TRANSCRIPT

AIA Group Limited 2022 Interim Results

Analyst Presentation

Lee Yuan Siong – *Group Chief Executive and President*

Good morning from Hong Kong and welcome to our 2022 interim results presentation. AIA has delivered a resilient performance and I would like to thank our employees, agents and partners for their outstanding dedication and professionalism during these extraordinary times. In the first half of 2022, unprecedented outbreaks of the Omicron variant caused temporary disruptions while global capital markets have been extremely volatile in response to the evolving macroeconomic conditions. Throughout our long history, we have successfully navigated periods of uncertainty and change and our unwavering commitment to our customers, our balance sheet strength and financial discipline are important differentiators.

Today's results demonstrate the power of AIA's substantial competitive advantages, continued focus on executing our growth strategy and the benefits of our scale and diversity in the world's most attractive region for life and health insurance.

Let me now take you through some highlights.

VONB exceeded 1.5 billion dollars in the first half despite the reaction to the initial Omicron wave affecting sales activity and consumer demand. As containment measures eased, we saw strong momentum in the second quarter and the Group delivered positive VONB growth in June. Our large and growing in-force portfolio supported increased Operating Profit After Tax and Underlying Free Surplus Generation. The Group's capital position remained very strong despite significant capital market stress. Free Surplus was substantially higher at 20.6 billion dollars, an increase of 3.6 billion in the first half and this is after we paid 3 billion dollars to shareholders through dividends and the share buy-back. Shareholders' allocated equity was broadly stable and EV Equity of 72 billion, was up 3 per cent before payments to shareholders.

The Board has declared an increase of 6 per cent in the interim dividend reflecting their confidence in the Group's future prospects while retaining the financial flexibility to invest capital in the significant growth opportunities available to us.

AIA's unrivalled distribution has remained robust throughout the disruptions in the first half. From the beginning of the second quarter, we saw strong momentum across most of our markets with a return to positive VONB growth in June for the Group. As you know, the Omicron outbreak occurred later in Mainland China with stringent movement restrictions well into the second quarter. The impact was more than offset by positive growth from the rest of the Group including from Hong Kong, Thailand, Singapore, Malaysia, Indonesia and the Philippines. This broad-based performance demonstrates the benefits of our diversification across Asia.

As movement restrictions eased across Mainland China in the second quarter, we have seen strong positive momentum and a return to VONB growth in July. Most of our operations were subject to brief and targeted controls followed by a rapid recovery in sales activity. Suzhou and Shanghai were affected by prolonged measures lasting more than two months followed by a gradual reopening. When needed, our digital remote capabilities enabled our professional agents to generate substantial VONB and, as restrictions reduced, in person sales rebounded. In the first half, AIA China significantly outperformed the market and was again the largest contributor to the Group's VONB.

Our Premier Agency model continues to differentiate AIA in Mainland China. While the market has seen a huge reduction in agent numbers since the start of the pandemic our headcount is stable with consistently high recruitment standards. Our focus on long-term professional careers attracts the best talent and we grew new recruits by 8 per cent in the first half. Continued enhancements to our digital platforms and training programmes supported improved agent productivity and incomes. MDRT members have grown nearly 60 per cent to more than 4,200 since the beginning of the pandemic and in July, AIA China became the largest MDRT company in the world.

Our geographical expansion continues to advance at pace, generating excellent performances as we replicate our efficient and scalable model in new provinces and deepen our presence within existing regions. In the first half, we successfully launched our Hubei operation and received approval to establish a new branch in Zhengzhou, Henan, which brings access to the third most populous province in Mainland China with close to 100 million people. I am confident that AIA's unique growth opportunity in Mainland China remains firmly intact.

AIA's capabilities to meet the growing needs for life and health insurance in Hong Kong and the Greater Bay Area are unparalleled. In the first half, VONB for AIA Hong Kong grew by 3 per cent, outperforming other listed life insurers. We delivered growth in all channels and in both our domestic and Mainland Chinese Visitor businesses. AIA's Premier Agency is the clear leader in both Hong Kong and Macau. Our undivided focus on reinforcing our strengths saw a significant increase in the number of agency leaders and agent productivity. In Macau, the border with Mainland China has been open since the end of 2020 and our VONB from Mainland Chinese visitors almost doubled in the first half, underscoring the continued demand for our products. We also achieved more than 30 per cent growth in our partnership channel, and notably, our recently-established relationship with the Bank of East Asia is already a material contributor to VONB.

