

AIA Group Limited 2021 Interim Results

Analyst Briefing Presentation – Transcript

17 August 2021

Lee Yuan Siong, Group Chief Executive and President:

Good morning everyone and welcome to our 2021 interim results presentation. We hope that you and your families are safe and well. I want to start by thanking AIA's outstanding people for their dedication and professionalism helping our customers navigate uncertainty with uninterrupted support while embracing new ways of working.

The increasing demand for our products and new business momentum that has been building since last year has continued driving our strong performance in the first half. I will now take you through the highlights.

In the first six months of 2021, we delivered growth in all our key financial metrics. VONB, our leading growth indicator, was up by 22 per cent to over 1.8 billion dollars, demonstrating the power of AIA's unrivalled distribution and product platforms. Our large and growing in-force portfolio supported increases in operating profit after tax and underlying free surplus generation. Both EV Equity and shareholders' allocated equity reached record highs and our capital position remains very strong. The Board has declared an increase of 8.6 per cent in the interim dividend. These strong results reflect the focused execution of our growth strategy, resilience of our operating model quality of our people and our disciplined financial management.

Our geographical diversification and scale across Asia are distinctive competitive advantages for AIA. As you can see on the slide, all of our reported segments delivered double-digit VONB growth on a like-for-like basis compared with last year. VONB was also higher than pre-pandemic levels of the first half of 2019 for all of our segments, except Hong Kong.

Our differentiated business in Mainland China was again the largest contributor to the Group's VONB and was up by 20 per cent. AIA Hong Kong grew despite travel restrictions that continue to limit sales to Mainland Chinese visitors. VONB from our domestic customers increased by 16 per cent and sales to Mainland Chinese visitors at our Macau branch have increased progressively accounting for more than one-third of AIA Macau's total ANP in the first half. Our focus on scaling the capacity and productivity of our Premier Agency and close collaboration with our leading local bank partners supported our excellent results in Thailand and Malaysia. We achieved impressive growth in Singapore and Other Markets also reported a double-digit increase.

Overall, we have achieved a very strong and broad-based performance across the Group. These results demonstrate that we have the right strategic priorities to extend our long track record of delivering shareholder value.

Our very strong VONB growth was led by an excellent performance from our Premier Agency up 25 per cent and contributing over 80 per cent of the Group's VONB. Since the beginning of the pandemic we have enhanced our powerful digital agency tools that span the entire value chain from recruitment and training through to lead generation, purchase and customer service. High adoption rates have reinforced the resilience of our business even as movement restrictions were reinstated in many of our markets. Integrating social media marketing into our digital tools has created new and compelling ways for agents to engage customers with strong results generating over 1 million new leads in the first half.

The superior quality of AIA's unparalleled platform is clear agency leaders, active agents and productivity have all increased significantly and greater use of technology raises our standards ever higher. Last month we were once again named the number one Million Dollar Round Table company globally for the seventh consecutive year with a 25 per cent year-on-year increase in registered members.

One year ago, I announced our ambitious growth strategy. At the heart of our transformation is a step change in the use of technology, digital and analytics. By upgrading to fully-modern architecture and systems, we scale our strategic initiatives and drive greater efficiency, connectivity and ease of working. We are clearly outpacing the global financial services industry, with our rapid adoption of cloud technology and more than 50 per cent of our infrastructure is now hosted in the cloud. Our use of artificial intelligence and analytics has also advanced at pace with over one hundred major projects, enhancing every aspect of our business in 2021.

We have accelerated digital processing across the entire customer service journey from new business origination through to claims adjudication and payments. Nearly all of our new policies are issued electronically and use digital payment methods. Speed and accuracy are critical to delivering industry-leading customer service and nearly 90 per cent of customer enquiries are resolved within the first contact. Submission and payment of all claims are predominantly digital and the majority of all transactions across the Group are fully automated from end to end with no need for human intervention. We are making strong progress through the disciplined execution of our priorities and we are on track to achieve our ambitious targets.

