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**AIA Group Limited**  
**友邦保險控股有限公司**  
*(Incorporated in Hong Kong with limited liability)*  
**Stock Code: 1299**

## **INTERIM RESULTS FOR THE SEVEN MONTHS ENDED 30 JUNE 2018**

The Board is pleased to announce the Group's unaudited consolidated results for the seven months ended 30 June 2018.

In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018. The 2018 interim condensed consolidated financial statements adopting the new year-end date is for the seven months ended 30 June 2018 with the comparative figures prepared based on the six months ended 31 May 2017.

In conjunction with the financial year-end date change and for the purpose of enhancing the comparability of financial information, the Company has voluntarily presented the Group's unaudited consolidated results for the six months ended 30 June 2018 and the comparative financial information covering the six-month period ended 30 June 2017. Results highlights, financial summary, financial and operating review and supplementary embedded value information relating to the Group's unaudited consolidated results for the six months ended 30 June 2018, as compared with the corresponding six-month period ended 30 June 2017, have also been set out in this announcement to facilitate a meaningful comparison of the Group's performance in the first half of 2018 and 2017.

# **AIA DELIVERS STRONG GROWTH IN THE FIRST HALF OF 2018**

## **VALUE OF NEW BUSINESS INCREASED BY 17 PER CENT OPERATING PROFIT UP 14 PER CENT; INTERIM DIVIDEND UP 14 PER CENT**

AIA Group Limited delivered double-digit growth across our main financial metrics for the six months ended 30 June 2018, including very strong growth in value of new business (VONB) of 17 per cent on a constant exchange rate basis and 22 per cent on an actual exchange rate basis, compared with the corresponding six-month period ended 30 June 2017.

Highlights are shown on a constant exchange rate basis below:

### **Very strong growth in value of new business**

- 17 per cent growth in VONB to US\$1,954 million
- 24 per cent growth in VONB, excluding the retail IFA channel in our Hong Kong business which had an exceptional performance in the first half of 2017
- Annualised new premiums (ANP) increased by 9 per cent to US\$3,252 million
- VONB margin up 4.4 pps to 59.5 per cent

### **Continued growth in operating profit**

- IFRS operating profit after tax (OPAT) up by 14 per cent to US\$2,653 million
- Embedded value (EV) operating profit increased by 19 per cent to US\$4,152 million
- Operating return on EV (operating ROEV) up by 70 bps to 17.0 per cent

### **Robust cash flow and resilient capital position**

- EV Equity of US\$53.6 billion; EV of US\$52.0 billion, up US\$1.2 billion from 31 December 2017
- Underlying free surplus generation of US\$2,497 million, up 11 per cent on a comparable basis
- Free surplus of US\$13.7 billion
- Solvency ratio for AIA Co., our principal operating company, of 458 per cent on the HKIO basis

### **Significant increase in interim dividend**

- 14 per cent increase in interim dividend to 29.20 Hong Kong cents per share

### **Ng Keng Hooi, AIA's Group Chief Executive and President, said:**

"AIA achieved a very strong set of results in the first half of 2018 with VONB growth of 17 per cent to US\$1,954 million as well as 14 per cent growth in IFRS operating profit. VONB for the period was up 24 per cent when excluding the retail IFA channel in our Hong Kong business which delivered an exceptional growth in the first half of 2017. These results are underpinned by the continued execution of our proven growth strategy and the scale, quality and breadth of AIA's exceptional businesses across the Asia-Pacific region.

"The Board has declared a 14 per cent increase in the interim dividend for 2018, reflecting the strength of AIA's financial results as well as our confidence in the outlook for the Group. This is in line with our prudent, sustainable and progressive dividend policy.

"AIA continues to hold a uniquely advantaged position stemming from the significant competitive advantages we have created over our long history in Asia. The quality of our results comes from our diverse and balanced platforms – across distribution, product and geography. Our clear strategy continues to work well as our experienced team of outstanding people collaborate to harness the enormous growth opportunities that the region presents.

"We remain confident that we will continue to execute our strategic priorities to realise AIA's full potential as we help millions of people to live healthier, longer, better lives."

## 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 a presence in 18 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, Cambodia, a 97 per cent subsidiary in Sri Lanka, a 49 per cent joint venture in India and a representative office in Myanmar.

