>7,855</u>	<u>7,303</u>
Investment return	7	3,625	4,631
Other operating revenue		89	73
<b>Total revenue</b>		<u><u>11,569</u></u>	<u><u>12,007</u></u>
<b>Expenses</b>			
Insurance and investment contract benefits		8,119	8,045
Insurance and investment contract benefits ceded		(487)	(377)
<b>Net insurance and investment contract benefits</b>		<u>7,632</u>	<u>7,668</u>
Commission and other acquisition expenses		993	934
Operating expenses		765	738
Finance costs		40	35
Other expenses		179	167
<b>Total expenses</b>	8	<u><u>9,609</u></u>	<u><u>9,542</u></u>
<b>Profit before share of profit from associates and joint venture</b>		<u>1,960</u>	<u>2,465</u>
Share of profit from associates and joint venture		5	8
<b>Profit before tax</b>		<u><u>1,965</u></u>	<u><u>2,473</u></u>
Income tax expense attributable to policyholders' returns		(71)	(48)
<b>Profit before tax attributable to shareholders' profits</b>		<u><u>1,894</u></u>	<u><u>2,425</u></u>
Tax expense	9	(410)	(529)
Tax attributable to policyholders' returns		71	48
Tax expense attributable to shareholders' profits		(339)	(481)
<b>Net profit</b>		<u><u>1,555</u></u>	<u><u>1,944</u></u>
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<u>1,546</u>	<u>1,935</u>
Non-controlling interests		9	9
<b>Earnings per share (US\$)</b>			
Basic	10	0.13	0.16
Diluted	10	0.13	0.16
Dividends payable to shareholders of the Company attributable to the interim period:			
		Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited)
Interim dividend declared after the reporting period of 16.00 Hong Kong cents per share (six months ended 31 May 2013: 13.93 Hong Kong cents per share)	11	<u><u>247</u></u>	<u><u>215</u></u>

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited and restated)
<b>Net profit</b>	<b>1,555</b>	1,944
<b>Other comprehensive income/(expense)</b>		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains/(losses) on available for sale financial assets (net of tax of: six months ended 31 May 2014: US\$(285)m; six months ended 31 May 2013: US\$20m)	<b>2,314</b>	(838)
Fair value losses/(gains) on available for sale financial assets transferred to income on disposal (net of tax of: six months ended 31 May 2014: US\$(1)m; six months ended 31 May 2013: US\$2m)	<b>7</b>	(26)
Foreign currency translation adjustments	<b>(39)</b>	(156)
Cash flow hedges	<b>4</b>	–
Share of other comprehensive income from associates and joint venture	<b>3</b>	7
Subtotal	<u><b>2,289</b></u>	<u>(1,013)</u>
Items that will not be reclassified subsequently to profit or loss:		
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: six months ended 31 May 2014: US\$nil; six months ended 31 May 2013: US\$2m)	<b>–</b>	15
Subtotal	<u><b>–</b></u>	<u>15</u>
Total other comprehensive income/(expense)	<u><b>2,289</b></u>	<u>(998)</u>
<b>Total comprehensive income</b>	<u><b>3,844</b></u>	<u>946</u>
<i>Total comprehensive income attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>3,836</b>	926
Non-controlling interests	<b>8</b>	20

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	Notes	As at 31 May 2014 (Unaudited)	As at 30 November 2013 (Restated)
<b>Assets</b>			
Intangible assets	12	2,115	1,321
Investments in associates and joint venture		102	93
Property, plant and equipment		464	480
Investment property		1,375	1,128
Reinsurance assets		1,623	1,379
Deferred acquisition and origination costs		16,250	15,738
<b>Financial investments:</b>	13, 15		
Loans and deposits		7,376	7,484
Available for sale			
Debt securities		71,716	64,763
At fair value through profit or loss			
Debt securities		23,991	22,560
Equity securities		27,234	26,102
Derivative financial instruments	14	389	445
		<u>130,706</u>	<u>121,354</u>
Deferred tax assets		10	6
Current tax recoverable		63	44
Other assets		3,806	3,543
Cash and cash equivalents	16	2,039	2,316
<b>Total assets</b>		<u><b>158,553</b></u>	<u><b>147,402</b></u>
<b>Liabilities</b>			
Insurance contract liabilities		108,710	103,436
Investment contract liabilities		8,575	8,698
Borrowings	17	2,932	1,950
Obligations under securities lending and repurchase agreements	18	2,908	1,889
Derivative financial instruments	14	113	89
Provisions		186	187
Deferred tax liabilities		2,482	2,030
Current tax liabilities		347	242
Other liabilities		4,121	4,054
<b>Total liabilities</b>		<u><b>130,374</b></u>	<u><b>122,575</b></u>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	Notes	<b>As at 31 May 2014 (Unaudited)</b>	As at 30 November 2013 (Restated)
<b>Equity</b>			
Share capital	19	13,961	12,044
Share premium	19	–	1,914
Employee share-based trusts	19	(292)	(274)
Other reserves	19	(12,025)	(11,995)
Retained earnings		21,174	20,070
Fair value reserve	19	4,590	2,270
Foreign currency translation reserve	19	622	657
Others		–	(4)
Amounts reflected in other comprehensive income		5,212	2,923
<i>Total equity attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		28,030	24,682
Non-controlling interests		149	145
<b>Total equity</b>		<b>28,179</b>	<b>24,827</b>
<b>Total liabilities and equity</b>		<b>158,553</b>	<b>147,402</b>

Approved and authorised for issue by the Board of Directors on 25 July 2014.



**Mark Edward Tucker**  
Director



**Edmund Sze-Wing Tse**  
Director

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Notes	Other comprehensive income								Total equity
		Share capital and share premium	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Others	Non-controlling interests	
<b>Balance at 1 December 2012, as previously reported</b>		13,958	(188)	(12,060)	17,843	5,979	1,165	-	131	26,828
Effect of adoption of IAS 19 (as revised in 2011)		-	-	-	(2)	-	-	(33)	-	(35)
<b>Balance at 1 December 2012, as restated</b>		13,958	(188)	(12,060)	17,841	5,979	1,165	(33)	131	26,793
Net profit		-	-	-	1,935	-	-	-	9	1,944
Fair value (losses)/gains on available for sale financial assets		-	-	-	-	(852)	-	-	14	(838)
Fair value gains on available for sale financial assets transferred to income on disposal		-	-	-	-	(26)	-	-	-	(26)
Foreign currency translation adjustments		-	-	-	-	-	(153)	-	(3)	(156)
Share of other comprehensive income/ (expense) from associates		-	-	-	-	10	(3)	-	-	7
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	15	-	15
<b>Total comprehensive income/ (expense) for the period</b>		-	-	-	1,935	(868)	(156)	15	20	946
Dividends	11	-	-	-	(380)	-	-	-	(2)	(382)
Acquisition of subsidiaries		-	-	-	-	-	-	-	16	16
Acquisition of non-controlling interests		-	-	(8)	-	3	-	-	(16)	(21)
Share-based compensation		-	-	37	-	-	-	-	-	37
Purchase of shares held by employee share-based trusts		-	(85)	-	-	-	-	-	-	(85)
Others		-	-	(2)	-	-	-	-	-	(2)
<b>Balance at 31 May 2013 – Unaudited and restated</b>		<u>13,958</u>	<u>(273)</u>	<u>(12,033)</u>	<u>19,396</u>	<u>5,114</u>	<u>1,009</u>	<u>(18)</u>	<u>149</u>	<u>27,302</u>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

US\$m	Notes	Other comprehensive income								Total equity
		Share capital and share premium	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Others	Non-controlling interests	
<b>Balance at 1 December 2013, as previously reported</b>		13,958	(274)	(11,995)	20,070	2,270	657	-	145	24,831
Effect of adoption of IAS 19 (as revised in 2011)		-	-	-	-	-	-	(4)	-	(4)
<b>Balance at 1 December 2013, as restated</b>		13,958	(274)	(11,995)	20,070	2,270	657	(4)	145	24,827
Net profit		-	-	-	1,546	-	-	-	9	1,555
Fair value gains/(losses) on available for sale financial assets		-	-	-	-	2,315	-	-	(1)	2,314
Fair value losses on available for sale financial assets transferred to income on disposal		-	-	-	-	7	-	-	-	7
Foreign currency translation adjustments		-	-	-	-	-	(39)	-	-	(39)
Cash flow hedges		-	-	-	-	-	-	4	-	4
Share of other comprehensive income/ (expense) from associates and joint venture		-	-	-	-	(1)	4	-	-	3
<b>Total comprehensive income/ (expense) for the period</b>		-	-	-	1,546	2,321	(35)	4	8	3,844
Dividends	11	-	-	-	(442)	-	-	-	(5)	(447)
Shares issued under share option scheme		3	-	-	-	-	-	-	-	3
Acquisition of non-controlling interests		-	-	-	-	(1)	-	-	1	-
Share-based compensation		-	-	(27)	-	-	-	-	-	(27)
Purchase of shares held by employee share-based trusts		-	(89)	-	-	-	-	-	-	(89)
Transfer of vested shares from employee share-based trusts		-	71	-	-	-	-	-	-	71
Others		-	-	(3)	-	-	-	-	-	(3)
<b>Balance at 31 May 2014 – Unaudited</b>		<b>13,961</b>	<b>(292)</b>	<b>(12,025)</b>	<b>21,174</b>	<b>4,590</b>	<b>622</b>	<b>-</b>	<b>149</b>	<b>28,179</b>



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited and restated)
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>1,965</b>	2,473
Adjustments for:		
Financial investments	<b>(6,806)</b>	(7,082)
Insurance and investment contract liabilities	<b>4,695</b>	4,701
Obligations under securities lending and repurchase agreements	<b>1,038</b>	545
Other non-cash operating items, including investment income	<b>(2,684)</b>	(2,484)
Operating cash items:		
Interest received	<b>2,161</b>	2,158
Dividends received	<b>232</b>	237
Interest paid	<b>(26)</b>	(22)
Tax paid	<b>(161)</b>	(160)
<b>Net cash provided by operating activities</b>	<b>414</b>	366
<b>Cash flows from investing activities</b>		
Payments for intangible assets	<b>(833)</b>	(24)
Payments for investment property and property, plant and equipment	<b>(340)</b>	(61)
Payments for leasehold land	<b>–</b>	(289)
Proceeds from sale of investment property and property, plant and equipment	<b>14</b>	–
Acquisition of subsidiaries, net of cash acquired	<b>–</b>	(1,802)
<b>Net cash used in investing activities</b>	<b>(1,159)</b>	(2,176)
<b>Cash flows from financing activities</b>		
Issuance of medium term notes and drawdown of acquisition credit facility	<b>990</b>	2,719
Repayment of acquisition credit facility	<b>–</b>	(1,490)
Interest paid on medium term notes and acquisition credit facility	<b>(14)</b>	(10)
Proceeds from other borrowings	<b>347</b>	324
Repayment of other borrowings	<b>(348)</b>	(8)
Dividends paid during the period	<b>(447)</b>	(382)
Purchase of shares held by employee share-based trusts	<b>(89)</b>	(85)
Shares issued under share option scheme	<b>3</b>	–
Acquisition of non-controlling interests	<b>–</b>	(21)
<b>Net cash provided by financing activities</b>	<b>442</b>	1,047
Net decrease in cash and cash equivalents	<b>(303)</b>	(763)
Cash and cash equivalents at beginning of the financial period	<b>2,140</b>	2,709
Effect of exchange rate changes on cash and cash equivalents	<b>13</b>	(34)
<b>Cash and cash equivalents at end of the financial period</b>	<b>1,850</b>	1,912

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Cash and cash equivalents in the above interim condensed consolidated statement of cash flows can be further analysed as follows:

	Notes	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited and restated)
Cash and cash equivalents in the interim consolidated statement of financial position	16	2,039	2,079
Bank overdrafts		<u>(189)</u>	<u>(167)</u>
Cash and cash equivalents in the interim condensed consolidated statement of cash flows		<u><b>1,850</b></u>	<u><b>1,912</b></u>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate information

AIA Group Limited (the Company) was established as a company with limited liability incorporated in Hong Kong on 24 August 2009. The address of its registered office is 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) being traded on the over-the-counter market (ticker symbol: “AAGIY”).

AIA Group Limited and its subsidiaries (collectively “AIA” or the “Group”) is a life insurance based financial services provider operating in 17 jurisdictions throughout the Asia-Pacific region. The Group’s principal activity is the writing of life insurance business, providing life insurance, accident and health insurance and savings plans throughout Asia, and distributing related investment and other financial services products to its customers.

## 2. Basis of preparation and statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting. Hong Kong Financial Reporting Standards (HKFRS) is substantially consistent with International Financial Reporting Standards (IFRS) and the accounting policy selections that the Group has made in preparing these interim condensed consolidated financial statements are such that the Group is able to comply with both IFRS and HKFRS. References to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) in these interim condensed consolidated financial statements should be read as referring to the equivalent HKFRS, HKAS and Hong Kong (IFRIC) Interpretations (HK(IFRIC) – Int) as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting these interim condensed consolidated financial statements. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 November 2013.

The accounting policies adopted are consistent with those of the previous financial year, except as described below. In addition, the Group reclassified bank overdrafts of US\$176m from “Borrowings” to “Other liabilities” in the consolidated statement of financial position as of 30 November 2013 and expenses of US\$18m from “Operating expenses” to “Other expenses” in the consolidated income statement for the six months ended 31 May 2013 to be consistent with current period presentation. In prior years, cash and cash equivalents in the consolidated statement of cash flows was the same as cash and cash equivalents in the consolidated statement of financial position. The Group has reassessed the composition of cash and cash equivalents in the consolidated statement of cash flows and included bank overdrafts within the definition of cash and cash equivalents in the consolidated statement of cash flows. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

## 2. Basis of preparation and statement of compliance (continued)

### (a) New and revised standards adopted by the Group

- IFRS 10, Consolidated Financial Statements, replaces the consolidation guidance in IAS 27, Consolidated and separate financial statements and SIC 12, Consolidation – Special purpose entities. It builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of IFRS 10 resulted in the consolidation of certain funds and deconsolidation of certain others which led to a net increase of US\$809m in total assets and total liabilities with no impact on shareholders' equity as at 30 November 2013. It also led to a net decrease of US\$19m in investment return, a decrease of US\$22m in other expenses and an increase in net insurance and investment contract benefits of US\$3m with no impact on the net profit for the six months ended 31 May 2013.
- IAS 19, Employee Benefits (as revised in 2011), eliminates the corridor approach and calculates finance costs on a net funding basis. It would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). The adoption of the amendments resulted in the recognition of additional remeasurement loss, net of tax, of US\$4m in other comprehensive income as at 30 November 2013. It also resulted in a remeasurement gain, net of tax, of US\$15m in other comprehensive income and the reduction of operating expenses, net of tax, of US\$1m in profit or loss for the six months ended 31 May 2013.

Additional information on the quantitative effect of the adoption of the new and revised accounting standards on the Group's consolidated financial statements is provided in note 27.

## 2. Basis of preparation and statement of compliance (continued)

(b) The following relevant new standards and amendments to standards are mandatory for the first time (except for the amendments to IAS 36 which have been early adopted) for the financial year beginning 1 December 2013 and have no material impact to the Group (some new standards do require additional disclosures):

- IFRS 11, Joint Arrangements;
- IFRS 12, Disclosure of Interests in Other Entities;
- IFRS 13, Fair Value Measurement;
- IAS 27, Separate Financial Statements (as revised in 2011);
- IAS 28, Investments in Associates and Joint Ventures (as revised in 2011);
- Amendments to IAS 1, Presentation of Financial Statements, Clarification of the requirements for comparative information;
- Amendments to IAS 32, Financial Instruments: Presentation, Tax effect of distributions to holders of equity instruments;
- Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets;
- Amendments to IFRS 7, Financial Instruments: Disclosures on offsetting financial assets and financial liabilities;
- Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance;
- Amendment to IFRS 13, Fair Value Measurement, Scope of portfolio exception; and
- Amendment to IFRS 13, Fair Value Measurement, Short-term receivables and payables.