The wide-ranging use of technology, digital and analytics at AIA China supports the acceleration of our expansion plans to capture the unique growth opportunity available to us in Mainland China. For our Premier Agency, universal adoption of advanced digital tools drives faster scale, productivity and efficiency while ensuring our strict quality standards are maintained. Our successful model, focused on long-term professional careers, generates attractive income levels drawing high-quality new talent to AIA and this also holds true for our newest operations. Our 100 per cent ownership and highly-digitalised platform delivers strong and sustainable results as demonstrated by the consistent growth across all of our existing geographies.

Since our subsidiarisation in July last year, our geographical expansion has continued at speed. We launched our Sichuan operation within just four months of receiving initial approval from the CBIRC and we have already been granted approval to prepare for our next branch in Hubei, the 8th largest province by GDP. I am delighted that we are making excellent progress as we replicate our highly successful expansion model.

While our primary focus is on organic growth across all of our markets, we have the capabilities and financial strength to enhance our business through strategic investments and partnerships. Our investment in China Post Life further increases our exposure to the enormous growth opportunities in the Chinese life insurance market. It has access to the largest retail financial distribution network in Mainland China with 40,000 financial outlets nationwide and more than 600 million retail customers. Our investment enables AIA to capture the substantial potential for value creation from distribution channels and customer segments that are highly complementary to AIA China.

We have also launched our 15-year exclusive partnership with Bank of East Asia in Hong Kong and Mainland China giving us access to more than 1.2 million loyal customers in Hong Kong and additional capabilities to help us harness the exciting prospects of the Greater Bay Area.

New distribution models bring new growth opportunities and we continue to form alliances with best-in-class, next generation digital platform partners. Recent partnerships include TNG Digital, Malaysia's largest e-wallet and Tiki, Vietnam's leading e-commerce retailer. Together, these add more than 30 million potential customers outside our usual target demographics in these two markets.

By extending our competitive advantages across geographies, distribution, product and customer experience, we have delivered growth in profitable new business. This in turn drives higher free surplus generation and dividends, as we have demonstrated yet again. Today's headline figures and our consistent track record reflect the strong fundamentals of our business and that we are executing the right strategy to deliver ever-greater shareholder value.

Garth will now take you through the details of our financial performance.

Garth Jones, Group Chief Financial Officer:

Thanks Yuan Siong, and good morning everyone. AIA has delivered a strong financial performance with continued business momentum and growth across all our key financial metrics. Let me now take you through the results in more detail.

The Group delivered very strong VONB growth of 22 per cent compared with the first half of 2020 to more than 1.8 billion dollars. To better reflect underlying performance at the segment level, we have shown growth on a like-for-like basis where appropriate. The resulting growth in VONB of 30 per cent reflects our broad-based performance across the Group.

Following an excellent start to the year, AIA China grew by 20 per cent allowing for withholding tax applied from July last year and remained the largest contributor to Group VONB. Hong Kong's VONB from our domestic customer segment grew strongly by 16 per cent reflecting the quality of our agency force. The four segments outside Mainland China and Hong Kong that predominantly cover South East Asian markets made up close to half the Group's VONB and delivered excellent growth of 33 per cent in aggregate. Thailand posted impressive 52 per cent VONB growth, and accounted for the same proportion of Group VONB as Hong Kong. This is a substantial increase from pre-pandemic levels and reflects a significantly higher new business mix of protection and unit-linked products. Singapore also grew very strongly by 32 per cent while Malaysia was our fastest-growing segment with VONB up by 89 per cent. As you can see on the slide with Other Markets growth of 10 per cent despite ongoing COVID restrictions in many of our markets all of our reportable segments delivered double-digit VONB growth on a like-for-like basis.