The business that is now AIA was first established in Shanghai almost a century ago in 1919. 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\$221 billion as of 30 June 2018.

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 32 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”).

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## FINANCIAL SUMMARY

### Performance Highlights

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
<b>New Business Value</b>				
Value of new business (VONB)	1,954	1,605	17%	22%
VONB margin	59.5%	54.5%	4.4 pps	5.0 pps
Annualised new premiums (ANP)	3,252	2,906	9%	12%
<b>EV Operating Profit</b>				
Embedded value (EV) operating profit	4,152	3,370	19%	23%
Operating ROEV	17.0%	16.3%	0.7 pps	0.7 pps
Basic EV operating earnings per share (US cents)	34.55	28.10	19%	23%
<b>IFRS Earnings</b>				
Operating profit after tax (OPAT)	2,653	2,233	14%	19%
Operating ROE	14.2%	13.9%	–	0.3 pps
Total weighted premium income (TWPI)	14,429	12,174	14%	19%
Operating earnings per share (US cents)				
– Basic	22.08	18.62	14%	19%
– Diluted	22.02	18.58	14%	19%
<b>Dividends</b>				
Dividend per share (HK cents)	29.20	25.62	n/a	14%

US\$ millions, unless otherwise stated	As at 30 June 2018	As at 31 December 2017	Change CER	Change AER
<b>Embedded Value</b>				
EV Equity	53,628	52,429	4%	2%
Embedded value	52,012	50,779	4%	2%
Free surplus	13,687	12,586	9%	9%
EV Equity per share (US cents)	444.09	434.19	4%	2%
<b>Equity and Capital</b>				
Shareholders' allocated equity	36,328	36,413	1%	–
AIA Co. HKIO solvency ratio	458%	446%	n/a	12 pps
Shareholders' allocated equity per share (US cents)	300.83	301.56	1%	–

### New Business Performance by Segment

US\$ millions, unless otherwise stated	Six months ended 30 June 2018			Six months ended 30 June 2017			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	796	62.2%	1,252	723	49.2%	1,434	10%	10%
Thailand	204	71.0%	287	179	75.3%	237	5%	14%
Singapore	178	61.4%	290	138	71.1%	194	22%	29%
Malaysia	124	60.3%	204	106	62.3%	169	5%	17%
China	556	91.0%	611	377	88.2%	428	37%	47%
Other Markets	201	32.8%	608	185	41.2%	444	7%	9%
<b>Subtotal</b>	<b>2,059</b>	<b>62.7%</b>	<b>3,252</b>	<b>1,708</b>	<b>58.1%</b>	<b>2,906</b>	<b>16%</b>	<b>21%</b>
Adjustment to reflect consolidated reserving and capital requirements	(28)	n/m	n/m	(24)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(77)	n/m	n/m	(79)	n/m	n/m	n/m	n/m
<b>Total</b>	<b>1,954</b>	<b>59.5%</b>	<b>3,252</b>	<b>1,605</b>	<b>54.5%</b>	<b>2,906</b>	<b>17%</b>	<b>22%</b>

Notes:

- (1) A presentation for analysts and investors, hosted by Ng Keng Hooi, Group Chief Executive and President, is scheduled at 9:30 a.m. Hong Kong time today with attendance by pre-registration only.

An audio cast of the presentation and presentation slides will be available on AIA's website:

<http://www.aia.com/en/investor-relations/results-presentations.html>

- (2) All figures are presented in actual reporting currency (US dollar) and based on actual exchange rates (AER) unless otherwise stated. Change on constant exchange rates (CER) is calculated using constant average exchange rates for the six months ended 30 June 2018 and for the six months ended 30 June 2017 other than for balance sheet items that use CER as at 30 June 2018 and as at 31 December 2017.
- (3) Change is shown on a year-on-year basis unless otherwise stated.
- (4) Long-term economic assumptions used in the EV basis for the interim results are the same as those shown as at 31 December 2017 in the supplementary embedded value information included in this document and consistent with those shown as at 30 November 2017 in our Annual Report 2017. Non-economic assumptions used in the EV basis are based on those at 31 December 2017 updated to reflect AIA's view of the latest experience observed.
- (5) 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 six months ended 30 June 2018 and in the six months ended 30 June 2017 were US\$13 million and US\$11 million respectively.
- (6) VONB includes pension business. ANP and VONB margin exclude pension business.
- (7) IFRS operating profit after tax and operating earnings per share are shown after non-controlling interests unless otherwise stated.
- (8) Operating ROEV and operating ROE are measured on an annualised basis.
- (9) The 11 per cent growth of underlying free surplus generated is calculated on a comparable basis before the reduction of US\$141 million in the first half of 2018 relating to the change in reserving and capital requirements for consolidation purposes following the subsidiarisation of AIA Korea.
- (10) Interim dividends for 2018 and 2017 were declared for the seven months ended 30 June 2018 and the six months ended 31 May 2017, respectively.
- (11) 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 (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India. 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.
- (12) AIA's financial information in this document is based on the unaudited interim condensed consolidated financial statements and supplementary embedded value information for the six months ended 30 June 2018.