Our ASEAN markets returned to VONB growth in the second quarter and accounted for around 40 per cent of total VONB in the first half. We have significant scale in each of our markets, powered by a multi-channel distribution platform. MDRT members for our Premier Agency increased by 15 per cent demonstrating the quality of our leading force. In the first half, we grew the number of next-gen agency leaders, building capacity for growth and we significantly increased new recruits in the second quarter.

Our partnerships with leading domestic banks are another key asset for AIA and delivered strong growth in the second quarter. Digital platform partnerships provide a valuable source of leads for our unrivalled distribution. In Malaysia, we acquired more than half a million customers through TNG Digital with the vast majority new to AIA. Through the second quarter, momentum improved with broad-based VONB growth in June from Thailand, Singapore, Malaysia, Indonesia and the Philippines. Across ASEAN, AIA is in prime position to build on our strengths and deliver superior profitable growth.

India is an exceptional long-term opportunity for AIA and our joint venture with Tata benefits from a highly digitalised and successful multi-channel distribution strategy. Tata-AIA continued its strong track record of broad-based growth with VONB up close to 40 per cent in the first half. We are making excellent progress in scaling and enhancing our Premier Agency and delivered a strong increase in both new recruits and the number of active agents. Our partnership business includes leading banks, brokers and digital platforms. Leveraging TDA, we provide seamless connectivity and a best-in-class customer experience deepening our relationships and driving our growing success across our diverse partnerships. We are the leader in retail protection and our strong growth has moved us up to number 4 in the industry by total new business. Our high-quality, multi-channel distribution strategy ensures Tata AIA is well-positioned to capture India's massive long-term potential.

In January, we completed our investment in China Post Life, the leading bank-affiliated life insurer focused on bringing financial protection to the under-penetrated mass market in Mainland China. This business is highly complementary to AIA China's strategy and further increases the Group's exposure to the enormous growth opportunities for life insurance in Mainland China. A separate and dedicated team of experts from AIA Group Office provides support as China Post Life advances its strategic priorities.

When we announced our investment in June 2021, we outlined that value upside would be driven by VONB growth delivered by increased customer engagement and enhanced profitability. VONB in the first half of 2022 was 2.8 times the whole of 2020. Working together with China Post Life, we have helped enhance its product mix, drive significant volume and margin growth while reducing new business strain. This has supported an EV increase of more than 30 per cent and China Post Life's solvency is robust, with a comprehensive solvency ratio over 180 per cent.

AIA has the ambition, scale and financial strength to capture the enormous growth opportunities across all our markets. The improved momentum and VONB growth in June demonstrate the power of our businesses. In Mainland China, we continue to replicate our differentiated Premier Agency in new geographies as we expand our accessible target market by 5 times and we returned to VONB growth in July. AIA Hong Kong delivered VONB growth in the first half across all channels and in both its domestic and Mainland Chinese Visitor businesses. Our ASEAN markets rapidly regained momentum and grew in the second quarter. And our high-quality Indian business has achieved another excellent result with close to 40 per cent VONB growth in the first half. AIA's resilient performance demonstrates the benefits of our diversified platform across Asia our substantial competitive advantages and focused execution of our profitable growth strategy.

Garth will now take you through our financial results in more detail.

Garth Jones – *Group Chief Financial Officer*

Thanks Yuan Siong, and good morning everyone.

As you've just heard, our businesses progressively regained momentum through the second quarter and the Group's VONB returned to positive growth in June. Our financial discipline and consistent focus on high-quality business supported continued growth in OPAT and UFSG. And our financial position remained very strong, providing us with the flexibility to capture the immense growth opportunities available to us across Asia while delivering progressive returns to shareholders. These resilient results reflect the diversified nature and quality of AIA's business, our prudent financial management and our focus on long term sustainable growth. Let me now take you through the financials in more detail.

AIA benefits from our diversified regional presence and our long-established, market-leading positions. Taken together with the quality of our multi-channel distribution and our comprehensive product range, this strong platform gives us great confidence in our future growth. Our product mix is high-quality with an emphasis on long-term savings and traditional protection and with recurring premiums. The mix in Mainland China was more balanced compared with last year when a regulatory change accelerated demand for traditional protection, while the rest of the Group maintained a stable product mix with the majority of VONB from traditional protection. Despite the disruption caused by Omicron, our resilient performance and return to VONB growth in June reflect the strength of our business and its diversification.