AIA's unique portfolio of businesses, diverse products and high-quality distribution enable us to deploy capital at highly attractive rates of return for shareholders. Strong growth was supported by an improvement in VONB margin which increased by 4.6 percentage points to 59.0 per cent. This included a positive shift in product mix and reduced acquisition expense overruns, reflecting a strong recovery in new business volumes. Protection business accounted for 64 per cent of VONB in the first half of 2021 up from 59 per cent last year, while unit-linked VONB doubled year-on-year increasing to 11 per cent of Group VONB, following the successful launch of new products in Thailand. These results demonstrate the quality of our new business and this is a major factor in our confidence in the sustainability and resilience of the Group's future performance.

EV Equity increased to a record 71.7 billion dollars, before shareholder dividends. Very strong VONB growth and continued positive operating variances of 363 million dollars supported an increase in EV operating profit to 4.1 billion. Positive capital market movements compared with our economic assumptions contributed 1.0 billion in the first half. The effect of foreign exchange translation movements was negative 612 million dollars and the payment of the final shareholder dividend from 2020 was 1.6 billion. Closing EV Equity is shown after a further deduction of 4.8 billion dollars for additional capital and reserves and the present value of future unallocated Group Office expenses.

Our EV methodology uses spot market yields and trends over time to our long-term assumptions which aim to smooth out short-term volatility in markets. While AIA is not immune to capital market movements, you can see from the sensitivities that our financial results remain resilient against short-term market volatility. We have a substantial allowance for risk in our discount rates including a risk premium of more than 500 basis points for the Group overall at the end of the first half, a similar level to that at IPO.

Last year, we changed our economic assumptions at the mid-year, however we have reverted to our previous practice and these remain unchanged from those assumed at 31 December 2020. You can see from the chart that our assumptions have remained prudent over time and, at the end of June, market rates were significantly above our long-term assumptions.

We believe that our financial discipline is a key differentiator for AIA and has helped us deliver a strong track record of sustainable value creation for shareholders over many years. The consistent outperformance of our operating assumptions has added more than 3.5 billion dollars to embedded value since our IPO. We have also provided comparisons of AIA's embedded value using two alternative

methodologies – the first a market-consistent approach, and second on a European Embedded Value basis. Under both of these, AIA's reported EV Equity would be more than 10 billion dollars higher. Our reported VONB would also increase substantially by more than 20 per cent on both bases. These results reinforce confidence and demonstrate the prudence of our longstanding embedded value methodology over time.

Now moving to IFRS earnings.

The Group's operating profit after tax increased by 5 per cent to 3.2 billion dollars. Underlying OPAT growth was 8 per cent adjusting for withholding tax in China and normalised claims compared with the exceptionally low levels we highlighted last year. Operating margin remained very strong at 17.3 per cent, underpinned by our high-quality sources of earnings.

AIA Hong Kong delivered 5 per cent higher OPAT, exceeding 1 billion dollars in the first half. AIA China's increase was 4 per cent equivalent to 10 per cent excluding the effect of withholding tax. Strong business growth drove increased earnings from both Singapore and Malaysia while Thailand's OPAT was broadly stable as a strong new business performance offset negative lapse experience and the effect of lower investment returns. Other Markets 12 per cent increase was supported by positive claims experience from disability insurance policies in Australia. As with VONB, the geographic mix of our OPAT is well diversified, with the four segments mainly covering South East Asia producing 44 per cent of the Group total.

Our strategy has consistently focused on writing protection and long-term savings products that provide affordable solutions meeting the real needs of our customers. In the first half of 2021, 98 per cent of our TWPI was from regular premium business, providing additional future premiums to our large in-force book. AIA's high-quality sources of earnings are predominantly insurance and fee-based, which combined with our geographically diverse portfolio underpins the resilience of our earnings growth. Our disciplined strategy of focusing on value and consistently looking to improve the quality of our portfolio has delivered a strong track record of double-digit compound annual growth in OPAT.

Operating profit after tax has added more than 43 billion dollars to shareholders' allocated equity since IPO. Shareholders' allocated equity provides a clearer reflection of the underlying drivers of the change in equity, before the IFRS accounting treatment of bonds. While movements in the market value of equities causes short-term volatility in net profit, as you can see from the very small cumulative investment return movements, these fluctuations have averaged out over time. After shareholder dividend payments of more than 12.4 billion, shareholders' allocated equity has increased by more than 10 per cent per annum compound to 48.9 billion dollars.