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## **FINANCIAL AND OPERATING REVIEW**

AIA is the largest publicly listed pan-Asian life insurance group, with a presence across 18 markets in the Asia-Pacific region. We receive the vast majority of our premiums in local currencies and we closely match our local assets and liabilities to minimise the economic effects of foreign exchange movements. When reporting the Group's consolidated figures, there is a currency translation effect as we report in US dollars. We have provided growth rates and commentaries on our operating performance on a CER basis, unless otherwise stated, as this provides a clearer picture of the year-on-year performance of the underlying businesses.

In February 2018, the board of Directors (Board) resolved to change the AIA Group Limited's (Company) financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018. In conjunction with this change and for the purpose of enhancing the comparability of financial information, the financial information presented below covers a six-month period from 1 January 2018 to 30 June 2018 for the current period and a six-month period from 1 January 2017 to 30 June 2017 for the prior period. In addition, we have voluntarily presented the Group's unaudited consolidated financial results for the six months ended 30 June 2018 and the comparative financial information covering the six-month period ended 30 June 2017 as set out in note 27 to the interim condensed consolidated financial statements and the supplementary embedded value information.

### **FINANCIAL REVIEW**

#### **Summary and Key Financial Highlights**

AIA has delivered a strong set of financial results with double-digit growth across our main operating financial metrics of value of new business (VONB), IFRS operating profit after tax (OPAT), embedded value (EV) operating profit and underlying free surplus generation. The strong performance in VONB demonstrates the consistent execution of our proven growth strategy. Profitable new business growth and disciplined management of our in-force book have driven double-digit growth in both EV operating profit and IFRS OPAT. We have also delivered an increase in underlying free surplus generation and maintained a healthy solvency position in the first half of 2018. The Board has declared an increase in our interim dividend reflecting the financial results in the first half and our confidence in the outlook for the Group.

Our strong financial performance in the first half of 2018 and our consistent track record of success over time are the direct outcome of our focus on executing our strategic priorities with financial discipline and our unique competitive advantages. AIA continues to be well placed to capture the enormous long-term growth opportunities in the region and deliver value for our shareholders.

#### **VALUE GROWTH**

VONB increased by 17 per cent to US\$1,954 million. All of our reportable market segments delivered positive VONB growth in the first half of the year. VONB was up 24 per cent after excluding the exceptional performance in the Hong Kong retail independent financial adviser (retail IFA) channel in the first half of 2017, as previously highlighted. Agency distribution remains our main source of new business and accounted for 71 per cent of the Group's total VONB in the first half of 2018. The disciplined execution of our Premier Agency strategy has enabled us to deliver another strong performance with VONB growth of 27 per cent. VONB from partnership distribution was 4 per cent lower mainly due to the exceptionally strong performance in our Hong Kong retail IFA channel in the first half of 2017.

ANP grew by 9 per cent to US\$3,252 million and VONB margin was up by 4.4 pps to 59.5 per cent.

EV operating profit increased by 19 per cent to US\$4,152 million, reflecting the strong new business growth and positive operating variances of US\$340 million resulting from the proactive management of our in-force portfolio. This led to an increase of 70 bps in our annualised operating return on EV (ROEV) to 17.0 per cent compared with the first half of 2017.



Equity attributable to shareholders of the Company on the embedded value basis (EV Equity) grew by US\$1,199 million in the first half to US\$53,628 million. The increase was mainly driven by EV operating profit growth of 19 per cent, partly offset by negative investment return variances of US\$1,446 million reflecting the effect of short-term capital market movements on our investment portfolio and statutory reserves compared with expected returns. The growth in EV Equity is reported after the payment of shareholder dividends of US\$1,140 million.