## 2. Basis of preparation and statement of compliance (continued)

(c) The following relevant new standards, interpretation and amendments to standards have been issued but are not effective for the financial year ending 30 November 2014 and have not been early adopted (the financial years for which the adoption is planned and required are stated in parentheses). The Group has assessed the full impact of these new standards on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures:

- IFRIC 21, Levies (2015);
- IFRS 15, Revenue from Contracts with Customers (2018);
- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation (2017);
- Amendment to IAS 24, Related Parties Disclosures, Key management personnel (2015);
- Amendments to IAS 32, Financial Instruments: Presentation on offsetting financial assets and financial liabilities (2015);
- Amendment to IAS 40, Investment Property, Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property (2015);
- Amendment to IFRS 2, Share-based Payment, Definition of vesting condition (2015);
- Amendment to IFRS 3, Business Combinations, Accounting for contingent consideration in a business combination (2015);
- Amendments to IFRS 8, Operating Segments, Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets (2015);
- Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities (2015); and
- Amendments to IFRS 11, Acquisitions of Interests in Joint Operations (2017).

(d) The following relevant new standard has been issued but is not effective for the financial year ending 30 November 2014 and has not been early adopted:

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The Group is yet to assess the full impact of the standard on its financial position and results of operations given the likely amendments and uncertain implementation date.

## **2. Basis of preparation and statement of compliance (continued)**

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgement on estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Actual results may differ from these estimates.

The interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with IFRS and HKFRS.

The interim condensed consolidated financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 37. The interim condensed consolidated financial statements have also been reviewed by the Company's Audit Committee.

The financial statements relating to the financial year ended 30 November 2013 that is included in the interim condensed consolidated financial statements as being previously reported information does not constitute the Group's statutory financial statements for this financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 February 2014.

The interim condensed consolidated financial statements have been approved for issue by the Board of Directors on 25 July 2014.

Items included in the interim condensed consolidated financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The interim condensed consolidated financial statements are presented in millions of US dollars (US\$m) unless otherwise stated, which is the Company's functional currency, and the presentation currency of the Company and the Group.

### 3. Exchange rates

The Group's principal overseas operations during the reporting period were located within the Asia-Pacific region. The results and cash flows of these operations have been translated into US dollars at the following average rates:

	<b>US dollar exchange rates</b>		
	<b>Six months ended 31 May 2014 (Unaudited)</b>	Year ended 30 November 2013	Six months ended 31 May 2013 (Unaudited)
Hong Kong	7.76	7.76	7.76
Thailand	32.53	30.58	29.81
Singapore	1.26	1.25	1.24
Malaysia	3.27	3.13	3.06
China	6.14	6.16	6.20
Korea	1,054.85	1,095.29	1,094.09

Assets and liabilities have been translated at the following period-end rates:

	<b>US dollar exchange rates</b>		
	<b>As at 31 May 2014 (Unaudited)</b>	As at 30 November 2013	As at 31 May 2013 (Unaudited)
Hong Kong	7.75	7.75	7.76
Thailand	32.82	32.10	30.20
Singapore	1.25	1.25	1.26
Malaysia	3.21	3.22	3.08
China	6.25	6.09	6.13
Korea	1,020.41	1,058.51	1,129.40

Exchange rates are expressed in units of local currency per US\$1.



#### 4. Operating profit after tax

Operating profit after tax may be reconciled to net profit as follows:

US\$m	Note	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited and restated)
<b>Operating profit after tax</b>	6	<b>1,465</b>	1,275
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Net gains from equity securities (net of tax of: six months ended 31 May 2014: US\$(15)m; six months ended 31 May 2013: US\$(168)m)			
		47	659
Other non-operating investment experience and other items (net of tax of: six months ended 31 May 2014: US\$(29)m; six months ended 31 May 2013: US\$(22)m)			
		43	10
<b>Net profit</b>		<b>1,555</b>	<b>1,944</b>
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>1,457</b>	1,269
Non-controlling interests		8	6
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>1,546</b>	1,935
Non-controlling interests		9	9

#### 5. Total weighted premium income and annualised new premium

For management decision-making and internal performance management purposes, the Group measures business volumes during the period using a performance measure referred to as total weighted premium income (TWPI), while the Group measures new business activity using a performance measure referred to as annualised new premium (ANP).

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premium and fee income recorded in the consolidated income statement.

ANP is a key internal measure of new business activities, which consists of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. ANP excludes new business of pension business, personal lines and motor insurance.

## 5. Total weighted premium income and annualised new premium (continued)

TWPI US\$m	Six months ended 31 May 2014 (Unaudited)	Twelve months ended 30 November 2013	Six months ended 31 May 2013 (Unaudited)
<b>TWPI by geography</b>			
Hong Kong	1,929	3,770	1,703
Thailand	1,555	3,364	1,616
Singapore	1,134	2,150	1,044
Malaysia	1,027	2,036	1,002
China	850	1,599	745
Korea	1,087	2,049	1,027
Other Markets	1,422	2,840	1,358
<b>Total</b>	<b>9,004</b>	<b>17,808</b>	<b>8,495</b>
<b>First year premiums by geography</b>			
Hong Kong	329	659	271
Thailand	223	501	238
Singapore	140	257	109
Malaysia	123	241	117
China	151	233	110
Korea	139	256	123
Other Markets	326	668	305
<b>Total</b>	<b>1,431</b>	<b>2,815</b>	<b>1,273</b>
<b>Single premiums by geography</b>			
Hong Kong	580	897	322
Thailand	101	285	157
Singapore	662	1,079	297
Malaysia	70	193	116
China	9	29	19
Korea	131	201	162
Other Markets	201	641	391
<b>Total</b>	<b>1,754</b>	<b>3,325</b>	<b>1,464</b>
<b>Renewal premiums by geography</b>			
Hong Kong	1,542	3,021	1,400
Thailand	1,322	2,834	1,362
Singapore	927	1,785	905
Malaysia	897	1,776	873
China	698	1,363	633
Korea	935	1,773	888
Other Markets	1,076	2,108	1,014
<b>Total</b>	<b>7,397</b>	<b>14,660</b>	<b>7,075</b>

## 5. Total weighted premium income and annualised new premium (continued)

	Six months ended 31 May 2014 (Unaudited)	Twelve months ended 30 November 2013	Six months ended 31 May 2013 (Unaudited)
<b>ANP</b>			
US\$m			
<b>ANP by geography</b>			
Hong Kong	401	781	326
Thailand	256	565	265
Singapore	214	400	147
Malaysia	161	319	152
China	152	249	120
Korea	189	338	182
Other Markets	317	689	335
<b>Total</b>	<b>1,690</b>	<b>3,341</b>	<b>1,527</b>

## 6. Segment information

The Group's operating segments, based on the reports received by the ExCo, are each of the geographical markets in which the Group operates. Each of the reportable segments, other than the "Group Corporate Centre" segment, writes life insurance business, providing life insurance, accident and health insurance and savings plans to customers in its local market, and distributes related investment and other financial services products. The reportable segments are Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, China, Korea, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan, New Zealand, Sri Lanka and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

Because each reportable segment other than the Group Corporate Centre segment focuses on serving the life insurance needs of its local market, there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- ANP;
- TWPI;
- investment income (excluding investment income in respect of unit-linked contracts);
- operating expenses;
- operating profit after tax attributable to shareholders of AIA Group Limited;
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit before tax (see above) expressed as a percentage of TWPI; and
- operating return on allocated equity, measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests, fair value and foreign currency translation reserves and others, and adjusted for intercompany debt).

## 6. Segment information (continued)

In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

Business volumes in respect of the Group's five largest customers are less than 30 per cent of premiums and fee income.

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Group Corporate Centre	Total
<b>Six months ended 31 May 2014 – Unaudited</b>									
ANP	401	256	214	161	152	189	317	–	1,690
TWPI	1,929	1,555	1,134	1,027	850	1,087	1,422	–	9,004
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	1,805	1,597	1,199	920	775	779	866	3	7,944
Investment income <sup>(1)</sup>	618	474	409	267	252	207	277	113	2,617
<b>Total revenue</b>	<b>2,423</b>	<b>2,071</b>	<b>1,608</b>	<b>1,187</b>	<b>1,027</b>	<b>986</b>	<b>1,143</b>	<b>116</b>	<b>10,561</b>
Net insurance and investment contract benefits <sup>(2)</sup>	1,577	1,310	1,169	844	695	700	604	(1)	6,898
Commission and other acquisition expenses	205	294	112	62	65	107	148	–	993
Operating expenses	98	86	76	89	101	71	172	72	765
Investment management expenses and finance costs <sup>(3)</sup>	46	21	10	9	7	7	17	33	150
<b>Total expenses</b>	<b>1,926</b>	<b>1,711</b>	<b>1,367</b>	<b>1,004</b>	<b>868</b>	<b>885</b>	<b>941</b>	<b>104</b>	<b>8,806</b>
Share of profit/(loss) from associates and joint venture	–	–	–	–	–	–	9	(4)	5
<b>Operating profit before tax</b>	<b>497</b>	<b>360</b>	<b>241</b>	<b>183</b>	<b>159</b>	<b>101</b>	<b>211</b>	<b>8</b>	<b>1,760</b>
Tax on operating profit before tax	(35)	(81)	(38)	(42)	(27)	(23)	(48)	(1)	(295)
<b>Operating profit after tax</b>	<b>462</b>	<b>279</b>	<b>203</b>	<b>141</b>	<b>132</b>	<b>78</b>	<b>163</b>	<b>7</b>	<b>1,465</b>
<i>Operating profit after tax attributable to:</i>									
Shareholders of AIA Group Limited	460	279	203	140	132	78	158	7	1,457
Non-controlling interests	2	–	–	1	–	–	5	–	8
<b>Key operating ratios:</b>									
Expense ratio	5.1%	5.5%	6.7%	8.7%	11.9%	6.5%	12.1%	–	8.5%
Operating margin	25.8%	23.2%	21.3%	17.8%	18.7%	9.3%	14.8%	–	19.5%
Operating return on allocated equity <sup>(4)</sup>	22.4%	13.7%	20.7%	11.1%	18.0%	8.8%	12.5%	–	13.1%

Operating profit before tax includes:

Finance costs	8	4	1	1	3	–	1	22	40
Depreciation and amortisation	8	6	7	10	5	6	16	10	68

Notes:

- (1) Excludes investment income related to unit-linked contracts.
- (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for unit-linked contracts and participating funds and investment income and investment management expenses related to unit-linked contracts. It also excludes policyholders' share of tax relating to the change in insurance and investment contract liabilities.
- (3) Excludes investment management expenses related to unit-linked contracts.
- (4) Operating return on allocated equity has been annualised to facilitate comparison with prior periods.

## 6. Segment information (continued)

Allocated equity may be analysed as follows:

US\$m	Hong Kong	Thailand <sup>(5)</sup>	Singapore	Malaysia	China	Korea	Other Markets <sup>(5)</sup>	Group Corporate Centre <sup>(5)</sup>	Total
<b>31 May 2014 – Unaudited</b>									
Assets before investments in associates and joint venture	39,202	24,456	29,580	16,467	12,826	13,842	15,875	6,203	158,451
Investments in associates and joint venture	-	-	1	7	-	-	94	-	102
<b>Total assets</b>	<b>39,202</b>	<b>24,456</b>	<b>29,581</b>	<b>16,474</b>	<b>12,826</b>	<b>13,842</b>	<b>15,969</b>	<b>6,203</b>	<b>158,553</b>
<b>Total liabilities<sup>(5)</sup></b>	<b>32,430</b>	<b>19,584</b>	<b>26,845</b>	<b>13,927</b>	<b>11,302</b>	<b>11,630</b>	<b>12,018</b>	<b>2,638</b>	<b>130,374</b>
<b>Total equity</b>	<b>6,772</b>	<b>4,872</b>	<b>2,736</b>	<b>2,547</b>	<b>1,524</b>	<b>2,212</b>	<b>3,951</b>	<b>3,565</b>	<b>28,179</b>
<b>Allocated equity</b>	<b>4,329</b>	<b>4,130</b>	<b>2,132</b>	<b>2,536</b>	<b>1,586</b>	<b>1,802</b>	<b>2,714</b>	<b>3,589</b>	<b>22,818</b>
Net capital (out)/in flows	(377)	(292)	-	(108)	-	(24)	19	295	(487)

Notes:

- (5) Group Corporate Centre segment, Thailand segment and Other Markets segment adjusted for intercompany debt provided to Thailand segment and Other Markets segment of US\$12m and US\$26m, respectively.

## 6. Segment information (continued)

Segment information may be reconciled to the interim consolidated income statement as shown below:

US\$m	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Other non-operating items	Related changes in insurance and investment contract benefits		Third-party interests in consolidated investment funds	Interim consolidated income statement	
						Unit-linked contracts	Participating funds			
<b>Six months ended 31 May 2014 – Unaudited</b>										
<b>Total revenue</b>	<b>10,561</b>	<b>895</b>	<b>113</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,569</b>	<b>Total revenue</b>
Of which:										
Net premiums, fee income and other operating revenue	7,944	-	-	-	-	-	-	-	7,944	Of which: Net premiums, fee income and other operating revenue
Investment return	2,617	895	113	-	-	-	-	-	3,625	Investment return
<b>Total expenses</b>	<b>8,806</b>	<b>-</b>	<b>-</b>	<b>49</b>	<b>(33)</b>	<b>558</b>	<b>214</b>	<b>15</b>	<b>9,609</b>	<b>Total expenses</b>
Of which:										
Net insurance and investment contract benefits	6,898	-	-	-	(40)	558	214	2	7,632	Of which: Net insurance and investment contract benefits
Restructuring and other non-operating costs	-	-	-	-	7	-	-	-	7	Restructuring and other non-operating costs
Investment management expenses and finance costs	150	-	-	49	-	-	-	-	199	Investment management expenses and finance costs
Change in third-party interests in consolidated investment funds	-	-	-	-	-	-	-	13	13	Change in third-party interests in consolidated investment funds
Share of profit from associates and joint venture	5	-	-	-	-	-	-	-	5	Share of profit from associates and joint venture
<b>Operating profit before tax</b>	<b>1,760</b>	<b>895</b>	<b>113</b>	<b>(49)</b>	<b>33</b>	<b>(558)</b>	<b>(214)</b>	<b>(15)</b>	<b>1,965</b>	<b>Profit before tax</b>

Other non-operating items in 2014 consist of restructuring and other non-operating costs of US\$7m (see note 8).

## 6. Segment information (continued)

US\$m	Hong Kong <sup>(6)</sup>	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Group Corporate Centre	Total
<b>Six months ended 31 May 2013 – Unaudited and restated</b>									
<b>ANP</b>	326	265	147	152	120	182	335	–	1,527
<b>TWPI</b>	1,703	1,616	1,044	1,002	745	1,027	1,358	–	8,495
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	1,476	1,687	1,033	898	691	752	838	1	7,376
Investment income <sup>(1)</sup>	548	485	385	262	213	194	289	89	2,465
<b>Total revenue</b>	<b>2,024</b>	<b>2,172</b>	<b>1,418</b>	<b>1,160</b>	<b>904</b>	<b>946</b>	<b>1,127</b>	<b>90</b>	<b>9,841</b>
Net insurance and investment contract benefits <sup>(2)</sup>	1,294	1,431	1,039	830	620	667	603	(1)	6,483
Commission and other acquisition expenses	167	284	85	73	67	105	153	–	934
Operating expenses	87	93	72	85	90	71	173	67	738
Investment management expenses and finance costs <sup>(3)</sup>	45	22	7	9	10	2	16	17	128
<b>Total expenses</b>	<b>1,593</b>	<b>1,830</b>	<b>1,203</b>	<b>997</b>	<b>787</b>	<b>845</b>	<b>945</b>	<b>83</b>	<b>8,283</b>
Share of profit from associates	–	–	–	–	–	–	8	–	8
<b>Operating profit before tax<sup>(5)</sup></b>	<b>431</b>	<b>342</b>	<b>215</b>	<b>163</b>	<b>117</b>	<b>101</b>	<b>190</b>	<b>7</b>	<b>1,566</b>
Tax on operating profit before tax <sup>(5)</sup>	(30)	(82)	(32)	(36)	(13)	(23)	(54)	(21)	(291)
<b>Operating profit/(loss) after tax<sup>(6)</sup></b>	<b>401</b>	<b>260</b>	<b>183</b>	<b>127</b>	<b>104</b>	<b>78</b>	<b>136</b>	<b>(14)</b>	<b>1,275</b>
<i>Operating profit/(loss) after tax attributable to:</i>									
<b>Shareholders of AIA Group Limited<sup>(5)</sup></b>	<b>399</b>	<b>260</b>	<b>183</b>	<b>128</b>	<b>104</b>	<b>78</b>	<b>131</b>	<b>(14)</b>	<b>1,269</b>
Non-controlling interests	2	–	–	(1)	–	–	5	–	6

### Key operating ratios:

Expense ratio	5.1%	5.8%	6.9%	8.5%	12.1%	6.9%	12.7%	–	8.7%
Operating margin	25.3%	21.2%	20.6%	16.3%	15.7%	9.8%	14.0%	–	18.4%
Operating return on allocated equity <sup>(4)</sup>	21.2%	12.2%	20.8%	17.0%	19.0%	9.4%	13.0%	–	12.5%

### Operating profit before tax includes:

Finance costs	8	5	1	2	7	–	1	11	35
Depreciation and amortisation	5	6	6	8	4	3	14	8	54

### Notes:

- (1) Excludes investment income related to unit-linked contracts.
- (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for unit-linked contracts and participating funds and investment income and investment management expenses related to unit-linked contracts. It also excludes policyholders' share of tax relating to the change in insurance and investment contract liabilities.
- (3) Excludes investment management expenses related to unit-linked contracts.
- (4) Operating return on allocated equity has been annualised to facilitate comparison with prior periods.
- (5) Due to the retrospective application of certain new and revised accounting standards, the Group's operating expenses have been reduced by US\$2m, tax on operating profit before tax has been increased by US\$1m and operating profit after tax has been increased by US\$1m for the six months ended 31 May 2013. Please refer to note 2(a) and note 27 for further information of these new and revised accounting standards.
- (6) US\$18m expenses of the Hong Kong segment have been reclassified from operating expenses to investment management expenses for the six months ended 31 May 2013 to be consistent with current period presentation.