Finally, capital and dividends.

Group LCSM Cover Ratio is now formally the principal measure of the Group's regulatory solvency position taking a fully consolidated view of capital adequacy based on a summation of minimum regulatory capital requirements across our businesses. Including 5.8 billion dollars of existing senior notes approved as eligible capital since the end of 2020, our Cover Ratio increased over the first half to a very strong 412 per cent.

We have also been constructively engaged with the Hong Kong Insurance Authority in the formulation of the new Risk-based Capital Regime that will apply to AIA Hong Kong. The new regime is likely to be closer to an economic approach and hence more reflective of the way we manage our business. As a result, we anticipate that our regulatory capital position will remain very strong on this new basis. We expect the rules to be finalised by the end of this year, and while we still believe that the first fully effective reporting date will be in 2024, the Hong Kong Insurance Authority is engaged with the industry in developing plans for early adoption. Subject to finalisation, we intend to disclose our capital position under Hong Kong RBC in our 2021 Annual Results. We also intend to provide further details of our capital management plans.

As you know, we ensure that we maintain a prudent balance sheet through capital market stress conditions taking into consideration the financial flexibility needed to fund our significant new business growth opportunities and support our prudent, sustainable and progressive dividend policy. Underlying free surplus

generation was 3.4 billion dollars in the first half. We reinvested 921 million in new business growth and free surplus gained 3.9 billion from positive capital market movements. Overall, free surplus increased to 17.9 billion dollars after the payment of shareholder dividends.

Since IPO, our cumulative underlying free surplus generation is close to 44 billion dollars. This demonstrates AIA's focus on high-quality profitable new business that generates strong and stable earnings and cash flows. With such attractive reinvestment economics our ability to invest capital in new business growth remains an important priority and a significant differentiator for AIA. We have reinvested over 15 billion into new business generating over 26 billion of net VONB. Over time, this investment in profitable new business growth supports the generation of increasing amounts of free surplus and cash, which in turn allows us to invest in further new business growth, maintain a prudent balance sheet and pay progressive dividends. This has been clearly demonstrated in our results in previous years and again in the first half of 2021. In aggregate, we have paid shareholder dividends of 12.4 billion dollars and we have selectively taken advantage of inorganic opportunities to drive further value.

Our stock of free surplus has increased by 12.9 billion since IPO, in line with the growth in our balance sheet. We believe that the combination of AIA's strong capital generation and substantial growth opportunities is rare in the insurance industry.

AIA has delivered annual shareholder dividend growth of 17 per cent per annum compound since 2011. The Board has declared a further 8.6 per cent increase in the interim dividend to 38 Hong Kong cents per share. The Board continues to follow AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group.

In conclusion, the Group has delivered another strong set of results in the first half of 2021 with growth across all of our key financial metrics. VONB was up by 22 per cent and all of our reportable segments delivered double-digit VONB growth on a like-for-like basis compared with the first half of 2020. VONB was also higher than pre-pandemic levels for all of our segments, other than Hong Kong. EV Equity and shareholders' allocated equity reached record highs and our very strong financial position is reflected in a significant increase in both free surplus and our Group LCSM cover ratio. The Board has declared a further increase of 8.6 per cent in interim dividend.

Our results have once again demonstrated our ability to deliver strong and consistent performances across growth, earnings, capital and cash that will allow us to sustain the delivery of attractive financial returns to our shareholders for a long time to come.

I will now hand back to Yuan Siong.

Lee Yuan Siong, Group Chief Executive:

Thank you, Garth.

AIA is a great company with significant competitive advantages and incredible opportunities to grow shareholder value. As you can see, Asian economic growth is expected to remain strong and structurally resilient creating unprecedented levels of wealth.