EV Equity was 75 billion dollars before dividends and capital returns to shareholders. This represents a 3 percent increase over the first half on a constant currency basis, a very strong result given the market headwinds. An uplift of 3.3 billion dollars from early adoption of the Hong Kong RBC and release of resilience margins was in line with my indication at the full year results. Together with operating profit of 4 billion, EV Equity increased to more than 82 billion dollars before short-term macroeconomic impacts. Closing EV Equity is shown after a deduction of 2.5 billion for additional capital and reserves and the present value of future unallocated Group Office expenses. EV Equity closed the period at 72.3 billion dollars after the 3 billion returned to shareholders.

Our EV methodology uses long-term assumptions which aim to smooth out short-term volatility in markets. In line with AIA's usual practice, these remain unchanged from the end of 2021. However, if we had moved our long-term investment return assumptions to spot rates as at 30 June 2022 with a consistent adjustment to risk discount rates the impact on EV would have been immaterial. We include a substantial allowance for risk in our discount rates with a risk premium of more than 500 basis points for the Group consistent with the levels used since IPO. EV and VONB sensitivities to interest rates remain small. While EV declines slightly as interest rates rise as discounting at a higher rate offsets increased earnings and cashflows, you can see that VONB increases overall.

AIA's strong track record of positive operating experience demonstrates the prudence in our embedded value assumptions and the quality of our in-force business. Positive claims experience was similar to last year as medical claims continued at more normalised levels overall compared with the exceptional experience early in the pandemic. Expense, persistency and other variances were also positive. Overall, consistently positive operating variances have added more than 4 billion dollars to EV since our IPO.

Now moving to IFRS earnings.

The Group's operating profit after tax increased by 4 per cent to 3.2 billion dollars. OPAT grew in all of our reportable segments except Thailand where, in contrast to our other markets, many customers were treated for Covid in private hospitals during the initial Omicron wave. As the number of infections in Thailand dropped in the second quarter, and with lower costs per claim due to shorter average hospital stays, Covid-related claims reduced compared to the first quarter. Excluding Thailand, the Group's OPAT grew by 8 per cent.

Growth in our in-force portfolio continued to drive increased OPAT as successive cohorts of new business translates into higher earnings over time. As with VONB, our OPAT is well diversified geographically, with markets outside Hong Kong and Mainland China delivering over 40 per cent of the Group total. Our sources of earnings are high-quality with insurance and fee-based profits accounting for close to 60 per cent of the total and the Group's operating margin increased to 17.5 per cent.

Shareholders' allocated equity provides a clearer reflection of the underlying drivers of the change in equity, before the IFRS accounting treatment of bonds. Before dividends and the impact of the share buy-back, allocated equity was close to 50 billion dollars. Operating profit of 3.2 billion was offset by short-term mark-to-market movements on equities and real estate as well as the effects of foreign exchange translation. Under IFRS, we do not apply hedge accounting, resulting in a negative 1.6 billion mark-to-market on derivatives as interest rates increased sharply. While this is included within other non-operating items under IFRS 4, this non-economic accounting mismatch will disappear when we adopt IFRS 17. After dividends and the impact of the share buy-back, shareholders' allocated equity was 46.8 billion at 30 June 2022.

Our high-quality investment portfolio is constructed to match our insurance liabilities as closely as possible. As a result, 78 per cent of total invested assets are fixed income, the vast majority of which are government bonds and investment grade corporate bonds and 63 per cent of equities and real estate are held in participating funds. We take a conservative approach and our holdings of structured securities are very small. The corporate bond portfolio is well diversified with over 2,000 issuers and an average credit rating of A minus. We have a low level of exposure to real estate, banks and local government financing vehicles in Mainland China. In the first half, just 0.19 per cent of our corporate bonds were downgraded to below investment grade and there were no material impairments. This demonstrates the strength of our investment process and the quality of our portfolio.

As you are aware, we will adopt IFRS 17 in our Group financial statements with effect from 1 January 2023. The change in accounting standards does not affect the underlying economics of our business and consequently we expect no material change to our embedded value, cashflow or solvency metrics. While IFRS 17 will resolve some of the non-economic accounting issues from IFRS 4, we will continue to report OPAT and shareholders allocated equity as non-GAAP measures to better reflect the economics of our business. We expect to provide restated financial statements for 2022 on IFRS 9 and IFRS 17 in the second quarter of 2023.

Finally, capital and dividends.