## 6. Segment information (continued)

Allocated equity may be analysed as follows:

US\$m	Hong Kong	Thailand <sup>(7)</sup>	Singapore	Malaysia	China	Korea	Other Markets <sup>(7)</sup>	Group Corporate Centre <sup>(7)</sup>	Total
<b>30 November 2013 – Restated</b>									
Assets before investments in associates and joint venture	35,495	24,026	27,547	15,774	11,728	12,631	14,360	5,748	147,309
Investments in associates and joint venture	–	–	1	7	–	–	81	4	93
<b>Total assets<sup>(8)</sup></b>	<b>35,495</b>	<b>24,026</b>	<b>27,548</b>	<b>15,781</b>	<b>11,728</b>	<b>12,631</b>	<b>14,441</b>	<b>5,752</b>	<b>147,402</b>
<b>Total liabilities<sup>(7,8)</sup></b>	<b>30,517</b>	<b>19,433</b>	<b>25,314</b>	<b>13,272</b>	<b>10,601</b>	<b>10,675</b>	<b>10,941</b>	<b>1,822</b>	<b>122,575</b>
<b>Total equity<sup>(8)</sup></b>	<b>4,978</b>	<b>4,593</b>	<b>2,234</b>	<b>2,509</b>	<b>1,127</b>	<b>1,956</b>	<b>3,500</b>	<b>3,930</b>	<b>24,827</b>
<b>Allocated equity</b>	<b>3,892</b>	<b>4,036</b>	<b>1,792</b>	<b>2,494</b>	<b>1,347</b>	<b>1,753</b>	<b>2,336</b>	<b>4,109</b>	<b>21,759</b>
Net capital (out)/in flows	(839)	(700)	(222)	1,636	101	(27)	183	(748)	(616)

Notes:

(7) Group Corporate Centre segment, Thailand segment and Other Markets segment adjusted for intercompany debt provided to Thailand segment and Other Markets segment of US\$13m and US\$25m, respectively.

(8) Due to the retrospective application of certain new and revised accounting standards, the Group's total assets have been increased by US\$817m, total liabilities have been increased by US\$821m and total equity has been reduced by US\$4m for the year ended 30 November 2013. Please refer to note 2(a) and note 27 for further information of these new and revised accounting standards.



## 6. Segment information (continued)

Segment information may be reconciled to the interim consolidated income statement as shown below:

US\$m	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Other non-operating items	Related changes in insurance and investment contract benefits		Third-party interests in consolidated investment funds	Interim consolidated income statement	
						Unit-linked contracts	Participating funds			
<b>Six months ended 31 May 2013</b>										
<b>- Unaudited and restated</b>										
<b>Total revenue</b>	<u>9,841</u>	<u>2,058</u>	<u>108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,007</u>	<b>Total revenue</b>
Of which:										Of which:
Net premiums, fee income and other operating revenue	7,376	-	-	-	-	-	-	-	7,376	Net premiums, fee income and other operating revenue
Investment return	2,465	2,058	108	-	-	-	-	-	4,631	Investment return
<b>Total expenses</b>	<u>8,283</u>	<u>-</u>	<u>-</u>	<u>47</u>	<u>(3)</u>	<u>966</u>	<u>254</u>	<u>(5)</u>	<u>9,542</u>	<b>Total expenses</b>
Of which:										Of which:
Net insurance and investment contract benefits	6,483	-	-	-	(38)	966	254	3	7,668	Net insurance and investment contract benefits
Restructuring and other non-operating costs	-	-	-	-	27	-	-	-	27	Restructuring and other non-operating costs
Investment management expenses and finance costs	128	-	-	47	8	-	-	-	183	Investment management expenses and finance costs
Change in third-party interests in consolidated investment funds	-	-	-	-	-	-	-	(8)	(8)	Change in third-party interests in consolidated investment funds
Share of profit from associates	8	-	-	-	-	-	-	-	8	Share of profit from associates
<b>Operating profit before tax</b>	<u>1,566</u>	<u>2,058</u>	<u>108</u>	<u>(47)</u>	<u>3</u>	<u>(966)</u>	<u>(254)</u>	<u>5</u>	<u>2,473</u>	<b>Profit before tax</b>

Other non-operating items in 2013 consist of restructuring and other non-operating costs of US\$27m (see note 8).

## 7. Investment return

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited and restated)
Interest income	2,390	2,241
Dividend income	279	273
Rental income	61	59
<b>Investment income</b>	<b>2,730</b>	<b>2,573</b>
<b>Available for sale</b>		
Net realised (losses)/gains from debt securities	(8)	28
<b>Net (losses)/gains of available for sale financial assets reflected in the consolidated income statement</b>	<b>(8)</b>	<b>28</b>
<b>At fair value through profit or loss</b>		
<b>Net gains/(losses) of financial assets designated at fair value through profit or loss</b>		
Net gains/(losses) of debt securities	254	(95)
Net gains of equity securities	641	2,075
<b>Net losses of financial instruments held for trading</b>		
Net losses of debt investments	(1)	(1)
Net fair value movement on derivatives	(27)	(50)
<b>Net gains in respect of financial instruments at fair value through profit or loss</b>	<b>867</b>	<b>1,929</b>
Net foreign exchange gains	40	104
Other net realised losses	(4)	(3)
<b>Investment experience</b>	<b>895</b>	<b>2,058</b>
<b>Investment return</b>	<b>3,625</b>	<b>4,631</b>

Foreign currency movements resulted in the following gains/(losses) recognised in the consolidated income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited)
Foreign exchange gains/(losses)	34	(2)

## 8. Expenses

US\$m	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited and restated)
Insurance contract benefits	4,601	4,321
Change in insurance contract liabilities	3,371	3,513
Investment contract benefits	147	211
<b>Insurance and investment contract benefits</b>	<b>8,119</b>	<b>8,045</b>
Insurance and investment contract benefits ceded	(487)	(377)
<b>Insurance and investment contract benefits, net of reinsurance ceded</b>	<b>7,632</b>	<b>7,668</b>
Commission and other acquisition expenses incurred	1,706	1,565
Deferral and amortisation of acquisition costs	(713)	(631)
<b>Commission and other acquisition expenses</b>	<b>993</b>	<b>934</b>
Employee benefit expenses	524	500
Depreciation	38	35
Amortisation	14	19
Operating lease rentals	54	53
Other operating expenses	135	131
<b>Operating expenses</b>	<b>765</b>	<b>738</b>
Investment management expenses and others	159	148
Restructuring and other non-operating costs <sup>(1)</sup>	7	27
Change in third-party interests in consolidated investment funds	13	(8)
<b>Other expenses</b>	<b>179</b>	<b>167</b>
Finance costs	40	35
<b>Total</b>	<b>9,609</b>	<b>9,542</b>

Note:

- (1) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of acquisition-related and integration expenses.

## 8. Expenses (continued)

Investment management expenses and others may be analysed as:

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited and restated)
Investment management expenses	148	141
Depreciation on investment property	11	7
<b>Total</b>	<b>159</b>	<b>148</b>

Finance costs may be analysed as:

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited)
Securities lending and repurchase agreements (see note 18 for details)	11	16
Bank and other loans	29	19
<b>Total</b>	<b>40</b>	<b>35</b>

Finance costs include interest expense of US\$16m (six months ended 31 May 2013: US\$15m) on bank loans, overdrafts and other loans wholly repayable within five years and US\$13m (six months ended 31 May 2013: US\$4m) on bank loans, overdrafts and other loans not wholly repayable within five years.

Employee benefit expenses consist of:

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited and restated)
Wages and salaries	420	400
Share-based compensation	44	37
Pension costs – defined contribution plans	29	26
Pension costs – defined benefit plans	7	7
Other employee benefit expenses	24	30
<b>Total</b>	<b>524</b>	<b>500</b>

## 9. Income tax

US\$m	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited and restated)
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### Tax charged in the consolidated income statement

Current income tax – Hong Kong Profits Tax	<b>31</b>	32
Current income tax – overseas	<b>215</b>	95
Deferred income tax on temporary differences	<b>164</b>	402
<b>Total</b>	<b>410</b>	529

Income tax expense is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year.

The tax benefit or expense attributable to Singapore, Brunei, Malaysia, Indonesia, Australia, Sri Lanka and the Philippines life insurance policyholder returns is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax attributable to policyholders' returns included above is US\$71m (six months ended 31 May 2013: US\$48m).

## 10. Earnings per share

### BASIC

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for purposes of computing basic and diluted earnings per share.

	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited and restated)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	<b>1,546</b>	1,935
Weighted average number of ordinary shares in issue (million)	<b>11,964</b>	11,979
<b>Basic earnings per share (US cents per share)</b>	<b>12.92</b>	16.15

## 10. Earnings per share (continued)

### DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 May 2014 and 2013, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under various share-based compensation plans as described in note 22.

	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited and restated)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	<b>1,546</b>	1,935
Weighted average number of ordinary shares in issue (million)	<b>11,964</b>	11,979
Adjustment for restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans	<b>25</b>	17
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>11,989</b>	11,996
<b>Diluted earnings per share (US cents per share)</b>	<b>12.90</b>	16.13

At 31 May 2014, 13,458,447 share options (31 May 2013: 14,012,122) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

### OPERATING PROFIT AFTER TAX PER SHARE

Operating profit after tax (see note 4) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. As of 31 May 2014 and 2013, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under various share-based compensation plans as described in note 22.

	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited and restated)
Basic (US cents per share)	<b>12.18</b>	10.59
Diluted (US cents per share)	<b>12.15</b>	10.58

## 11. Dividends

Dividends payable to shareholders of the Company attributable to the interim period:

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited)
Interim dividend declared after the reporting date of 16.00 Hong Kong cents per share (six months ended 31 May 2013: 13.93 Hong Kong cents per share) <sup>(1)</sup>	<b>247</b>	<b>215</b>

Note:

- (1) Based upon shares outstanding at 31 May 2014 and 2013 that are entitled to a dividend, other than those held by employee share-based trusts.

The above interim dividend was declared after the reporting date and has not been recognised as a liability at the reporting date.

Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the interim period:

US\$m	Six months ended 31 May 2014 (Unaudited)	Six months ended 31 May 2013 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of 28.62 Hong Kong cents per share (six months ended 31 May 2013: 24.67 Hong Kong cents per share)	<b>442</b>	<b>380</b>

## 12. Intangible assets

US\$m	Goodwill	Computer software	Distribution and other rights	Total
<b>Cost</b>				
At 1 December 2013	1,135	289	104	1,528
Additions	–	12	801	813
Foreign exchange movements	–	1	1	2
<b>At 31 May 2014</b>	<b>1,135</b>	<b>302</b>	<b>906</b>	<b>2,343</b>
<b>Accumulated amortisation and impairment</b>				
At 1 December 2013	(6)	(181)	(20)	(207)
Amortisation charge for the period	–	(13)	(6)	(19)
Foreign exchange movements	–	(1)	(1)	(2)
<b>At 31 May 2014</b>	<b>(6)</b>	<b>(195)</b>	<b>(27)</b>	<b>(228)</b>
<b>Net book value</b>				
At 30 November 2013	1,129	108	84	1,321
<b>At 31 May 2014 – Unaudited</b>	<b>1,129</b>	<b>107</b>	<b>879</b>	<b>2,115</b>

Of the above, US\$2,077m (30 November 2013: US\$1,284m) is expected to be recovered more than 12 months after the end of the reporting period.

Goodwill arises primarily in respect of the Group's insurance businesses.

During the six months ended 31 May 2014, the Group entered into an agreement with Citibank to enter into an exclusive, long-term bancassurance partnership for a 15-year period. The agreement provided for a payment of US\$800m to Citibank upon signing, which was capitalised as an intangible asset.



## 13. Financial investments

### DEBT SECURITIES

Debt securities by type comprise the following:

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(4)</sup> FVTPL	Total
	Participating funds	Other policyholder and shareholder					
	FVTPL	FVTPL	AFS				
<b>31 May 2014 – Unaudited</b>							
Government bonds	4,974	197	24,778	29,949	972	–	30,921
Government agency bonds <sup>(1)</sup>	2,786	–	8,953	11,739	275	189	12,203
Corporate bonds	10,997	205	37,234	48,436	1,348	1,443	51,227
Structured securities <sup>(2)</sup>	454	141	751	1,346	5	5	1,356
<b>Total<sup>(3)</sup></b>	<b>19,211</b>	<b>543</b>	<b>71,716</b>	<b>91,470</b>	<b>2,600</b>	<b>1,637</b>	<b>95,707</b>

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(4)</sup> FVTPL	Total
	Participating funds	Other policyholder and shareholder					
	FVTPL	FVTPL	AFS				
<b>30 November 2013 – Restated</b>							
Government bonds	4,577	183	23,423	28,183	721	–	28,904
Government agency bonds <sup>(1)</sup>	2,464	–	8,503	10,967	213	110	11,290
Corporate bonds	10,672	279	32,039	42,990	1,229	1,431	45,650
Structured securities <sup>(2)</sup>	478	167	798	1,443	5	31	1,479
<b>Total<sup>(3)</sup></b>	<b>18,191</b>	<b>629</b>	<b>64,763</b>	<b>83,583</b>	<b>2,168</b>	<b>1,572</b>	<b>87,323</b>

Notes:

- (1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (2) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (3) Debt securities of US\$2,549m (30 November 2013: US\$2,067m) are restricted due to local regulatory requirements.
- (4) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

The Group's debt securities classified at fair value through profit or loss can be analysed as follows:

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013 (Restated)
<b>Debt securities – FVTPL</b>		
Designated at fair value through profit or loss	23,966	22,516
Held for trading	25	44
<b>Total</b>	<b>23,991</b>	<b>22,560</b>

### 13. Financial investments (continued)

#### EQUITY SECURITIES

Equity securities by type comprise the following:

US\$m	Policyholder and shareholder		Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL				
<b>31 May 2014 – Unaudited</b>						
Equity shares	3,209	5,326	8,535	4,092	–	12,627
Interests in investment funds	1,563	1,561	3,124	11,479	4	14,607
<b>Total</b>	<b>4,772</b>	<b>6,887</b>	<b>11,659</b>	<b>15,571</b>	<b>4</b>	<b>27,234</b>

US\$m	Policyholder and shareholder		Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL				
<b>30 November 2013 – Restated</b>						
Equity shares	3,032	5,026	8,058	3,325	1	11,384
Interests in investment funds	1,537	1,289	2,826	11,890	2	14,718
<b>Total</b>	<b>4,569</b>	<b>6,315</b>	<b>10,884</b>	<b>15,215</b>	<b>3</b>	<b>26,102</b>

Note:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

#### DEBT AND EQUITY SECURITIES

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013 (Restated)
<b>Debt securities</b>		
Listed		
Hong Kong	6,650	5,222
Overseas	60,135	55,447
	<b>66,785</b>	60,669
Unlisted	28,922	26,654
<b>Total</b>	<b>95,707</b>	<b>87,323</b>
<b>Equity securities</b>		
Listed		
Hong Kong	1,366	1,225
Overseas	13,101	11,992
	<b>14,467</b>	13,217
Unlisted	12,767	12,885
<b>Total</b>	<b>27,234</b>	<b>26,102</b>

### 13. Financial investments (continued)

#### LOANS AND DEPOSITS

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013
Policy loans	2,439	2,384
Mortgage loans on residential real estate	661	650
Mortgage loans on commercial real estate	15	15
Other loans	749	718
Allowance for loan losses	(15)	(14)
<b>Loans</b>	<b>3,849</b>	<b>3,753</b>
Term deposits	1,958	2,127
Promissory notes <sup>(1)</sup>	1,569	1,604
<b>Total</b>	<b>7,376</b>	<b>7,484</b>

Note:

(1) The promissory notes are issued by a government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US\$1,747m (30 November 2013: US\$1,772m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 31 May 2014, the carrying value of such receivables is US\$79m (30 November 2013: US\$81m).