By 2030, cumulative new GDP across AIA's markets will hit 16 trillion dollars the same as the rest of the world combined. As incomes rise, spending on life and health insurance accelerates with a step change as people join the middle classes. And what makes this so compelling for Asia and for AIA is the absolute size of the populations where this is happening.

Across our footprint, the middle-class population is set to rise by 1.1 billion by 2030 to a total population of 2.6 billion. The compounding of rapid economic growth, increasing affluence and rising insurance demand generates immense and resilient potential for life insurance in Asia. And AIA is best placed to capture this opportunity.

COVID-19 has forced the acceleration of many of these long-term structural trends and brought financial protection, wellness and healthcare increasingly top of mind for consumers. Our recent research shows that more than 70 per cent of people agree that insurance has become more important for meeting long-term savings and protection needs. Since the beginning of the pandemic, we have seen a greater demand for our protection products accounting for close to two-thirds of our VONB in the first half and growth of more than 30 per cent. VONB from AIA Vitality integrated products has increased by more than 70 per cent delivering improved health outcomes for our customers.

There has been an exponential increase in consumers using digital and online capabilities. Following an initial spike in April 2020, telemedicine usage has been sustained at 38 times pre-pandemic levels and engagement with digital health applications continues to grow rapidly. Our Premier Agency completed more than half a billion dollars of new business sales in the first half using remote capabilities that did not exist before the pandemic. The structural need for our protection products, health and wellness services and high-quality advice has never been more apparent. And our Purpose of helping people live Healthier, Longer, Better Lives has never been more relevant.

Through aligning our strategy with the structural, social and economic growth drivers in the region, we are building on AIA's strong track record and remarkable competitive advantages to drive profitable growth well into the future. Let me now take you through how we are capturing the opportunities available to AIA on a regional basis starting with ASEAN.

We see enormous potential for growth for our businesses, given low insurance penetration, strong economic growth and substantial urbanisation that will see the middle-class population exceed half a billion by 2030. AIA has a long history in ASEAN with significant scale in each of our markets. Today, Thailand, Singapore and Malaysia together contribute one-third of the Group's VONB. Adding Vietnam, Indonesia and the Philippines, AIA ranks number one by total ANP across these six markets.

We have strong operating models with a proven track record. Disciplined execution of our strategy ensures that AIA continues to deliver growth as we further scale our Premier Agency and leverage our leading bank and digital partners. Our digital tools have enabled us to accelerate recruitment in agency without compromising quality. These tools also help offset disruption. While COVID-19 containment measures tightened across many of our markets, we delivered strong VONB growth compared to pre-pandemic levels. I am confident that AIA is in prime position to build on our strengths and seize the enormous opportunities of ASEAN.

India presents another exceptional long-term opportunity for our Group. The strength of economic growth combined with a young, educated and rapidly urbanising population is unmatched. Half the population are under the age of 26 and within the next four years, 20 per cent of the world's working age population is expected to be Indian. By 2030, middle class India will double in size to more than one billion. Rising wealth and healthcare costs are driving increased life insurance demand and penetration levels are rising from very low levels with gathering speed.

Our joint venture with Tata has a highly focused and differentiated multi-channel distribution strategy. We are making strong progress in scaling our Premier Agency model in India as we aim to replicate our success in other markets. Leveraging AIA's vast expertise across Asia, we have significantly grown the number of agency leaders and agents. And our focus on quality, disciplined execution and digitalisation results in the most productive agents in the market.

We have a diverse partnership business which includes leading banks, brokers and digital partners. Tata AIA's pioneering use of technology, digital and analytics leads the Group's approach to delivering seamless

connectivity and a best-in-class customer experience driving our success in a multitude of open architecture partnerships. Our high-quality, multi-channel distribution strategy has delivered strong growth and I am incredibly proud that our differentiated product strategy has made Tata AIA the market leader in retail protection. Even as India faced a new wave of COVID-19 cases and a resumption of lockdowns, our online and remote tools enabled business continuity and growth in the first half. We have made tremendous progress in our journey so far and the long-term outlook for life insurance in India is incredibly exciting.