Following anticipated changes to disclosure requirements, we now report the LCSM position on a prescribed capital requirement basis. This replaces the previously-disclosed minimum capital requirement basis. The new PCR basis is more consistent with the capital requirements used within EV. However, we believe that Free Surplus is more representative of our capital position for shareholders. At the end of 2021, the change to 291 per cent from 399 per cent previously reported, mainly reflects a higher denominator of 28.7 billion on a prescribed capital basis than 16.9 billion under a minimum capital basis. The LCSM Cover Ratio on the new PCR basis as at 30 June remains very strong at 277 per cent. The sensitivity of our LCSM cover ratio to both equity and interest rate movements is small, reflecting the resilience of our balance sheet and our strong risk management.

The Group's financial position remains very strong with Free Surplus increasing by 3.6 billion dollars over the first half. Underlying free surplus generation increased by 5 per cent on a comparable basis to 3.2 billion. Non-operating items mainly reflect the mark-to-market impact of higher bond yields and lower equity markets. This was more than offset by the increase from the early adoption of the Hong Kong RBC and the release of resilience margins. After the payment of shareholder dividends and share buy-back, free surplus increased to 20.6 billion dollars.

The Board follows AIA's established prudent, sustainable and progressive dividend policy, allowing for future growth opportunities and the financial flexibility of the Group. The Board has declared a 6 per cent increase in the interim dividend to 40.28 Hong Kong cents per share. Further, we commenced the share buy-back in March and by the end of June had returned an additional 1.3 billion, supporting enhanced returns to shareholders.

In conclusion, the Group has delivered resilient results. We achieved strong momentum and VONB growth in June as movement restrictions eased. EV Equity increased by 3 per cent over the half before payments to shareholders, a very strong result given market headwinds. Our financial position remains very strong with Free Surplus up 3.6 billion to 20.6 billion dollars and we have a high-quality, conservative investment portfolio. The Board has declared a 6 per cent increase in interim dividend and we returned 1.3 billion of capital to shareholders through our share buy-back programme.

These results reflect the quality and strength of our business, our execution capabilities and our disciplined financial management. In summary, our continuing ability to deliver sustainable growth for our shareholders.

I will now hand back to Yuan Siong.

Lee Yuan Siong – *Group Chief Executive and President*

Thank you, Garth.

Once again, we have demonstrated that our differentiated and diversified platform ensures there is significant potential for profitable growth in each of our markets. Today, I will introduce you to AIA's new Integrated Health Strategy. This brings together the unique strengths of the Group to build on our substantial competitive advantages, significantly enhance our core business and capture new opportunities for additional growth.

Asia is the most attractive region for life and health insurance. Robust and unmatched economic expansion is creating unprecedented levels of wealth for a growing and ageing population. However, while Asia is becoming rapidly wealthier, it is not getting healthier. In 2030, healthcare expenditure is expected to exceed $4 trillion dollars. With high out-of-pocket spend, much of these costs will fall to individuals, driving the tremendous need for AIA's insurance products and services.

At the same time, Healthcare delivery in Asia can be inaccessible, unaffordable and ineffective. Millions are missing out on necessary medical treatment due to limited access to healthcare resources. Where care is available, costs can be prohibitive and expenditure is rising almost twice as fast as GDP. Healthcare journeys are often difficult to navigate with significant variability in the quality of care across markets and socio-economic groups. The unparalleled combination of rising consumer expectations, significant unmet service demand and expanding protection gaps create immense potential for our business. This is the right time for AIA to play a leading role in making health insurance and care more accessible, more affordable and more effective for our communities.

AIA is the leading health insurer in the region with the scale, reach, and unique capabilities to make a difference. Health and wellness services are fully embedded into our protection products across our markets, enhancing customer journeys and achieving better outcomes.

Our differentiated health propositions create significant synergies with our core life business and are central to the success of our unrivalled distribution. In the first half, over 40 per cent of total VONB came from products that include health benefits such as medical and critical illness.

Amplify Health, our Health InsurTech business, will bring significant competitive advantages to AIA helping grow new business value and delivering financial benefits such as improved claims experience. Since we launched in February, we have 200 full time employees and our experienced teams are collaborating with our local businesses to transform how people experience and manage health insurance and healthcare.

As I said, AIA is uniquely positioned to make a difference. Our Integrated Health Strategy is a bold new vision that goes beyond fragmented partnerships and ecosystems to deliver simpler customer journeys, including how people buy health insurance and navigate the healthcare system.

We have three strategic pillars.

First, more personalised health insurance with advice and innovative solutions that provide enhanced coverage for customers and greater value.

Second, integration with high-quality outpatient clinics to direct better healthcare journeys, lower costs and improve health outcomes.