## 14. Derivative financial instruments

The Group's non-hedge derivative exposure was as follows:

US\$m	Notional amount	Fair value	
		Assets	Liabilities
<b>31 May 2014 – Unaudited</b>			
<b>Foreign exchange contracts</b>			
Forwards	523	2	(2)
Cross-currency swaps	6,002	370	(111)
Foreign exchange futures	177	–	–
Currency options	16	–	–
<b>Total foreign exchange contracts</b>	<b>6,718</b>	<b>372</b>	<b>(113)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	239	7	–
<b>Other</b>			
Warrants and options	145	10	–
Equity index futures	89	–	–
<b>Netting</b>	<b>(266)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>6,925</b>	<b>389</b>	<b>(113)</b>
<b>30 November 2013</b>			
<b>Foreign exchange contracts</b>			
Forwards	665	4	(3)
Cross-currency swaps	5,278	428	(86)
Foreign exchange futures	182	–	–
Currency options	19	1	–
<b>Total foreign exchange contracts</b>	<b>6,144</b>	<b>433</b>	<b>(89)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	320	5	–
<b>Other</b>			
Warrants and options	140	7	–
Equity index futures	5	–	–
<b>Netting</b>	<b>(187)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>6,422</b>	<b>445</b>	<b>(89)</b>

The column “notional amount” in the above table represents the pay leg of derivative transactions.

Of the total derivatives, US\$8m (30 November 2013: US\$3m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps, and options. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to economic hedge financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

## **14. Derivative financial instruments (continued)**

### **FOREIGN EXCHANGE CONTRACTS**

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain and loss on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices, and the timing of payments.

### **INTEREST RATE SWAPS**

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

### **OTHER DERIVATIVES**

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Equity index futures contracts are exchange-traded cash-settled contracts on the value of particular stock market index. The Group entered into equity index futures contracts to manage its equity market exposure.

### **NETTING ADJUSTMENT**

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

### **COLLATERAL UNDER DERIVATIVE TRANSACTIONS**

At 31 May 2014, the Group had posted cash collateral of US\$35m (30 November 2013: US\$21m) and pledged debt securities with carrying value of US\$30m (30 November 2013: US\$31m) for liabilities and held cash collateral of US\$221m (30 November 2013: US\$230m), deposit collateral of US\$17m (30 November 2013: US\$6m) and debt securities collateral with carrying value of US\$25m (30 November 2013: US\$24m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.





## 15. Fair value measurement (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT ON RECURRING BASIS

A summary of financial assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
<b>31 May 2014 – Unaudited</b>				
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Available for sale				
Debt securities	–	71,021	695	71,716
At fair value through profit or loss				
Debt securities				
Participating funds	–	18,949	262	19,211
Unit-linked and consolidated investment funds	–	3,840	397	4,237
Other policyholder and shareholder	–	341	202	543
Equity securities				
Participating funds	4,455	106	211	4,772
Unit-linked and consolidated investment funds	14,255	1,320	–	15,575
Other policyholder and shareholder	6,433	160	294	6,887
Derivative financial instruments				
Foreign exchange contracts	–	372	–	372
Interest rate contracts	–	7	–	7
Other contracts	8	2	–	10
<b>Total assets on a recurring fair value measurement basis</b>	<b>25,151</b>	<b>96,118</b>	<b>2,061</b>	<b>123,330</b>
<i>Total %</i>	<i>20.4</i>	<i>77.9</i>	<i>1.7</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	7,377	7,377
Derivative financial liabilities				
Foreign exchange contracts	–	113	–	113
Other liabilities	–	1,204	–	1,204
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>–</b>	<b>1,317</b>	<b>7,377</b>	<b>8,694</b>
<i>Total %</i>	<i>–</i>	<i>15.1</i>	<i>84.9</i>	<i>100.0</i>



## 15. Fair value measurement (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT ON RECURRING BASIS (continued)

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
<b>30 November 2013 – Restated</b>				
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Available for sale				
Debt securities	–	63,983	780	64,763
At fair value through profit or loss				
Debt securities				
Participating funds	–	17,826	365	18,191
Unit-linked and consolidated investment funds	–	3,344	396	3,740
Other policyholder and shareholder	–	399	230	629
Equity securities				
Participating funds	4,359	11	199	4,569
Unit-linked and consolidated investment funds	13,943	1,275	–	15,218
Other policyholder and shareholder	5,965	86	264	6,315
Derivative financial instruments				
Foreign exchange contracts	–	432	1	433
Interest rate contracts	–	5	–	5
Other contracts	1	5	1	7
<b>Total assets on a recurring fair value measurement basis</b>	<b>24,268</b>	<b>87,366</b>	<b>2,236</b>	<b>113,870</b>
<i>Total %</i>	<i>21.3</i>	<i>76.7</i>	<i>2.0</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	7,429	7,429
Derivative financial liabilities				
Foreign exchange contracts	–	89	–	89
Other liabilities	–	1,197	–	1,197
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>–</b>	<b>1,286</b>	<b>7,429</b>	<b>8,715</b>
<i>Total %</i>	<i>–</i>	<i>14.8</i>	<i>85.2</i>	<i>100.0</i>

The Group applies the policy to recognise the transfer into and transfer out of the levels of fair value hierarchy as of the end of the quarter during which the event or change in circumstances has caused the transfer. During the six months ended 31 May 2014, US\$30m of equity securities were transferred out of Level 1 and transferred into Level 2 as a result of the decreased trade frequency or trade volume of the market where those securities were traded.

The Group's Level 2 financial instruments include debt securities, equity securities and derivative instruments. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from third-party pricing services and brokers are not available, internal valuation techniques and inputs will be used to derive the fair value for the financial instruments.

## 15. Fair value measurement (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT ON RECURRING BASIS (continued)

The table below sets out a summary of changes in the Group's Level 3 financial assets and liabilities measured at fair value on a recurring basis for the six months ended 31 May 2014. The table reflects gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 31 May 2014.

#### Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
<b>At 1 December 2013 – Restated</b>	<b>1,771</b>	<b>463</b>	<b>2</b>	<b>(7,429)</b>
Net movement on investment contract liabilities	-	-	-	52
Total gains/(losses)				
Reported under investment return in the interim consolidated income statement	39	28	(1)	-
Reported under fair value reserve in the interim consolidated statement of comprehensive income	5	(1)	-	-
Purchases	267	27	-	-
Sales	(38)	(13)	-	-
Settlements	(67)	-	(1)	-
Transfer into Level 3	-	1	-	-
Transfer out of Level 3	(421)	-	-	-
<b>At 31 May 2014 – Unaudited</b>	<b>1,556</b>	<b>505</b>	<b>-</b>	<b>(7,377)</b>
Change in unrealised gains or losses included in the interim consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return	36	27	-	-

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets.

Assets transferred out of Level 3 mainly relates to corporate debt instruments of which market-observable inputs became available during the period and were used in determining the fair value.

There are no differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

## 15. Fair value measurement (continued)

### SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 FAIR VALUE MEASUREMENTS

As at 31 May 2014, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 31 May 2014 (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	420	Discounted cash flows	Discount rate for liquidity	6.04% – 12.31%

### VALUATION PROCESSES

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses third-party pricing providers and, only in rare cases when no third-party prices exist, will use prices derived from internal models. Chief Investment Officers of each business units are required to review the reasonableness of the prices used and report price exceptions, if any. Group Derivatives & Analytics team analyses reported price exceptions and reviews price challenge responses from third party pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Pricing Committee (GPC) which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the fixed income securities and investment contracts. The unobservable inputs to determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

## 16. Cash and cash equivalents

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013 (Restated)
Cash	1,118	1,248
Cash equivalents	921	1,068
<b>Total<sup>(1)</sup></b>	<b>2,039</b>	<b>2,316</b>

Note:

(1) Of cash and cash equivalents, US\$453m (30 November 2013: US\$428m) are held to back unit-linked contracts and US\$50m (30 November 2013: US\$88m) are held by consolidated investment funds.

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments with maturities at acquisition of three months or less and money market funds. Accordingly, all such amounts are expected to be realised within 12 months after the end of the reporting period.

## 17. Borrowings

US\$m	<b>As at 31 May 2014 (Unaudited)</b>	As at 30 November 2013 (Restated)
Bank loans and bank credit facilities	<b>807</b>	809
Medium term notes	<b>2,125</b>	1,141
<b>Total</b>	<b><u>2,932</u></b>	<b><u>1,950</u></b>

Properties with a book value of US\$878m at 31 May 2014 (30 November 2013: US\$882m) and a fair value of US\$2,021m at 31 May 2014 (30 November 2013: US\$2,020m) and cash and cash equivalents and term deposits with a book value of US\$22m (30 November 2013: US\$19m) are pledged as security with respect to amounts disclosed as bank loans and bank credit facilities above. Interest on loans reflects market rates of interest. Interest expense on borrowings is shown in note 8.

On 30 November 2012, the Group obtained a 12-month bank loan facility of HK\$2,507m (approximately US\$323m). The loan bore interest based upon HIBOR. Subsequently on 9 July 2013, the Group entered into a 3-year multicurrency bank facility in an aggregate amount equal to US\$323m with floating rate interest for refinancing the existing loan.

On 13 March 2013, the Group issued a 5-year and a 10-year fixed rate medium term notes at nominal amount of US\$500m each; these notes bear annual interest of 1.750 per cent and 3.125 per cent respectively. On 4 November 2013, the Group issued a 3-year floating rate medium term note at nominal amount of HK\$1,160m (approximately US\$150m); the note bears interest based upon HIBOR. On 11 March 2014, the Group issued a 5-year and a 30-year fixed rate medium term notes at nominal amount of US\$500m each; these notes bear annual interest of 2.250 per cent and 4.875 per cent respectively. The four US dollar medium term notes at nominal amount of US\$500m each are listed on The Stock Exchange of Hong Kong Limited. The net proceeds from these notes are used for general corporate purposes.

On 8 October 2013, the Group entered into a committed multicurrency revolving credit facility in an aggregate amount equal to US\$300m. The revolving credit facility bears floating rate interest. There is no outstanding as at 31 May 2014.

## 18. Obligations under securities lending and repurchase agreements

The Group has entered into securities lending agreement whereby securities are loaned to a national monetary authority. In addition, the Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not derecognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the securities lending and repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to securities lending or repurchase agreements which do not qualify for derecognition at each period end:

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013
Debt securities – AFS		
Repurchase agreements	2,533	1,552
Debt securities – FVTPL		
Securities lending	317	312
Repurchase agreements	452	332
<b>Total</b>	<b>3,302</b>	<b>2,196</b>

### COLLATERAL

At 31 May 2014, the Group held cash collateral of US\$4m (30 November 2013: US\$nil) and debt securities collateral of US\$18m (30 November 2013: US\$2m) based on the initial market value of the securities transferred. In the absence of default, the Group cannot sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

The securities lending transactions outstanding as at 31 May 2014 are conducted with a national monetary authority on securities denominated in local currency issued by the same authority.

The following table shows the obligations under repurchase agreements at each period end:

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013
Repurchase agreements	2,908	1,889

## 19. Share capital and reserves

### SHARE CAPITAL

	Million shares (Unaudited)	As at 31 May 2014 US\$m (Unaudited)	Million shares	As at 30 November 2013 US\$m
<b>At beginning of the financial period</b>	<b>12,044</b>	<b>12,044</b>	12,044	12,044
Transfers from share premium on 3 March 2014	–	1,914	–	–
Shares issued under share option scheme	1	3	–	–
<b>At end of the financial period</b>	<b>12,045</b>	<b>13,961</b>	12,044	12,044
<b>Share premium</b>		–		1,914

There were 754,859 shares issued under share option schemes during the six months ended 31 May 2014 (30 November 2013: nil).

Except for 18,941,147 shares (30 November 2013: 21,274,914 shares) of the Company purchased by the employee share-based trusts, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 May 2014. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled. As at 31 May 2014, 75,044,077 shares (30 November 2013: 74,598,995 shares) of the Company were held by the employee share-based trusts.

During the six months ended 31 May 2014, 18,378,549 vested shares were transferred to eligible employees, directors and officers of the Group under share-based compensation plans.

The transfer of share premium to share capital resulted from the abolition of nominal value of shares under the New Companies Ordinance which is effective from 3 March 2014.

### RESERVES

#### Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

#### Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

#### Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation schemes. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

#### Other reserves

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

## 20. Group capital structure

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulator at the AIA Company Limited (AIA Co.) and AIA International Limited (AIA International) levels is the Hong Kong Office of the Commissioner of Insurance (HKOCI), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance (HKICO). The HKICO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The HKOCI requires AIA Co. and AIA International to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the HKICO is 100 per cent of the required minimum solvency margin. The excess of assets over liabilities to be maintained by AIA Co. and AIA International required by the HKOCI is not less than 150 per cent of the required minimum solvency margin.

The capital positions of the Group's two principal operating companies as of 31 May 2014 and 30 November 2013 are as follows:

US\$m	31 May 2014 (Unaudited)			30 November 2013		
	Total available capital	Required capital	Solvency ratio	Total available capital	Required capital	Solvency ratio
AIA Co.	6,452	1,439	448%	6,057	1,399	433%
AIA International	5,406	1,566	345%	4,752	1,422	334%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKICO and "required capital" as the minimum required margin of solvency calculated in accordance with the HKICO. The solvency ratio is the ratio of total available capital to required capital.

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKOCI of their solvency margin position based on their annual audited accounts, and the Group's other operating units perform similar annual filings with their respective local regulators.

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends or other distributions and payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted from Thailand without the consent of the Office of the Insurance Commission in Thailand. The payment of dividends, distributions and other payments to shareholders is subject to the oversight of the HKOCI.

## 21. Risk Management

The major risks of the Group typically include, but are not limited to, credit risk, foreign exchange rate risk, equity market risk, interest rate risk and liquidity risk.

### CREDIT RISK

Credit risk occurs wherever we are relying on a third party to satisfy their financial obligations to us. Although the primary source of credit risk is the Group's investment portfolio, credit risk also arises in our reinsurance, settlement and treasury activities.

The maximum exposure to credit risk for loans and receivables, debt securities, derivative assets and cash and cash equivalents is the carrying value (net of allowances) in the consolidated statement of financial position.

## 21. Risk management (continued)

### FOREIGN EXCHANGE RATE RISK

At the Group level, foreign exchange rate risk arises mainly from our operations in multiple geographical markets in the Asia-Pacific region and the translation of multiple currencies to US dollars for financial reporting purposes. Foreign exchange rate risk associated with assets and liabilities denominated in non-functional currencies results in gains and losses being recognised in the consolidated income statement. Foreign exchange rate risk associated with the translation of the net assets of operations with non-US dollar functional currencies results in gains or losses being recorded directly in other comprehensive income.

On a local operating unit level, we invest in assets denominated in currencies that match the related liabilities to the extent possible and appropriate in order to avoid currency mismatches.

The Group's net foreign currency exposures and the estimated impact of changes in foreign exchange rates are set out in the tables below after taking into account derivative contracts entered into to hedge foreign exchange rate risk. Currencies for which net exposure is not significant are excluded from the analysis below. In compiling the table below the impact of a 5 per cent strengthening of original currency is stated relative to the functional currency of the relevant operation of the Group. The impact of a 5 per cent strengthening of the US dollar is also stated relative to functional currency. Currency exposure reflects the net notional amount of currency derivative positions as well as net equity by currency.