## **IFRS EARNINGS**

OPAT increased by 14 per cent to US\$2,653 million mainly driven by double-digit growth in Hong Kong, Malaysia, China and Other Markets. This performance was the result of new business growth over time and the proactive management of our portfolio.

The expense ratio reduced to 7.1 per cent from 7.8 per cent in the first half of 2017 as we continued to benefit from increasing scale.

Annualised operating return on shareholders' allocated equity (operating ROE) remained stable at 14.2 per cent reflecting strong OPAT growth offset by a higher average shareholders' allocated equity compared with the first half of 2017. Average shareholders' allocated equity increased by US\$5,377 million to US\$37,474 million in the first half of 2018 compared with US\$32,097 million in the first half of 2017 as a result of a strong capital market performance in 2017.

At 30 June 2018, shareholders' allocated equity was US\$36,328 million reflecting net profit from the current period offset by the depreciation of local currencies against our US dollar reporting currency and the payment of shareholder dividends of US\$1,140 million.

## **CAPITAL AND DIVIDENDS**

Free surplus increased by US\$1,101 million in the first half to US\$13,687 million at 30 June 2018. This included a positive addition to free surplus of US\$1,886 million due to the subsidiarisation of AIA Korea. Underlying free surplus generation increased to US\$2,497 million, representing growth of 11 per cent on a comparable basis before the reduction of US\$141 million in the first half of 2018 relating to the subsidiarisation of AIA Korea. Underlying free surplus generation was partly offset by negative investment return variances and other items, as well as the payment of shareholder dividends.

The solvency ratio of AIA Company Limited (AIA Co.), our principal operating company, was 458 per cent at 30 June 2018, up by 12 pps compared with 446 per cent at 31 December 2017.

Our local businesses remitted US\$1,188 million to the Group Corporate Centre in the first half of 2018, a similar level compared with the first half of 2017.

The Board has declared an interim dividend of 29.20 Hong Kong cents per share. This represents a strong increase of 14 per cent compared with the interim dividend in 2017, reflecting the strength of our financial results in the first half of 2018 and our confidence in the outlook for the Group.

The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group.



## **OUTLOOK**

Asian macroeconomic fundamentals remain resilient, despite recent volatility in financial markets due to international trade tensions and softening consumer sentiment. The region is well positioned to meet potential challenges, as Asian economies have increasingly reoriented towards domestic drivers of growth.

Asian economic and demographic drivers provide strong support for the long-term growth prospects of AIA's business. Our long history in the region and proven growth strategy place us in a highly advantaged position to benefit from these drivers, including accelerating urbanisation, large working populations, increasing wealth and low levels of existing social welfare and private insurance cover. We remain confident in executing our strategic priorities to deliver long-term, sustainable value for our shareholders.

## New Business Performance

### VONB, ANP AND MARGIN BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 30 June 2018			Six months ended 30 June 2017			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	796	62.2%	1,252	723	49.2%	1,434	10%	10%
Thailand	204	71.0%	287	179	75.3%	237	5%	14%
Singapore	178	61.4%	290	138	71.1%	194	22%	29%
Malaysia	124	60.3%	204	106	62.3%	169	5%	17%
China	556	91.0%	611	377	88.2%	428	37%	47%
Other Markets	201	32.8%	608	185	41.2%	444	7%	9%
<b>Subtotal</b>	<b>2,059</b>	<b>62.7%</b>	<b>3,252</b>	<b>1,708</b>	<b>58.1%</b>	<b>2,906</b>	<b>16%</b>	<b>21%</b>
Adjustment to reflect consolidated reserving and capital requirements	(28)	n/m	n/m	(24)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(77)	n/m	n/m	(79)	n/m	n/m	n/m	n/m
<b>Total</b>	<b>1,954</b>	<b>59.5%</b>	<b>3,252</b>	<b>1,605</b>	<b>54.5%</b>	<b>2,906</b>	<b>17%</b>	<b>22%</b>

VONB grew by 17 per cent compared with the first half of 2017 to US\$1,954 million. All of our reportable market segments delivered positive VONB growth in the first half of the year. VONB was up 24 per cent after excluding the exceptional performance in the Hong Kong retail IFA channel in the first half of 2017.