Third, by shaping the nature of healthcare administration and management, we make the end-to-end healthcare experience, simpler and more effective for our customers and are with them on every step of their journey.

And Amplify Health is at the heart of our strategy. It is the crucial enabler of our fully integrated approach. Our new strategy delivers increased growth and profitability for shareholders and makes healthcare more accessible, more affordable and more effective.

Let me now show you how it will generate increased value across the Group.

AIA's personalised health insurance replaces standardised benefits with targeted coverages that are tailored to each customer's needs. For wealthier customers, our high-end propositions provide comprehensive global medical benefits and lifestyle-oriented services that meet increasing demands for holistic care. Our innovative solutions cater to an individual's requirements based on life stages or specific diseases. For the mass market, digital health models are key to providing simple and affordable protection products for younger or less affluent customers. Amplify Health is critical to delivering these personalised propositions through its broad range of data-driven Health InsurTech services. Our shared value, personalised health insurance drives significant benefits for all enabling AIA to access new customer segments, increase our share of wallet and drive sustainable margins.

A critical point on the customer journey is the healthcare gateway. Traditionally, this gateway is through physical clinics or specialists. Convenience and availability are increasingly driving customers to use online solutions as the first port of call. Integration with high-quality physical and virtual outpatient clinics enables AIA to fully support customers and help them better navigate the increasingly complex healthcare system. Digital tools, engagement platforms and preventative care programmes from Amplify Health empower providers to deliver effective care that is convenient and proactive while reducing medical cost inflation. Our strategic partnerships mean that we can offer differentiated propositions with unique access to the best healthcare providers and lower the cost of insurance.

At every step of the journey, AIA's healthcare administration and management ensures that customers have the support of high-quality and value-based healthcare providers. Customers want a seamless end-to-end experience that delivers the best health outcomes at the right price. Our high-quality networks help to diagnose, focus on the right treatment, prevent disease progression, reduce complications and ensure that customers benefit from more effective and affordable healthcare. Amplify Health enables providers to deliver a streamlined experience, by supplying the tools and data-driven insights that support optimal clinical decisions and reduce the administrative burden for providers. And our customers receive better outcomes from more personalised case management and specific treatment programmes. Achieving greater clinical alignment between AIA and care providers delivers a sustainable pricing advantage and further differentiation to our propositions, while reducing loss ratios and medical cost inflation.

As you have seen, Amplify Health is the engine that powers our health strategy. Our new company, in partnership with Discovery, offers a broad suite of services through a fully-integrated, health technology stack, along with the associated IP, data sets and expertise, developed over the last three decades. These services have been successfully applied across the entire health insurance value chain globally, resulting in more efficient insurance pricing, best-in-class claims and risk management, and advanced value-based care capabilities. Amplify Health materially accelerates our capacity build in health and creates a new and sustainable competitive advantage. This means that AIA is uniquely positioned to deliver truly personalised health insurance with fully integrated and end-to-end care for our customers.

There has never been a better time for us to transform health insurance and healthcare delivery across Asia. AIA's Integrated Health Strategy significantly enhances our core business and creates greater value for our customers, distributors and shareholders. Health insurance and healthcare delivery becomes more accessible, more affordable and more effective for consumers. This in turn, leads to increased lifetime customer value for AIA as satisfied policyholders stay with us for longer. Our Premier Agents and partners have a broader product suite, access to new customer segments and increased interactions, resulting in higher sales and productivity. For AIA, this means more engaged customers, more productive distribution, more protection sales, and more VONB, earnings, and cash.

I have great confidence that through the focused execution of our strategic priorities, AIA will build on our strong track record of performance and continue to deliver long-term sustainable value for all our stakeholders.

To summarise, today we have reported a resilient performance in the first half of 2022. We saw strong momentum in the second quarter with VONB growth in June for the Group and AIA China returned to VONB growth in July. Our financial position remains very strong with a substantial increase in free surplus to 20.6 billion dollars. The Board has declared a 6 per cent increase in interim dividend and we paid 3 billion dollars to shareholders through dividends and the share buy-back.

AIA operates in the most attractive markets in the world for life and health insurance. Our substantial competitive advantages built over decades keep us uniquely positioned to capture the large and fast-growing opportunities in life and health. Our clear and ambitious strategy aligns our scale, position and influence with the powerful drivers of growth prevalent in the region to deliver profitable new business growth. AIA has the strength and financial flexibility to shape a more sustainable future for our communities while delivering superior and sustainable shareholder value with confidence.

Thank you for listening.