#### Net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
<b>31 May 2014 – Unaudited</b>							
Equity analysed by original currency	17,309	487	2,925	(2,538)	1,451	1,817	2,351
Net notional amounts of currency derivative positions	(6,134)	601	1,826	3,529	-	15	412
<b>Currency exposure</b>	<b>11,175</b>	<b>1,088</b>	<b>4,751</b>	<b>991</b>	<b>1,451</b>	<b>1,832</b>	<b>2,763</b>
<b>5% strengthening of original currency</b>							
Impact on profit before tax	112	12	5	27	2	22	30
Impact on other comprehensive income	(112)	7	233	22	71	69	108
<b>Impact on total equity</b>	<b>-</b>	<b>19</b>	<b>238</b>	<b>49</b>	<b>73</b>	<b>91</b>	<b>138</b>
<b>5% strengthening of the US dollar</b>							
Impact on profit before tax	112	4	(3)	(9)	(1)	(17)	(24)
Impact on other comprehensive income	(112)	(23)	(235)	(40)	(72)	(74)	(114)
<b>Impact on total equity</b>	<b>-</b>	<b>(19)</b>	<b>(238)</b>	<b>(49)</b>	<b>(73)</b>	<b>(91)</b>	<b>(138)</b>



## 21. Risk management (continued)

### FOREIGN EXCHANGE RATE RISK (CONTINUED)

#### Net exposure (continued)

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
<b>30 November 2013 – Restated</b>							
Equity analysed by original currency	14,867	200	2,894	(2,380)	1,495	1,533	2,327
Net notional amounts of currency derivative positions	(5,683)	401	1,830	3,566	–	19	162
<b>Currency exposure</b>	<b>9,184</b>	<b>601</b>	<b>4,724</b>	<b>1,186</b>	<b>1,495</b>	<b>1,552</b>	<b>2,489</b>
<b>5% strengthening of original currency</b>							
Impact on profit before tax	78	(13)	5	28	4	24	30
Impact on other comprehensive income	(78)	7	231	32	71	54	95
<b>Impact on total equity</b>	<b>–</b>	<b>(6)</b>	<b>236</b>	<b>60</b>	<b>75</b>	<b>78</b>	<b>125</b>
<b>5% strengthening of the US dollar</b>							
Impact on profit before tax	78	28	(4)	(11)	(3)	(17)	(24)
Impact on other comprehensive income	(78)	(22)	(232)	(49)	(72)	(61)	(101)
<b>Impact on total equity</b>	<b>–</b>	<b>6</b>	<b>(236)</b>	<b>(60)</b>	<b>(75)</b>	<b>(78)</b>	<b>(125)</b>

## 21. Risk management (continued)

### EQUITY MARKET AND INTEREST RATE RISK

Equity market risk arises from changes in the market value of equity securities and equity funds. Investment in equity assets on a long-term basis is expected to provide diversification benefits and return enhancements which can improve the risk-adjusted return of the portfolios.

#### Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios. Information is presented to illustrate the estimated impact on profits and net assets arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and net assets before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. Because the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

US\$m	31 May 2014 (Unaudited)		30 November 2013	
	Impact on profit before tax	Impact on net assets (before the effects of taxation)	Impact on profit before tax	Impact on net assets (before the effects of taxation)
<b>Equity market risk</b>				
10 per cent increase in equity prices	747	747	691	691
10 per cent decrease in equity prices	(747)	(747)	(691)	(691)
<b>Interest rate risk</b>				
+ 50 basis points shift in yield curves	(106)	(3,341)	(98)	(2,827)
- 50 basis points shift in yield curves	106	3,341	98	2,827

### LIQUIDITY RISK

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations to counterparties when they become due. The Group is exposed to liquidity risk in respect of insurance and investment policies that permit surrender, withdrawal or other forms of early termination for a cash surrender value specified in the contractual terms and conditions.

To manage liquidity risk the Group has implemented a variety of measures, including emphasising flexible insurance product design, so that it can retain the greatest flexibility to adjust contract pricing or crediting rates. The Group also seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of insurance policies issued.

## 21. Risk management (continued)

### LIQUIDITY RISK (continued)

The maturity analysis presented in the tables below presents the estimated maturity of carrying amounts in the consolidated statement of financial position. The estimated maturity for insurance and investment contracts is proportionate to their carrying values based on projections of estimated undiscounted cash flows arising from insurance and investment contracts in force at that date. The Group has made significant assumptions to determine the estimated undiscounted cash flows of insurance benefits and claims and investment contract benefits, which include assumptions in respect of mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. The maturity profile of the Group's borrowings is presented on the assumption that the Group will continue to satisfy loan covenants which, if breached, would cause the borrowings to be repayable on demand. The Group regularly monitors its compliance with these covenants and was in compliance with them at the date of the consolidated statement of financial position and throughout each of the periods presented. Due to the significance of the assumptions used, the maturity profiles presented below could be materially different from actual payments.

A maturity analysis based on the earliest contractual repayment date would present the insurance and investment contract liabilities as falling due in the earliest period in the table because of the ability of policyholders to exercise surrender options. Financial assets and liabilities other than investment contract liabilities are presented based on their respective contractual maturities.

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
<b>31 May 2014 – Unaudited</b>						
Financial assets						
Loans and deposits	7,376	2,443	800	1,132	834	2,167
Other receivables	1,443	89	1,278	68	1	7
Debt securities	95,707	-	3,063	18,036	26,246	48,362
Equity securities	27,234	27,234	-	-	-	-
Reinsurance receivables	185	-	185	-	-	-
Accrued investment income	1,493	-	1,385	36	72	-
Cash and cash equivalents	2,039	-	2,039	-	-	-
Derivative financial instruments	389	-	121	259	11	(2)
<b>Total</b>	<b>135,866</b>	<b>29,766</b>	<b>8,871</b>	<b>19,531</b>	<b>27,164</b>	<b>50,534</b>
Financial and insurance contract liabilities						
Insurance and investment contract liabilities (net of reinsurance)						
	115,824	-	(795)	888	9,271	106,460
Borrowings	2,932	-	(3)	1,947 <sup>(1)</sup>	496	492
Obligations under securities lending and repurchase agreements	2,908	-	2,908	-	-	-
Other liabilities	4,121	1,204	2,917	-	-	-
Derivative financial instruments	113	-	6	63	43	1
<b>Total</b>	<b>125,898</b>	<b>1,204</b>	<b>5,033</b>	<b>2,898</b>	<b>9,810</b>	<b>106,953</b>

Note:

(1) Includes amounts of US\$1,535m falling due after 2 years through 5 years.

## 21. Risk management (continued)

### LIQUIDITY RISK (continued)

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
<b>30 November 2013 – Restated</b>						
Financial assets						
Loans and deposits	7,484	2,387	952	1,139	818	2,188
Other receivables	1,473	70	1,297	97	2	7
Debt securities	87,323	–	3,686	17,461	24,520	41,656
Equity securities	26,102	26,102	–	–	–	–
Reinsurance receivables	141	–	141	–	–	–
Accrued investment income	1,368	–	1,258	43	67	–
Cash and cash equivalents	2,316	–	2,316	–	–	–
Derivative financial instruments	445	–	124	311	10	–
<b>Total</b>	<b>126,652</b>	<b>28,559</b>	<b>9,774</b>	<b>19,051</b>	<b>25,417</b>	<b>43,851</b>
Financial and insurance contract liabilities						
Insurance and investment contract liabilities (net of reinsurance)	110,896	–	(699)	694	9,077	101,824
Borrowings	1,950	–	322	1,130 <sup>(1)</sup>	498	–
Obligations under securities lending and repurchase agreements	1,889	–	1,889	–	–	–
Other liabilities	4,054	1,197	2,857	–	–	–
Derivative financial instruments	89	–	–	29	54	6
<b>Total</b>	<b>118,878</b>	<b>1,197</b>	<b>4,369</b>	<b>1,853</b>	<b>9,629</b>	<b>101,830</b>

Note:

(1) Includes amounts of US\$719m falling due after 2 years through 5 years.

## 22. Share-based compensation

### SHARE-BASED COMPENSATION PLANS

During the six months ended 31 May 2014, the Group made further grants of share options, restricted share units (RSUs) and restricted stock purchase units to certain employees, directors and officers of the Group under the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP). As well, the Group made further grants of restricted stock subscription units to eligible agents under the Agency Share Purchase Plan (ASPP).

### VALUATION METHODOLOGY

The Group utilises a binomial lattice model to calculate the fair value of the share option grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, ESPP and ASPP awards, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange and takes into consideration the historical volatility of peer companies (the constituent companies in Dow Jones Insurance Titans 30 Index) in view of the short trading history of the Company's shares on the measurement date. The expected life of the share options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. No allowance for forfeiture prior to vesting is included in the valuation of the awards.

The fair value calculated for share options is inherently subjective due to the assumptions made and the limitations of the model utilised.

	Share option grants	
	Six months ended 31 May 2014 (Unaudited)	Year ended 30 November 2013
<b>Assumptions</b>		
Risk-free interest rate	2.14% – 2.22%	1.26%
Volatility	25%	30%
Dividend yield	1.2%	1.1%
Exercise price (HK\$)	37.56 – 39.45	34.35
Share option life (in years)	10	10
Expected life (in years)	7.54	7.41
Weighted average fair value per option/unit at measurement date (HK\$)	10.40 – 10.97	10.54

The measurement dates for share option grants made in June 2011, March 2012, March 2013, March 2014 and April 2014 were determined to be 15 June 2011, 15 March 2012, 11 March 2013, 5 March 2014 and 14 April 2014 respectively, in accordance with IFRS 2.

The weighted average share price for share option valuation for grants made during the six months ended 31 May 2014 are HK\$37.40 and HK\$39.45 (30 November 2013: HK\$34.35). The total fair value of share options granted during the six months ended 31 May 2014 is US\$9m (six months ended 31 May 2013: US\$10m).

### RECOGNISED COMPENSATION COST

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the six months ended 31 May 2014 is US\$46m (six months ended 31 May 2013: US\$38m).

## 23. Key management personnel remuneration

Key management personnel have been identified as the members of the Group's Executive Committee.

US\$	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited)
<b>Key management compensation and other expenses</b>		
Salaries and other short-term employee benefits	7,603,897	9,052,964
Post-employment benefits – defined contribution	202,418	204,233
Post-employment benefits – medical & life	–	7,090
Other long-term benefits	–	90,456
Share-based payment	12,404,103	9,066,607 <sup>(1)</sup>
<b>Total</b>	<b>20,210,418</b>	<b>18,421,350</b>

Note:

(1) The comparative information has been restated to conform to current period presentation.

The emoluments of the Key Management Personnel are within the following bands:

US\$	<b>Six months ended 31 May 2014 (Unaudited)</b>	Six months ended 31 May 2013 (Unaudited)
0 to 500,000	1	–
500,001 to 1,000,000	2	2
1,000,001 to 1,500,000	3	3
1,500,001 to 2,000,000	1	1
2,000,001 to 2,500,000	1	2
2,500,001 to 3,000,000	1	1
6,000,001 to 6,500,000	–	1
6,500,001 to 7,000,000	1	–

## 24. Commitments and contingencies

### COMMITMENTS UNDER OPERATING LEASES

Total future aggregate minimum lease payments under non-cancellable operating leases are as follows:

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013
<b>Properties and others expiring</b>		
Not later than one year	84	86
Later than one and not later than five years	131	125
Later than five years	60	31
<b>Total</b>	<b>275</b>	<b>242</b>

The Group is the lessee in respect of a number of properties and items of office equipment held under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased at the end of the lease term to reflect market rates. None of the leases include contingent rentals.

### INVESTMENT AND CAPITAL COMMITMENTS

US\$m	As at 31 May 2014 (Unaudited)	As at 30 November 2013
Not later than one year	723	693
Later than one and not later than five years	28	14
Later than five years	2	1
<b>Total</b>	<b>753</b>	<b>708</b>

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

## **24. Commitments and contingencies (continued)**

### **CONTINGENCIES**

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies and claims. The Group believes that these matters are adequately provided for in these financial statements.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. Due to a change in law, further cessions under this contract ended in July 2008. This reinsurance was fully retroceded to a subsidiary of AIG and this retrocession was terminated in February 2012 on a run-off basis. The Group is exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its outstanding obligations which is mitigated by a trust agreement put in place after the aforesaid termination. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$1,071m at 31 May 2014 (30 November 2013: US\$1,248m). The liabilities and related reinsurance assets, which totalled US\$7m (30 November 2013: US\$6m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

## **25. Changes in group composition**

### **ACQUISITION**

In March 2014, the Group acquired a further 10 per cent of the equity interest in AIA PUBLIC Takaful Bhd.

## **26. Events after the reporting period**

On 25 July 2014, the Board of Directors declared an interim dividend of 16.00 Hong Kong cents per share (six months ended 31 May 2013: 13.93 Hong Kong cents per share).



## 27. Effect of adoption of new and revised accounting standards

The new and revised accounting standards adopted by the Group in 2014 are explained in note 2(a). The tables below show the quantitative effect of the adoption of these new and revised standards on the Group consolidated financial statements.

### (a) CONSOLIDATED INCOME STATEMENT

US\$m	Six months ended 31 May 2013 (As previously reported)	Reclassifications	Retrospective adjustments for		Six months ended 31 May 2013 (Unaudited and restated)
			IFRS 10	IAS 19	
<b>Revenue</b>					
<i>Turnover</i>					
Premiums and fee income	7,764	-	-	-	7,764
Premiums ceded to reinsurers	(461)	-	-	-	(461)
Net premiums and fee income	7,303	-	-	-	7,303
Investment return	4,650	-	(19)	-	4,631
Other operating revenue	73	-	-	-	73
<b>Total revenue</b>	<b>12,026</b>	<b>-</b>	<b>(19)</b>	<b>-</b>	<b>12,007</b>
<b>Expenses</b>					
Insurance and investment contract benefits	8,042	-	3	-	8,045
Insurance and investment contract benefits ceded	(377)	-	-	-	(377)
<b>Net insurance and investment contract benefits</b>	<b>7,665</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>7,668</b>
Commission and other acquisition expenses	934	-	-	-	934
Operating expenses	758	(18)	-	(2)	738
Finance costs	35	-	-	-	35
Other expenses	171	18	(22)	-	167
<b>Total expenses</b>	<b>9,563</b>	<b>-</b>	<b>(19)</b>	<b>(2)</b>	<b>9,542</b>
<b>Profit before share of profit from associates and joint venture</b>	<b>2,463</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>2,465</b>
Share of profit from associates and joint venture	8	-	-	-	8
<b>Profit before tax</b>	<b>2,471</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>2,473</b>
Income tax expense attributable to policyholders' returns	(48)	-	-	-	(48)
<b>Profit before tax attributable to shareholders' profits</b>	<b>2,423</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>2,425</b>
Tax expense	(528)	-	-	(1)	(529)
Tax attributable to policyholders' returns	48	-	-	-	48
Tax expense attributable to shareholders' profits	(480)	-	-	(1)	(481)
<b>Net profit</b>	<b>1,943</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1,944</b>
<i>Net profit attributable to:</i>					
<b>Shareholders of AIA Group Limited</b>	<b>1,934</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1,935</b>
Non-controlling interests	9	-	-	-	9

## 27. Effect of adoption of new and revised accounting standards (continued)

### (b) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	As at 1 December 2012 (As previously reported)	Reclassifications	Retrospective adjustments for		As at 1 December 2012 (Restated)
			IFRS 10	IAS 19	
<b>Assets</b>					
Intangible assets	272	-	-	-	272
Investments in associates and joint venture	91	-	-	-	91
Property, plant and equipment	412	-	-	-	412
Investment property	1,035	-	-	-	1,035
Reinsurance assets	1,153	-	-	-	1,153
Deferred acquisition and origination costs	14,161	-	-	-	14,161
<b>Financial investments:</b>					
Loans and deposits Available for sale	6,425	-	-	-	6,425
Debt securities	62,268	-	-	-	62,268
At fair value through profit or loss					
Debt securities	18,594	-	1,543	-	20,137
Equity securities	23,656	-	(555)	-	23,101
Derivative financial instruments	638	-	-	-	638
	111,581	-	988	-	112,569
Deferred tax assets	5	-	-	-	5
Current tax recoverable	46	-	-	-	46
Other assets	2,735	-	15	2	2,752
Cash and cash equivalents	2,948	-	34	-	2,982
<b>Total assets</b>	<b>134,439</b>	<b>-</b>	<b>1,037</b>	<b>2</b>	<b>135,478</b>
<b>Liabilities</b>					
Insurance contract liabilities	90,574	-	39	-	90,613
Investment contract liabilities	8,865	-	-	-	8,865
Borrowings	766	(273)	-	-	493
Obligations under securities lending and repurchase agreements	1,792	-	-	-	1,792
Derivative financial instruments	41	-	-	-	41
Provisions	204	-	-	47	251
Deferred tax liabilities	2,229	-	-	(10)	2,219
Current tax liabilities	328	-	-	-	328
Other liabilities	2,812	273	998	-	4,083
<b>Total liabilities</b>	<b>107,611</b>	<b>-</b>	<b>1,037</b>	<b>37</b>	<b>108,685</b>
<b>Equity</b>					
Share capital	12,044	-	-	-	12,044
Share premium	1,914	-	-	-	1,914
Employee share-based trusts	(188)	-	-	-	(188)
Other reserves	(12,060)	-	-	-	(12,060)
Retained earnings	17,843	-	-	(2)	17,841
Fair value reserve	5,979	-	-	-	5,979
Foreign currency translation reserve	1,165	-	-	-	1,165
Others	-	-	-	(33)	(33)
Amounts reflected in other comprehensive income	7,144	-	-	(33)	7,111
<b>Total equity attributable to:</b>					
<b>Shareholders of AIA</b>					
<b>Group Limited</b>	<b>26,697</b>	<b>-</b>	<b>-</b>	<b>(35)</b>	<b>26,662</b>
Non-controlling interests	131	-	-	-	131
<b>Total equity</b>	<b>26,828</b>	<b>-</b>	<b>-</b>	<b>(35)</b>	<b>26,793</b>
<b>Total liabilities and equity</b>	<b>134,439</b>	<b>-</b>	<b>1,037</b>	<b>2</b>	<b>135,478</b>