ANP was higher by 9 per cent to US\$3,252 million. VONB margin increased by 4.4 pps to 59.5 per cent and present value of new business premium (PVNBP) margin increased to 10 per cent from 9 per cent in the first half of 2017, reflecting positive shifts in product and country mix.

Agency distribution remains our main source of new business and accounted for 71 per cent of the Group's total VONB in the first half of 2018. The disciplined execution of our Premier Agency strategy has enabled us to deliver another excellent performance with 27 per cent growth. VONB from partnership distribution was 4 per cent lower mainly due to the exceptionally strong performance in the Hong Kong retail IFA channel in the first half of 2017.

Hong Kong delivered strong VONB growth of 10 per cent to US\$796 million in the first half of 2018 with a very strong performance in both agency and bancassurance channels. Sales of higher-margin products resulted in lower ANP of US\$1,252 million but with an increased VONB margin of 62.2 per cent.

AIA's wholly-owned operation in China was once again our fastest-growing business in the first half of 2018 with VONB growth of 37 per cent to US\$556 million, predominantly from higher sale volumes as we continued to focus on quality recruitment and ongoing productivity enhancement through the disciplined execution of our Premier Agency strategy.

Thailand also reported positive VONB growth of 5 per cent to US\$204 million in the first half of 2018. Sales momentum strengthened in the first half of 2018 as we continued to enhance and expand our Financial Adviser programme to drive the transformation of our agency force in Thailand.

Singapore delivered very strong VONB growth of 22 per cent driven by 42 per cent growth in ANP. Double-digit growth in VONB in the agency channel resulted from an increased number of active agents and improved productivity. VONB margin was lower at 61.4 per cent as a result of lower profitability from our HealthShield business and a shift in product mix.

Malaysia reported positive VONB growth of 5 per cent to US\$124 million in the first half of 2018. Following a strong first quarter, new business performance was affected in the second quarter by reduced consumer activity relating to the country's general election and ahead of changes to Goods and Services Tax (GST).

Other Markets reported solid growth in VONB of 7 per cent. Highlights included strong performances from Korea, the Philippines, Taiwan and Vietnam. ANP grew by 36 per cent to US\$608 million and VONB margin reduced to 32.8 per cent. The reported results for Other Markets were affected by the uneven timing of large group insurance schemes in Australia. VONB growth of Other Markets was 18 per cent, excluding the impact of these large group schemes.

VONB is reported after a US\$105 million total deduction for the consolidated reserving and capital requirements over and above local statutory requirements and for the present value of unallocated Group Office expenses.

## EV Equity

### EV OPERATING PROFIT

EV operating profit increased by 19 per cent to US\$4,152 million compared with the first half of 2017.

This strong performance was the result of 17 per cent growth in VONB to US\$1,954 million, a higher expected return on EV of US\$1,930 million and strong overall positive operating variances of US\$340 million. Overall operating variances have totalled more than US\$1.7 billion since our initial public offering (IPO) in 2010.

The strength of our new business growth and operating performance delivered an increase in annualised operating ROEV by 70 bps to 17.0 per cent compared with the first half of 2017.

### EV OPERATING EARNINGS PER SHARE – BASIC

	<b>Six months ended 30 June 2018</b>	Six months ended 30 June 2017	<b>YoY CER</b>	YoY AER
<b>EV operating profit (US\$ millions)</b>	<b>4,152</b>	3,370	<b>19%</b>	23%
Weighted average number of ordinary shares (millions)	<b>12,018</b>	11,995	<b>n/a</b>	n/a
<b>Basic EV operating earnings per share (US cents)</b>	<b>34.55</b>	28.10	<b>19%</b>	23%

### EV OPERATING EARNINGS PER SHARE – DILUTED

	<b>Six months ended 30 June 2018</b>	Six months ended 30 June 2017	<b>YoY CER</b>	YoY AER
<b>EV operating profit (US\$ millions)</b>	<b>4,152</b>	3,370	<b>19%</b>	23%
Weighted average number of ordinary shares <sup>(1)</sup> (millions)	<b>12,050</b>	12,018	<b>n/a</b>	n/a
<b>Diluted EV operating earnings per share<sup>(1)</sup> (US cents)</b>	<b>34.46</b>	28.04	<b>18%</b>	23%

Note:

- (1) Diluted EV operating earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units (RSPUs) and restricted stock subscription units (RSSUs) granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 38 to the financial statements in our Annual Report 2017.