AIA has unrivalled capabilities to meet the growing needs for life and health insurance in Hong Kong and the Greater Bay Area. The large and expanding protection gaps across mortality, health and retirement are in urgent need of closing for the affluent and ageing population in Hong Kong. AIA's ability to meet these needs is unmatched through our Premier Agency that provides high-quality advice on our comprehensive product suite. Our market-leading agency has 29 per cent of our agents MDRT registered and AIA Hong Kong is the number one MDRT company in the world.

As we look across to the Greater Bay Area, there is huge potential for AIA given the combination of superior economic growth, low insurance penetration and a large and growing, highly-educated, middle class population. AIA is unique with 100 per cent ownership of our operations, enabling our shareholders to fully benefit from the growth prospects from this dynamic region. AIA is ranked in the top three for agency new business in the GBA cities in Guangdong province and, of course, we are the leader in Hong Kong and Macau. The recent addition of the Bank of East Asia as a new strategic distribution partner, with a long history and one of the largest networks among foreign banks, further strengthens AIA's competitive advantages in the GBA. As regulations evolve, our businesses are ideally positioned to leverage the exciting prospects available to us.

Finally, Mainland China where our strong track record speaks for itself. Even with the effects of the pandemic, since 2015 we have delivered compound annual growth in VONB of 29 per cent. Year by year, you can see that our performance has been broad-based across our geographies.

Our Big 5 cities of Beijing, Shanghai, Shenzhen, Guangzhou and Suzhou have grown strongly while the rest of the cities where we are present have also grown rapidly, proving our ability to replicate our Premier Agency in new cities. China's economic progress continues to drive the expansion of its middle class consumers, further increasing the demand for long-term savings and protection. By 2030, AIA's target market, even before expansion into new regions, will double .providing huge headroom for continued growth as we deepen our geographic presence.

I said earlier we are accelerating our expansion into new provinces across Mainland China with the recent launch in Sichuan province followed by approval to prepare our new operation in Hubei. On the left you can see our impressive results as we expanded our Premier Agency model into new cities outside our big 5. The combination of strong agency growth and higher productivity generated a tenfold increase in VONB within 5 years. We generated more than 110 million dollars of VONB from these cities in just the first six months of 2017 and they continue to power ahead.

In each new city, we successfully replicate our model supported by management from our established operations, our incredibly powerful digital tools and our scalable operating model. As we enter into new provinces, our potential target market increases five times. Our recent approvals add more than 100 million potential new customers to AIA China with 300 million more to come from our other target provinces.

AIA China is built to capture the extraordinary opportunity that Mainland China presents for us. With our Premier Agency at its core, AIA's differentiated model delivers strong and sustainable results. Our agents earn more than three times the average local income and they are four times as productive as the industry

average. This is powerful proof of our successful model enabling us to attract, develop and retain the best agents. Our high levels of digitalisation drive enhanced productivity, efficiency and scalability ensuring that our strict quality standards and leading customer experience are maintained as we expand. And our innovative and difficult to replicate propositions integrated with AIA's Health and Wellness Ecosystem allow us to meet the growing protection and long-term savings needs of our customers as they evolve. I am very confident that our differentiated strategy and disciplined execution will continue to deliver growth for many years.

As you heard from Garth, AIA's financial discipline is the foundation of the Group's strong and consistent delivery and underpins our ability to capture all of the tremendous opportunities across Asia. The execution of our strategy will extend our track record of superior profitable growth driving strong earnings, free surplus generation and prudent, sustainable and progressive dividends.

As I have shown you, AIA is the right company to leverage the powerful structural drivers of growth across Asia. We operate in the most attractive markets in the world for life insurance. We are 100 per cent focused on Asia and have a high-quality, diversified business with substantial growth opportunities in all our markets.

Our strategy is clear and ambitious, and I am confident, through focused execution, we will achieve our Purpose of helping millions of people live Healthier, Longer, Better Lives while delivering profitable growth and shareholder value well into the future.

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