## 27. Effect of adoption of new and revised accounting standards (continued)

### (b) CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	As at 30 November 2013 (As previously reported)	Reclassifications	Retrospective adjustments for		As at 30 November 2013 (Restated)
			IFRS 10	IAS 19	
<b>Assets</b>					
Intangible assets	1,321	-	-	-	1,321
Investments in associates and joint venture	93	-	-	-	93
Property, plant and equipment	480	-	-	-	480
Investment property	1,128	-	-	-	1,128
Reinsurance assets	1,379	-	-	-	1,379
Deferred acquisition and origination costs	15,738	-	-	-	15,738
<b>Financial investments:</b>					
Loans and deposits	7,484	-	-	-	7,484
Available for sale					
Debt securities	64,763	-	-	-	64,763
At fair value through profit or loss					
Debt securities	20,988	-	1,572	-	22,560
Equity securities	26,968	-	(866)	-	26,102
Derivative financial instruments	445	-	-	-	445
	120,648	-	706	-	121,354
Deferred tax assets	6	-	-	-	6
Current tax recoverable	44	-	-	-	44
Other assets	3,520	-	15	8	3,543
Cash and cash equivalents	2,228	-	88	-	2,316
<b>Total assets</b>	<b>146,585</b>	<b>-</b>	<b>809</b>	<b>8</b>	<b>147,402</b>
<b>Liabilities</b>					
Insurance contract liabilities	103,401	-	35	-	103,436
Investment contract liabilities	8,698	-	-	-	8,698
Borrowings	2,126	(176)	-	-	1,950
Obligations under securities lending and repurchase agreements	1,889	-	-	-	1,889
Derivative financial instruments	89	-	-	-	89
Provisions	169	-	-	18	187
Deferred tax liabilities	2,036	-	-	(6)	2,030
Current tax liabilities	242	-	-	-	242
Other liabilities	3,104	176	774	-	4,054
<b>Total liabilities</b>	<b>121,754</b>	<b>-</b>	<b>809</b>	<b>12</b>	<b>122,575</b>
<b>Equity</b>					
Share capital	12,044	-	-	-	12,044
Share premium	1,914	-	-	-	1,914
Employee share-based trusts	(274)	-	-	-	(274)
Other reserves	(11,995)	-	-	-	(11,995)
Retained earnings	20,070	-	-	-	20,070
Fair value reserve	2,270	-	-	-	2,270
Foreign currency translation reserve	657	-	-	-	657
Others	-	-	-	(4)	(4)
Amounts reflected in other comprehensive income	2,927	-	-	(4)	2,923
<i>Total equity attributable to:</i>					
<b>Shareholders of AIA</b>					
<b>Group Limited</b>	<b>24,686</b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>24,682</b>
Non-controlling interests	145	-	-	-	145
<b>Total equity</b>	<b>24,831</b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>24,827</b>
<b>Total liabilities and equity</b>	<b>146,585</b>	<b>-</b>	<b>809</b>	<b>8</b>	<b>147,402</b>

## 27. Effect of adoption of new and revised accounting standards (continued)

### (c) CONSOLIDATED STATEMENT OF CASH FLOWS

US\$m	Six months ended 31 May 2013 (As previously reported)	Reclassifications	Retrospective adjustments for		Six months ended 31 May 2013 (Unaudited and restated)
			IFRS 10	IAS 19	
<b>Cash flows from operating activities</b>					
Net cash provided by operating activities	273	84	9	–	366
<b>Cash flows from investing activities</b>					
Net cash used in investing activities	(2,176)	–	–	–	(2,176)
<b>Cash flows from financing activities</b>					
Net cash provided by financing activities	1,025	22	–	–	1,047
Net (decrease)/increase in cash and cash equivalents	(878)	106	9	–	(763)
Cash and cash equivalents at beginning of the financial period	2,948	(273)	34	–	2,709
Effect of exchange rate changes on cash and cash equivalents	(34)	–	–	–	(34)
<b>Cash and cash equivalents at end of the financial period</b>	<b>2,036</b>	<b>(167)</b>	<b>43</b>	<b>–</b>	<b>1,912</b>

Cash and cash equivalents in the above interim condensed consolidated statement of cash flows can be further analysed as follows:

	Six months ended 31 May 2013 (As previously reported)	Reclassifications	Retrospective adjustments for		Six months ended 31 May 2013 (Unaudited and restated)
			IFRS 10	IAS 19	
Cash and cash equivalents in the interim consolidated statement of financial position	2,036	–	43	–	2,079
Bank overdrafts	–	(167)	–	–	(167)
Cash and cash equivalents in the interim condensed consolidated statement of cash flows	2,036	(167)	43	–	1,912

## **SUPPLEMENTARY EMBEDDED VALUE INFORMATION**

### **Towers Watson Report on the Review of the Supplementary Embedded Value Information**

AIA Group Limited (the Company) and its subsidiaries (together, "AIA" or "the Group") have prepared supplementary embedded value results (EV Results) for the interim period ended 31 May 2014 (the Period). These EV Results, together with a description of the methodology and assumptions that have been used, are shown in the Supplementary Embedded Value Information section of this report.

Towers Watson Hong Kong Limited, trading as Towers Watson (Towers Watson) has been engaged to review the Group's EV Results and prior year comparisons. This opinion is made solely to the Company and, to the fullest extent permitted by applicable law, Towers Watson does not accept or assume any responsibility, duty of care or liability to any third party for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

### **Scope of Work**

Our scope of work covered:

- A review of the methodology used to calculate the embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 31 May 2014, and the value of new business for the six-month period 1 December 2013 to 31 May 2014;
- A review of the economic and operating assumptions used to calculate the embedded value as at 31 May 2014 and the value of new business for the six-month period 1 December 2013 to 31 May 2014; and
- A review of the results of AIA's calculation of the EV Results.

In carrying out our review, Towers Watson has relied on data and information provided by the Group.

### **Opinion**

Towers Watson has concluded that:

- The methodology used to calculate the embedded value and value of new business is consistent with recent industry practice for publicly listed companies in Hong Kong as regards traditional embedded value calculations based on discounted values of projected deterministic after-tax cash flows. This methodology makes an overall allowance for risk for the Group through the use of risk discount rates which incorporate risk margins and vary by Business Unit, together with an explicit allowance for the cost of holding required capital;
- The economic assumptions are internally consistent and have been set with regard to current economic conditions; and
- The operating assumptions have been set with appropriate regard to past, current and expected future experience, taking into account the nature of the business conducted by each Business Unit.

Towers Watson has performed a number of high-level checks on the models, processes and the results of the calculations, and has confirmed that no issues have been discovered that have a material impact on the disclosed embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 31 May 2014, the value of new business for the six-month period 1 December 2013 to 31 May 2014, the analysis of movement in embedded value for the six-month period ended 31 May 2014, and the sensitivity analysis.

**Towers Watson**  
25 July 2014

## **Cautionary statements concerning Supplementary Embedded Value Information**

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

## 1. Highlights

The embedded value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB). This methodology makes implicit allowance for all sources of risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital, through the use of a risk-adjusted discount rate. The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. More details of the EV Results, methodology and assumptions are covered in later sections of this report.

Table 1.1 summarises the key results including the adjusted net worth (ANW) and value of in-force business (VIF).

**Table 1.1**

### Summary of Key Metrics<sup>(1)</sup> (US\$ millions)

	<b>As at 31 May 2014</b>	As at 30 November 2013 <sup>(4)</sup>	Growth
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	<b>36,915</b>	34,871	6%
Embedded value (EV)	<b>35,070</b>	33,818	4%
Adjusted net worth (ANW)	<b>13,898</b>	13,462	3%
Value of in-force business (VIF)	<b>21,172</b>	20,356	4%
	<b>Six months ended 31 May 2014</b>	Six months ended 31 May 2013	YoY
Value of new business (VONB)	<b>792</b>	645	23%
Annualised new premium (ANP) <sup>(2) (3)</sup>	<b>1,690</b>	1,527	11%
VONB margin <sup>(3)</sup>	<b>46.2%</b>	41.6%	4.6 pps

Notes:

- (1) The results are after adjustments to reflect additional Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses.
- (2) ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded.
- (3) ANP and VONB margin exclude pension business.
- (4) Restated for the effect of adoption of IAS 19, consistent with the IFRS financial statements.

## 1. Highlights (continued)

VONB grew by 23 per cent to US\$792 million compared with the first half of 2013. ANP grew by 11 per cent to US\$1,690 million and VONB margin increased by 4.6 pps to 46.2 per cent.

EV Equity grew by US\$2,044 million to US\$36,915 million at 31 May 2014. This represents an increase of 6 per cent over the first half from US\$34,871 million at 30 November 2013. EV Equity included goodwill and other intangible assets of US\$1,845 million at 31 May 2014 compared with US\$1,053 million at 30 November 2013.

EV grew to US\$35,070 million at 31 May 2014, an increase of 4 per cent over the first half from US\$33,818 million at 30 November 2013. The growth in EV of US\$1,252 million is shown after a deduction for the Citibank Upfront Payment. Underlying growth excluding the payment was US\$2,052 million.

EV operating profit grew by 11 per cent to US\$2,119 million compared with the first half of 2013. The growth reflected a higher VONB of US\$792 million, an increased expected return of US\$1,289 million from a higher opening EV and overall positive operating experience variances and operating assumption changes which totalled US\$60 million, less interest costs of US\$22 million on medium term notes.

Non-operating EV movements included positive investment return variances of US\$612 million due to increased market values of fixed income assets and negative other non-operating variances of US\$66 million, offset by the payment of the 2013 final dividend of US\$442 million, negative other capital movements of US\$42 million and negative foreign exchange movements of US\$129 million.

EV includes adjusted net worth (ANW) and value of in-force business (VIF). ANW increased by 3 per cent over the half-year to US\$13,898 million at 31 May 2014 from US\$13,462 million at 30 November 2013 with the underlying increase of US\$1,236 million offset by the Citibank Upfront Payment. VIF increased by 4 per cent over the half-year to US\$21,172 million at 31 May 2014, compared with US\$20,356 million at 30 November 2013.



## 2. EV Results

### 2.1 EMBEDDED VALUE BY BUSINESS UNIT

The EV as at 31 May 2014 is detailed in Table 2.1 below. Results are presented separately for the six largest Business Units, with those for the remaining Business Units presented together under the category "Other Markets". This is consistent with the segment information in the IFRS financial statements and Section 4.1 of this report.

**Table 2.1**

#### Summary of EV by Business Unit (US\$ millions)

Business Unit	As at 31 May 2014				EV	As at
	ANW <sup>(1)</sup>	VIF before CoC <sup>(2)</sup>	CoC <sup>(2)</sup>	VIF after CoC <sup>(2)</sup>		30 November 2013
						EV <sup>(4)</sup>
AIA Hong Kong	4,995	7,064	520	6,544	11,539	10,716
AIA Thailand	5,098	2,475	631	1,844	6,942	6,854
AIA Singapore	1,886	2,999	469	2,530	4,416	4,007
AIA Malaysia	1,278	1,467	251	1,216	2,494	2,440
AIA China	790	2,723	170	2,553	3,343	3,106
AIA Korea	1,506	995	401	594	2,100	1,907
Other Markets	3,263	1,376	285	1,091	4,354	3,973
Group Corporate Centre	4,124	(84)	–	(84)	4,040	4,405
<b>Subtotal</b>	<b>22,940</b>	<b>19,015</b>	<b>2,727</b>	<b>16,288</b>	<b>39,228</b>	<b>37,408</b>
Adjustment to reflect additional Hong Kong reserving and capital requirements <sup>(3)</sup>	(9,042)	5,723	183	5,540	(3,502)	(2,940)
After-tax value of unallocated Group Office expenses	–	(656)	–	(656)	(656)	(650)
<b>Total</b>	<b>13,898</b>	<b>24,082</b>	<b>2,910</b>	<b>21,172</b>	<b>35,070</b>	<b>33,818</b>

Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS financial statements.
- (2) CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.
- (3) Adjustment to EV for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.
- (4) Restated for the effect of adoption of IAS 19, consistent with the IFRS financial statements.

## 2. EV Results (continued)

### 2.2 RECONCILIATION OF ANW TO IFRS EQUITY

Table 2.2 sets out the derivation of ANW from IFRS equity as at 31 May 2014.

**Table 2.2**

#### **Derivation of the Group ANW from IFRS equity (US\$ millions)**

	<b>As at 31 May 2014</b>	As at 30 November 2013 <sup>(1)</sup>
<b>IFRS equity attributable to shareholders of the Company</b>	<b>28,030</b>	24,682
Elimination of IFRS deferred acquisition and origination costs assets	<b>(16,250)</b>	(15,738)
Difference between IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	<b>9,942</b>	10,725
Difference between net IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	<b>(6,308)</b>	(5,013)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	<b>2,305</b>	2,250
Elimination of intangible assets	<b>(2,115)</b>	(1,321)
Recognition of deferred tax impacts of the above adjustments	<b>1,161</b>	1,006
Recognition of non-controlling interests impacts of the above adjustments	<b>(133)</b>	(138)
<b>Group ANW (local statutory basis)</b>	<b>22,940</b>	21,466
Adjustment to reflect additional Hong Kong reserving requirements, net of tax	<b>(9,042)</b>	(8,004)
<b>Group ANW (after additional Hong Kong reserving requirements)</b>	<b>13,898</b>	13,462

Note:

(1) Restated for the effect of adoption of IAS 19, consistent with the IFRS financial statements.

## 2. EV Results (continued)

### 2.3 BREAKDOWN OF ANW

Table 2.3 shows the breakdown of the ANW for the Group between the required capital, as defined in Section 4.1 of this report, and the free surplus, which is the ANW in excess of the required capital.

**Table 2.3**

#### Free surplus and required capital for the Group (US\$ millions)

	As at 31 May 2014		As at 30 November 2013 <sup>(1)</sup>	
	Local statutory basis	Hong Kong basis for branches of AIA Co. and AIA International	Local statutory basis	Hong Kong basis for branches of AIA Co. and AIA International
Free surplus	16,699	6,704	15,644	6,727
Required capital	6,241	7,194	5,822	6,735
<b>ANW</b>	<b>22,940</b>	<b>13,898</b>	<b>21,466</b>	<b>13,462</b>

Note:

(1) Restated for the effect of adoption of IAS 19, consistent with the IFRS financial statements.

The Company's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities subject to Hong Kong statutory requirements. The business written in the branches of AIA Co. and AIA International is subject to the local reserving and capital requirements in the relevant territory and the Hong Kong reserving and capital requirements applicable to AIA Co. and AIA International at the entity level.

At 31 May 2014, the more onerous reserving basis for both AIA Co. and AIA International was the Hong Kong basis. Therefore, the Group's free surplus at 31 May 2014 reduced by US\$9,995 million (30 November 2013: US\$8,917 million) under the Hong Kong basis compared to the local statutory basis, reflecting US\$9,042 million (30 November 2013: US\$8,004 million) higher reserving requirements and US\$953 million (30 November 2013: US\$913 million) higher required capital under the Hong Kong basis for branches of AIA Co. and AIA International.

## 2. EV Results (continued)

### 2.4 EARNINGS PROFILE

Table 2.4 shows how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the Hong Kong reserving and capital requirements for the branches of AIA Co. and AIA International.

**Table 2.4**

**Profile of projected after-tax distributable earnings for the Group's in-force business  
(US\$ millions)**

Financial year	As at 31 May 2014	
	Undiscounted	Discounted
2H14 – 2018	12,638	10,607
2019 – 2023	12,560	7,040
2024 – 2028	11,413	4,311
2029 – 2033	10,157	2,604
2034 and thereafter	43,904	3,804
<b>Total</b>	<b>90,672</b>	<b>28,366</b>

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$28,366 million (30 November 2013: US\$27,091 million) plus the free surplus of US\$6,704 million (30 November 2013: US\$6,727 million) shown in Table 2.3 is equal to the EV of US\$35,070 million (30 November 2013: US\$33,818 million) shown in Table 2.1.

## 2. EV Results (continued)

### 2.5 VALUE OF NEW BUSINESS

The VONB for the Group for the six-month period from 1 December 2013 to 31 May 2014 is summarised in Table 2.5 below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented separately for the six largest Business Units, with those for the remaining Business Units presented together under the category "Other Markets". This is consistent with the segment information in the IFRS financial statements and Section 4.1 of this report.

The Group VONB for the six months ended 31 May 2014 was US\$792 million, an increase of US\$147 million, or 23 per cent, from US\$645 million for the same period in 2013.

**Table 2.5**

#### Summary of VONB by Business Unit (US\$ millions)

Business Unit	Six months ended 31 May 2014			Six months ended 31 May 2013
	VONB before CoC <sup>(1)</sup>	CoC <sup>(1)</sup>	VONB after CoC <sup>(1) (3)</sup>	VONB after CoC <sup>(1) (3)</sup>
AIA Hong Kong	301	41	<b>260</b>	168
AIA Thailand	189	27	<b>162</b>	146
AIA Singapore	142	15	<b>127</b>	110
AIA Malaysia	78	8	<b>70</b>	54
AIA China	132	12	<b>120</b>	76
AIA Korea	45	10	<b>35</b>	45
Other Markets	106	10	<b>96</b>	112
<b>Total before unallocated Group Office expenses (local statutory basis)</b>	<b>993</b>	<b>123</b>	<b>870</b>	<b>711</b>
Adjustment to reflect additional Hong Kong reserving and capital requirements <sup>(2)</sup>	(31)	(7)	<b>(24)</b>	(30)
<b>Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)</b>	<b>962</b>	<b>116</b>	<b>846</b>	<b>681</b>
After-tax value of unallocated Group Office expenses	(54)	–	<b>(54)</b>	(36)
<b>Total</b>	<b>908</b>	<b>116</b>	<b>792</b>	<b>645</b>

Notes:

- (1) CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.
- (2) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.
- (3) VONB for the Group is calculated before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests for the six months ended 31 May 2014 and 31 May 2013 were US\$4 million and US\$6 million respectively.

## 2. EV Results (continued)

### 2.5 VALUE OF NEW BUSINESS (continued)

Table 2.6 shows the VONB margin for the Group. The VONB margin is defined as VONB, excluding pension business, expressed as a percentage of ANP. The VONB for pension business is excluded from the margin calculation to be consistent with the definition of ANP.

The Group VONB margin for the six months ended 31 May 2014 was 46.2 per cent compared with 41.6 per cent for the same period in 2013.

**Table 2.6**

#### Summary of VONB Margin by Business Unit (US\$ millions)

Business Unit	Six months ended 31 May 2014			Six months ended 31 May 2013
	VONB Excluding Pension	ANP <sup>(1)</sup>	VONB Margin <sup>(1)</sup>	VONB Margin <sup>(1)</sup>
AIA Hong Kong	250	401	<b>62.4%</b>	48.7%
AIA Thailand	162	256	<b>63.3%</b>	55.1%
AIA Singapore	127	214	<b>59.3%</b>	74.8%
AIA Malaysia	70	161	<b>43.9%</b>	35.3%
AIA China	120	152	<b>78.7%</b>	63.7%
AIA Korea	35	189	<b>18.6%</b>	24.9%
Other Markets	95	317	<b>29.9%</b>	33.3%
<b>Total before unallocated Group Office expenses (local statutory basis)</b>	<b>859</b>	<b>1,690</b>	<b>50.8%</b>	<b>46.0%</b>
Adjustment to reflect additional Hong Kong reserving and capital requirements <sup>(2)</sup>	(24)	–		
<b>Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)</b>	<b>835</b>	<b>1,690</b>	<b>49.4%</b>	<b>44.0%</b>
After-tax value of unallocated Group Office expenses	(54)	–		
<b>Total</b>	<b>781</b>	<b>1,690</b>	<b>46.2%</b>	<b>41.6%</b>

Notes:

(1) ANP and VONB margin exclude pension business.

(2) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.

## 2. EV Results (continued)

### 2.5 VALUE OF NEW BUSINESS (continued)

Table 2.7 shows the breakdown of the VONB, ANP and VONB margin for the Group by quarter for business written in the six months to 31 May 2014. For comparison purposes, the quarterly VONB, ANP and VONB margin for business written in the six months to 31 May 2013 are also shown in the same table.

**Table 2.7**

#### Summary of VONB, ANP and VONB Margin by quarter for the Group (US\$ millions)

Quarter	VONB after CoC <sup>(1)</sup>	ANP <sup>(2)</sup>	VONB Margin <sup>(2)</sup>
<b>Values for 2014</b>			
3 months ended 28 February 2014	354	799	43.8%
3 months ended 31 May 2014	438	891	48.4%
<b>Values for 2013</b>			
3 months ended 28 February 2013	291	745	38.4%
3 months ended 31 May 2013	354	782	44.7%

Notes:

(1) CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.

(2) ANP and VONB margin exclude pension business.

## 2. EV Results (continued)

### 2.6 ANALYSIS OF EV MOVEMENT

Table 2.8 shows the analysis of movement in EV from 30 November 2013 to 31 May 2014.

**Table 2.8**

#### Analysis of movement in EV (US\$ millions)

	Six months ended 31 May 2014			Six months ended 31 May 2013	YoY
	ANW	VIF	EV	EV <sup>(1)</sup>	EV
<b>Opening EV<sup>(1)</sup></b>	13,462	20,356	<b>33,818</b>	31,373	8%
Effect of acquisitions	–	–	–	(810)	n/m
Citibank Upfront Payment	(800)	–	<b>(800)</b>	–	n/m
<b>Adjusted opening EV</b>	12,662	20,356	<b>33,018</b>	30,563	8%
Value of new business	(489)	1,281	<b>792</b>	645	23%
Expected return on EV	1,814	(525)	<b>1,289</b>	1,199	8%
Operating experience variances	(36)	108	<b>72</b>	77	(6)%
Operating assumption changes	(2)	(10)	<b>(12)</b>	(1)	n/m
Interest costs on medium term notes and acquisition credit facility	(22)	–	<b>(22)</b>	(12)	83%
<b>EV operating profit</b>	1,265	854	<b>2,119</b>	1,908	11%
Investment return variances	595	17	<b>612</b>	465	32%
Effect of changes in economic assumptions	–	–	–	–	n/m
Other non-operating variances	(52)	(14)	<b>(66)</b>	(122)	(46)%
<b>Total EV profit</b>	1,808	857	<b>2,665</b>	2,251	18%
Dividends	(442)	–	<b>(442)</b>	(380)	16%
Other capital movements	(42)	–	<b>(42)</b>	(43)	(2)%
Effect of changes in exchange rates	(88)	(41)	<b>(129)</b>	(168)	(23)%
<b>Closing EV</b>	<b>13,898</b>	<b>21,172</b>	<b>35,070</b>	<b>32,223</b>	<b>9%</b>

Note:

(1) Restated for the effect of IAS 19, consistent with the IFRS financial statements.

EV grew to US\$35,070 million at 31 May 2014, an increase of 4 per cent over the first half from US\$33,818 million at 30 November 2013. The growth in EV of US\$1,252 million is shown after a deduction for the Citibank Upfront Payment. Underlying growth excluding the payment was US\$2,052 million.

EV operating profit grew by 11 per cent to US\$2,119 million compared with the first half of 2013 (2013: US\$1,908 million). The growth reflected a higher VONB of US\$792 million (2013: US\$645 million), an increase expected return of US\$1,289 million (2013: US\$1,199 million) from a higher opening EV and overall positive operating experience variances and operating assumptions changes which totalled US\$60 million (2013: US\$76 million), less interest costs of US\$22 million (2013: US\$12 million) on medium term notes.



## 2. EV Results (continued)

### 2.6 ANALYSIS OF EV MOVEMENT (continued)

The VONB shown in Table 2.8 is calculated at the point of sale for business written during the Period before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the Period plus the expected return on the VONB from the point of sale to 31 May 2014 less the VONB attributable to non-controlling interests. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the Period and that expected based on the operating assumptions.

The main operating experience variances, net of tax, are:

- Expense variances of US\$27 million (2013: US\$5 million);
- Mortality and morbidity claims variances of US\$69 million (2013: US\$79 million); and
- Persistency and other variances of US\$(24) million (2013: US\$(7) million).

The overall effect of changes to operating assumptions during the Period was US\$(12) million (2013: US\$(1) million).

The EV profit of US\$2,665 million (2013: US\$2,251 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances arise from the impact of differences between the actual investment returns in the Period and the expected investment returns. This includes the impact on the EV of changes in the market values and market yields on existing fixed income assets, and the impact on the EV of changes in the economic assumptions used in the statutory reserving bases for the Group. The investment return variances of US\$612 million (2013: US\$465 million) were largely caused by positive market movements from gains in the market values of fixed income assets compared with the investment return assumptions used in the EV calculation at the start of the Period offset by statutory reserve movements and negative variances from equities.

There were no changes in economic assumptions during the Period (2013: nil).

Other non-operating variances amounted to US\$(66) million (2013: US\$(122) million) and included:

- Tax related adjustments of US\$(19) million (2013: US\$171 million);
- Restructuring and other non-operating costs of US\$8 million (2013: US\$23 million); and
- Modelling enhancements, accounting for the majority of the balance.

The Group paid the 2013 final dividend of US\$442 million (2013: US\$380 million). Other capital movements of US\$(42) million (2013: US\$(43) million) were mainly due to the purchase of shares held by employee share-based trusts.

There were negative foreign exchange movements of US\$129 million during the Period (2013: US\$168 million).

## 2. EV Results (continued)

### 2.7 EV EQUITY

The EV as at 31 May 2014 included a deduction of US\$800 million for the Citibank Upfront Payment. The EV Equity grew to US\$36,915 million at 31 May 2014, an increase of 6 per cent from US\$34,871 million at 30 November 2013. Table 2.9 sets out the derivation of EV Equity from EV as at 31 May 2014.

**Table 2.9**

#### **Derivation of EV Equity from EV (US\$ millions)**

	<b>As at 31 May 2014</b>	As at 30 November 2013 <sup>(2)</sup>	Growth
EV	<b>35,070</b>	33,818	4%
Goodwill and other intangible assets <sup>(1)</sup>	<b>1,845</b>	1,053	75%
<b>EV Equity</b>	<b><u>36,915</u></b>	<b><u>34,871</u></b>	<b><u>6%</u></b>

Notes:

(1) Consistent with the IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

(2) Restated for the effect of adoption of IAS 19, consistent with the IFRS financial statements.

### 3. Sensitivity analysis

The EV as at 31 May 2014 and the VONB for the six-month period 1 December 2013 to 31 May 2014 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 4.2.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 31 May 2014 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 May 2014); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 May 2014).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 May 2014 and the values of debt instruments held at 31 May 2014 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

The EV Results of each entity are measured in the currency of the primary economic environment in which that entity operates (the functional currency) and presented in US dollar (the presentation currency). In order to provide a sensitivity to EV and VONB of foreign currency movements to the translation from functional currencies, a change of 5 per cent to the presentation currency is included. This sensitivity does not include the impact of currency movements on the translation of transactions denominated in a foreign currency of an entity into its functional currency (including any impacts on VIF).

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 31 May 2014 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

### 3. Sensitivity analysis (continued)

For each of the remaining sensitivity analysis, the statutory reserving bases at 31 May 2014 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

The results of the above sensitivity analysis are shown below in Table 3.1 for the EV and in Table 3.2 for the VONB.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

**Table 3.1**

#### **Sensitivity of EV as at 31 May 2014 (US\$ millions)**

Scenario	EV
Central value	35,070
200 bps increase in risk discount rates	30,826
200 bps decrease in risk discount rates	41,214
10% increase in equity prices	35,756
10% decrease in equity prices	34,373
50 bps increase in interest rates	35,232
50 bps decrease in interest rates	34,790
5% appreciation in the presentation currency	34,095
5% depreciation in the presentation currency	36,045
10% increase in lapse/discontinuance rates	34,685
10% decrease in lapse/discontinuance rates	35,515
10% increase in mortality/morbidity rates	32,286
10% decrease in mortality/morbidity rates	37,852
10% decrease in maintenance expenses	35,545
Expense inflation set to 0%	35,489

**Table 3.2**

#### **Sensitivity of VONB for the six months ended 31 May 2014 (US\$ millions)**

Scenario	VONB
Central value	792
200 bps increase in risk discount rates	586
200 bps decrease in risk discount rates	1,090
50 bps increase in interest rates	833
50 bps decrease in interest rates	755
5% appreciation in the presentation currency	762
5% depreciation in the presentation currency	822
10% increase in lapse rates	734
10% decrease in lapse rates	856
10% increase in mortality/morbidity rates	656
10% decrease in mortality/morbidity rates	928
10% decrease in maintenance expenses	823
Expense inflation set to 0%	813

## 4. Methodology and assumptions

### 4.1 METHODOLOGY

The methodology used by the Group for determining the EV Results for the Period is materially unchanged from that described in Section 4 of the Supplementary Embedded Value Information in the Company's Annual Report 2013.

The list of entities and their mapping to "Business Units" as described in Section 4.1 of the Supplementary Embedded Value Information in the Company's Annual Report 2013 is revised as follows, as the Group acquired a further 10 per cent of the equity interest in AIA PUBLIC Takaful Bhd. in March 2014. AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co., its subsidiary Green Health Certification Berhad (formerly known as AIA AFG Takaful Bhd.), and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Co.

#### Required capital

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of required capital for each Business Unit are set out in Table 4.1 below. Further, the consolidated EV Results for the Group have been calculated reflecting the more onerous of the Hong Kong and branch level local regulatory reserving and capital requirements for AIA Co. and AIA International.

**Table 4.1**

#### Required Capital by Business Unit

Business Unit	Required Capital
AIA Australia	100% of the regulatory capital adequacy requirement
AIA China	100% of required minimum solvency margin
AIA Hong Kong	150% of required minimum solvency margin <sup>(1)</sup>
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA New Zealand	100% of the local regulatory requirement
Philam Life	100% of regulatory Risk-Based Capital requirement
AIA Singapore	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of proposed Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement
AIA Vietnam	100% of required minimum solvency margin

Note:

(1) The assumed level of required capital for AIA Hong Kong is also used for the branches of AIA Co. and AIA International in the calculation of the consolidated EV Results.

## 4. Methodology and assumptions (continued)

### 4.2 ASSUMPTIONS

#### Introduction

Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2013 outlines the basis and considerations for determining the assumptions used by the Group for calculating the EV and VONB. The economic assumptions used to determine the EV as at 31 May 2014 are the same as those for determining the EV as at 30 November 2013. The non-economic assumptions used are based on those at 30 November 2013 updated to reflect the latest experience observed.

#### Economic assumptions

Table 4.2 summarises the risk discount rates and assumed long-term investment returns for the major asset classes for each Business Unit as at 31 May 2014. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at point of sale. The same risk discount rates were used for all the EV Results shown in Section 1 and Section 2 of this report. In particular, for the branches of AIA Co. and AIA International, the consolidated EV Results reflecting the Hong Kong reserving and capital requirements were calculated using the branch-specific risk discount rates shown in the table. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns shown are gross of tax and investment expenses.

**Table 4.2**

#### Risk discount rates and long-term investment return assumptions by Business Unit (%)

Business Unit	Risk discount rates			10-year government bonds			Local equities		
	As at	As at	As at	As at	As at	As at	As at	As at	As at
	31 May 2014	30 Nov 2013	31 May 2013	31 May 2014	30 Nov 2013	31 May 2013	31 May 2014	30 Nov 2013	31 May 2013
AIA Australia	7.75	7.75	7.75	3.37	3.37	3.37	7.15	7.15	7.15
AIA China	9.75	9.75	10.00	3.74	3.74	3.74	9.49	9.49	9.74
AIA Hong Kong <sup>(1)</sup>	7.25	7.25	7.25	2.68	2.68	2.43	7.73	7.73	7.73
AIA Indonesia	13.00	13.00	13.50	6.50	6.50	6.50	11.25	11.25	11.25
AIA Korea	9.75	9.75	9.75	3.85	3.85	3.85	7.19	7.19	7.19
AIA Malaysia	8.75	8.75	8.75	4.20	4.20	4.20	8.75	8.75	8.09
AIA New Zealand	8.25	8.25	8.25	3.99	3.99	3.99	n/a <sup>(2)</sup>	n/a <sup>(2)</sup>	n/a <sup>(2)</sup>
Philam Life	11.50	11.50	12.25	4.00	4.00	5.25	9.16	9.16	10.41
AIA Singapore	6.75	6.75	7.00	2.23	2.23	1.93	7.00	7.00	7.25
AIA Sri Lanka	19.00	19.00	19.00	13.33	13.33	13.33	15.00	15.00	15.00
AIA Taiwan	7.75	7.75	7.75	1.48	1.48	1.48	6.62	6.62	6.62
AIA Thailand	9.25	9.25	9.50	3.87	3.87	3.87	9.62	9.62	9.87
AIA Vietnam	14.80	14.80	16.00	9.00	9.00	10.20	14.80	14.80	16.00

Notes:

- (1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumption is for US dollar-denominated bonds.
- (2) The assumed asset allocations do not include equities.

## 4. Methodology and assumptions (continued)

### 4.2 ASSUMPTIONS (continued)

#### Expense inflation

The assumed expense inflation rates are based on expectations of long-term consumer price and salary inflation. The expense inflation assumptions are shown in Table 4.3 below.

**Table 4.3**

#### Expense inflation assumptions by Business Unit (%)

Business Unit	As at 31 May 2014	As at 30 November 2013
AIA Australia	3.25	3.25
AIA China	2.0	2.0
AIA Hong Kong	2.0	2.0
AIA Indonesia	6.0	6.0
AIA Korea	3.5	3.5
AIA Malaysia	3.0	3.0
AIA New Zealand	2.5	2.5
Philam Life	3.5	3.5
AIA Singapore	2.0	2.0
AIA Sri Lanka	6.5	6.5
AIA Taiwan	1.0	1.0
AIA Thailand	2.5	2.5
AIA Vietnam	5.0	5.0

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

## 4. Methodology and assumptions (continued)

### 4.2 ASSUMPTIONS (continued)

#### Taxation

The projections of distributable earnings underlying the values presented in this report are net of corporate tax, based on current taxation legislation and corporate tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

The local corporate tax rates used by each Business Unit are set out in Table 4.4 below.

**Table 4.4**

#### Local corporate tax rates by Business Unit (%)

Business Unit	As at 31 May 2014	As at 30 November 2013
AIA Australia	30.0	30.0
AIA China	25.0	25.0
AIA Hong Kong	16.5	16.5
AIA Indonesia	25.0	25.0
AIA Korea	24.2	24.2
AIA Malaysia	25.0 for assessment years 2013 to 2015; 24.0 thereafter	25.0 for assessment years 2013 to 2015; 24.0 thereafter
AIA New Zealand	28.0	28.0
Philam Life	30.0	30.0
AIA Singapore	17.0	17.0
AIA Sri Lanka	28.0	28.0
AIA Taiwan	17.0	17.0
AIA Thailand <sup>(1)</sup>	20.0 for assessment years 2013 and 2014; 30.0 thereafter	20.0 for assessment years 2013 and 2014; 30.0 thereafter
AIA Vietnam	25.0 for assessment year 2013; 22.0 for assessment years 2014 and 2015; 20.0 thereafter	25.0 for assessment year 2013; 22.0 for assessment years 2014 and 2015; 20.0 thereafter

Note:

(1) An extension of the current tax rate reduction beyond the 2014 assessment year remains uncertain upon expiry of the 2011 Royal Decree. The best estimate corporate tax rates for future assessment years will continue to be evaluated.



## **4. Methodology and assumptions (continued)**

### **4.2 ASSUMPTIONS (continued)**

#### **Taxation (continued)**

The tax assumptions used in the valuation reflect the local corporate tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

The EV of the Group as at 31 May 2014 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

Where territories have an imputation credit system in place, e.g. Australia, no allowance has been made for the value of the imputation credits in the results shown in this report.

## **5. Events after the reporting period**

On 25 July 2014, the Board of Directors declared an interim dividend of 16.00 Hong Kong cents per share (six months ended 31 May 2013: 13.93 Hong Kong cents per share).

## **INFORMATION FOR SHAREHOLDERS**

### **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed the Group's interim condensed consolidated financial statements for the six months ended 31 May 2014.

### **INTERIM DIVIDEND**

The Board of Directors has declared an interim dividend of 16.00 Hong Kong cents per share (2013: 13.93 Hong Kong cents per share).

The interim dividend will be payable on Friday, 29 August 2014 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 13 August 2014.

### **Relevant Dates for the Interim Dividend Payment**

Ex-dividend date	12 August 2014
Record date	13 August 2014
Payment date	29 August 2014

### **RECORD DATE**

In order to qualify for the entitlement of the interim dividend, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m., Wednesday, 13 August 2014.

### **SHARE REGISTRAR**

If you have any enquiries relating to your shareholding, please contact the Company's share registrar at the contact given below:

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong  
Telephone: 852 2862 8555  
Email: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk)  
Website: [www.computershare.com](http://www.computershare.com)

### **FINANCIAL CALENDAR**

Announcement of First Quarter 2014 New Business Highlights	11 April 2014
2014 Annual General Meeting	9 May 2014
Announcement of 2014 Interim Results	25 July 2014
Payment of 2014 Interim Dividend	29 August 2014

## INTERIM REPORT AND ELECTRONIC COMMUNICATIONS

This Interim Report is printed in English and Chinese and is available at the website of the Company. If you would like to have a printed version of this Interim Report, please contact the Company's share registrar using the contact details given below:

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong  
Email: aia.ecom@computershare.com.hk

The Company makes every effort to ensure consistency between the Chinese and English version of this Interim Report. However, in the event of any inconsistency, the English version shall prevail.

Shareholders are encouraged to elect to receive shareholder documents electronically which provides environmental benefits as well as reducing printing and distribution costs. You may at any time send written notice to the Company c/o the Company's share registrar specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents.

## INVESTMENT COMMUNITY AND NEWS MEDIA

Enquiries may be directed to:

<b>Investment Community</b>		<b>News Media</b>	
Paul Lloyd	+852 2832 6160	Stephen Thomas	+852 2832 6178
Feon Lee	+852 2832 4704	Sonia Tsang	+852 2832 1868
Joel Lieginger	+852 2832 4703	Emerald Ng	+852 2832 4720

## FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

When used in this document, the words "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group or the Group's management, are intended to identify forward-looking statements. These forward-looking statements reflect the Group's views as of the date hereof with respect to future events and are not a guarantee of future performance or developments. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including any changes in the laws, rules and regulations relating to any aspects of the Group's business operations, general economic, market and business conditions, including capital market developments, changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the actions and developments of the Group's competitors and the effects of competition in the insurance industry on the demand for, and price of, the Group's products and services, various business opportunities that the Group may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, the Group's ability to identify, measure, monitor and control risks in the Group's business, including its ability to manage and adapt its overall risk profile and risk management practices, its ability to properly price its products and services and establish reserves for future policy benefits and claims, seasonal fluctuations and factors beyond the Group's control. Subject to the requirements of the Listing Rules, the Group does not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way the Group expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information or statements. All forward-looking statements in this document are qualified by reference to the cautionary statements set forth in this section.

## GLOSSARY

Accident and health (A&H) insurance products	A&H insurance products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover. A&H insurance products are sold both as stand-alone policies and as riders that can be attached to our individual life insurance policies.
Active agent	An agent who sells at least one policy per month.
Adjusted net worth (ANW)	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value (excluding the value of intangible assets) of other activities, such as general insurance business. It excludes any amounts not attributable to shareholders of AIA Group Limited. The market value of investment property and property held for use used to determine the ANW is based on the fair value disclosed in AIA's IFRS financial statements as at the valuation date. It is AIA's policy to obtain external property valuations annually except in the case of a discrete event occurring in the interim that has a significant impact on the fair value of the properties.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a subsidiary of the Company.
AIA International	AIA International Limited, a subsidiary of AIA Co.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a joint venture between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
AIG	American International Group, Inc.
ANI	Aviva NDB Insurance.
Annualised new premium (ANP)	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance.
ASPP	Agent Share Purchase Plan.
Available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.

Bancassurance	The distribution of insurance products through banks or other financial institutions.
Common control	A business combination involving entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination.
The Company	AIA Group Limited.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
Cost of capital (CoC)	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.
Credit risk	The risk that third parties fail to meet their obligations to the Group when they fall due.
Deferred acquisition costs (DAC)	DAC are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. DAC assets are tested for recoverability at least annually.
Deferred origination costs (DOC)	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
Defined benefit plans	Post-employment benefit plans under which amounts to be paid or services to be provided as post-retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

Defined contribution plans	Post-employment benefit plans under which amounts to be paid as post-retirement benefits are determined by contributions to a fund together with earnings thereon. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the post-retirement benefits.
Discretionary participation features (DPF)	<p>A contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:</p> <ul style="list-style-type: none"> <li>• that are likely to be a significant portion of the total contractual benefits;</li> <li>• whose amount or timing is contractually at the discretion of the Group; and</li> <li>• that are contractually based on: <ul style="list-style-type: none"> <li>– the performance of a specified pool of contracts or a specified type of contract;</li> <li>– realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or</li> <li>– the profit or loss of the company, fund or other entity that issues the contract.</li> </ul> </li> </ul>
Embedded value (EV)	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business.
EPS	Earnings per share.
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.
ESPP	Employee Share Purchase Plan.
ExCo	The Executive Committee of the Group.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fair value through profit or loss (FVTPL)	Financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the period.
First half	The six months from 1 December to 31 May.
First year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.

Foreign exchange rate risk	The risk that the Company's value may be affected by changes in exchange rates.
Free surplus	ANW in excess of the required capital.
Functional currency	The currency of the primary economic environment in which the entity operates.
GAMA International	A worldwide association serving the professional development needs of field leaders in the insurance, investment and financial services industry.
Goodwill	Goodwill represents the excess of the purchase price of an acquisition over the fair value of the Group's share of the net identifiable assets including VOBA of the acquired subsidiary, associate or joint venture at the date of acquisition.
Group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HIBOR	Hong Kong Interbank Offered Rate.
HKFRS	Hong Kong Financial Reporting Standards.
HKOCI	Hong Kong Office of the Commissioner of Insurance.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Insurance Companies Ordinance (HKICO)	The Insurance Companies Ordinance (Laws of Hong Kong, Chapter 41) (HKICO) provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. The objectives of the HKICO are to protect the interests of the insuring public and to promote the general stability of the insurance industry.
Hong Kong Stock Exchange (HKSE)	The Stock Exchange of Hong Kong Limited.
IAS	International Accounting Standards.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the International Accounting Standards Board (IASB) comprising: <ul style="list-style-type: none"> <li>• International Financial Reporting Standards;</li> <li>• International Accounting Standards; and</li> <li>• Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).</li> </ul>
ING Malaysia	ING Management Holdings (Malaysia) Sdn. Bhd.

Insurance contract	A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.
Insurance risk	Under IFRS, insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.
Interactive Point of Sales (iPoS)	iPoS is a secure, mobile point-of-sale technology that features a paperless sales process from the completion of the customer's financial-needs analysis to proposal generation with electronic biometric signature of life insurance applications on tablet devices.
Investment contract	An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.
Investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
Investment income	Investment income comprises interest income, dividend income and rental income.
Investment property	Property (land and/or a building or part of a building) held to earn rentals or for capital appreciation or both rather than for use by AIA.
Investment return	Investment return consists of investment income plus investment experience.
Liquidity risk	The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
LTI	Long-term incentive.
Market risk	The risk of loss from adverse movements in the value of assets owing to market factors, including changes in interest and foreign exchange rates, as well as movements in credit, equity and property prices.
Million Dollar Round Table (MDRT)	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.
Net book value	The net value of an asset. Equal to its original cost (its book value) minus depreciation and amortisation.



Net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Company, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.
Net profit	Net profit is calculated by subtracting a company's total expenses from total revenue, including share of profit/(loss) from associates and joint venture and after tax.
New Companies Ordinance	A substantial part of the Companies Ordinance (Laws of Hong Kong, Chapter 622) which came into force on 3 March 2014.
Non-controlling interests	The equity in a subsidiary not attributable, directly or indirectly, to a parent. Also referred to as "minority interests".
n/a	Not available.
n/m	Not meaningful.
OPAT	Operating profit after tax attributable to shareholders of AIA Group Limited.
Operating profit before tax and after tax	The Group defines operating profit before and after tax excluding investment experience; investment income and investment management expenses related to unit-linked contracts; corresponding changes in insurance and investment contract benefits in respect of unit-linked contracts and participating fund; changes in third-party interests in consolidated investment funds, policyholders' share of tax relating to the change in insurance and investment contract liabilities and other significant items of non-operating income and expenditure.
Operating return on allocated equity	Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing total equity attributable to shareholders of the Company, less the fair value and foreign currency translation reserves and others, and adjusted for intercompany debt.
Operating segment	<p>A component of an entity that:</p> <ul style="list-style-type: none"> <li>• engages in business activities from which it may earn revenues and incur expenses;</li> <li>• whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance; and</li> <li>• for which discrete financial information is available.</li> </ul>
OTC	Over-the-counter.

Other comprehensive income	Items of income and expense that form part of total comprehensive income but, as required or permitted by IFRS, do not form part of profit or loss for the period, such as fair value gains and losses on available for sale financial assets.
Participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The Group may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits.
Persistency	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance Company, a subsidiary of AIA Co.
Policyholder and shareholder investments	Investments other than those held to back unit-linked contracts.
pps	Percentage points.
PRC	The People's Republic of China.
Property held for use	Property held for use in AIA's business.
Protection gap	The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.
Regulatory capital	Net assets held to meet the minimum solvency margin requirement set by the HKICO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
Related parties	<p>Related parties may be related to AIA for any of the following reasons:</p> <ul style="list-style-type: none"> <li>• they are directly or indirectly controlled by an AIA entity;</li> <li>• an AIA entity has significant influence on the party;</li> <li>• they are in a joint venture arrangement with an AIA entity;</li> <li>• they are part of AIA's key management or a close member of the family of any key management or any entity that is controlled by these persons; or</li> <li>• they are a post-retirement benefit plan for the employees of AIA.</li> </ul>

Renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
Repurchase agreements (repos)	A repurchase transaction involves the sale of financial investments by AIA to a counterparty, subject to a simultaneous agreement to repurchase those securities at a later date at an agreed price. Accordingly, for accounting purposes, the securities are retained on AIA's consolidated statement of financial position for the life of the transaction, valued in accordance with AIA's policy for assets of that nature. The proceeds of the transaction are reported in the caption "Obligations under securities lending and repurchase agreements". Interest expense from repo transactions is reported within finance costs in the consolidated income statement.
Reverse repurchase agreements (reverse repos)	A reverse repurchase transaction (reverse repo) involves the purchase of financial investments with a simultaneous obligation to sell the assets at a future date, at an agreed price. Such transactions are reported within "Loans and deposits" in the consolidated statement of financial position. The interest income from reverse repo transactions is reported within investment return in the consolidated income statement.
Rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premium.
Risk-adjusted return	The return produced by an investment after accounting for the risks involved in producing that return.
Risk-Based Capital (RBC)	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RMF	Risk Management Framework.
RSUs	Restricted share units.
RSU Scheme	Restricted Share Unit Scheme.
Second half	The six months from 1 June to 30 November.
Securities lending	Securities lending consists of the loan of certain securities within the Group's financial investments to third parties on a short-term basis. The loaned securities continue to be recognised within the appropriate financial investment classifications in the Group's consolidated statement of financial position.
SFO	The Securities and Futures Ordinance (Laws of Hong Kong, Chapter 571), as amended from time to time.
Singapore	The Republic of Singapore; in the context of our reportable segments, Singapore includes Brunei.
Single premium	Single lump sum payment from a policyholder.

SME	Small-and-medium sized enterprise.
SO Scheme	Share Option Scheme.
Solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
Solvency ratio	The ratio of actual capital to the minimum capital requirement applicable to the insurer pursuant to relevant regulations.
Statement of financial position	Formerly referred to as the balance sheet.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Total weighted premium income (TWPI)	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
Underwriting	The process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
Unit-linked investments	Financial investments held to back unit-linked contracts.
Unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
Value of business acquired (VOBA)	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
Value of in-force business (VIF)	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business.

Value of new business (VONB)	VONB is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect applicable Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect applicable Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
Working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.



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