## EV MOVEMENT

EV grew by US\$1,233 million in the first half to US\$52,012 million at 30 June 2018.

The increase was mainly driven by EV operating profit growth of 19 per cent to US\$4,152 million, partly offset by negative investment return variances of US\$1,446 million reflecting the effect of short-term capital market movements on our investment portfolio and statutory reserves compared with expected returns. Other non-operating variances amounted to US\$376 million, mainly from the subsidiarisation of AIA Korea. The effect of negative foreign exchange translation movements was US\$754 million.

The overall growth in EV is shown after the payment of shareholder dividends of US\$1,140 million.

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

US\$ millions, unless otherwise stated	Six months ended 30 June 2018		
	ANW	VIF	EV
<b>Opening EV</b>	<b>20,974</b>	<b>29,805</b>	<b>50,779</b>
Value of new business	(357)	2,311	1,954
Expected return on EV	2,164	(234)	1,930
Operating experience variances	277	68	345
Operating assumption changes	8	(13)	(5)
Finance costs	(72)	–	(72)
<b>EV operating profit</b>	<b>2,020</b>	<b>2,132</b>	<b>4,152</b>
Investment return variances	(1,724)	278	(1,446)
Other non-operating variances	3,160	(2,784)	376
<b>Total EV profit</b>	<b>3,456</b>	<b>(374)</b>	<b>3,082</b>
Dividends	(1,140)	–	(1,140)
Other capital movements	45	–	45
Effect of changes in exchange rates	(360)	(394)	(754)
<b>Closing EV</b>	<b>22,975</b>	<b>29,037</b>	<b>52,012</b>

  

US\$ millions, unless otherwise stated	Six months ended 30 June 2017		
	ANW	VIF	EV
<b>Opening EV</b>	<b>16,862</b>	<b>25,986</b>	<b>42,848</b>
Value of new business	(291)	1,896	1,605
Expected return on EV	2,042	(374)	1,668
Operating experience variances	325	(103)	222
Operating assumption changes	(213)	152	(61)
Finance costs	(64)	–	(64)
<b>EV operating profit</b>	<b>1,799</b>	<b>1,571</b>	<b>3,370</b>
Investment return variances	877	160	1,037
Other non-operating variances	282	(506)	(224)
<b>Total EV profit</b>	<b>2,958</b>	<b>1,225</b>	<b>4,183</b>
Dividends	(983)	–	(983)
Other capital movements	86	–	86
Effect of changes in exchange rates	144	757	901
<b>Closing EV</b>	<b>19,067</b>	<b>27,968</b>	<b>47,035</b>

## EV EQUITY

US\$ millions, unless otherwise stated	As at 30 June 2018	As at 31 December 2017
<b>EV</b>	<b>52,012</b>	50,779
Goodwill and other intangible assets <sup>(1)</sup>	<b>1,616</b>	1,650
<b>EV Equity</b>	<b>53,628</b>	52,429

Note:

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

## EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements are shown below and are consistent with the prior period.

US\$ millions, unless otherwise stated	EV as at 30 June 2018	VONB for the six months ended 30 June 2018	EV as at 31 December 2017	VONB for the six months ended 30 June 2017
<b>Central value</b>	<b>52,012</b>	<b>1,954</b>	50,779	1,605
<b>Equity price changes</b>				
10 per cent increase in equity prices	<b>52,795</b>	n/a	51,529	n/a
10 per cent decrease in equity prices	<b>51,232</b>	n/a	50,036	n/a
<b>Interest rate changes</b>				
50 basis points increase in interest rates	<b>52,354</b>	<b>2,045</b>	50,828	1,691
50 basis points decrease in interest rates	<b>51,716</b>	<b>1,843</b>	50,323	1,474

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

## IFRS Profit

### OPAT<sup>(1)</sup> BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
Hong Kong	<b>922</b>	821	<b>12%</b>	12%
Thailand	<b>496</b>	423	<b>7%</b>	17%
Singapore	<b>273</b>	240	<b>9%</b>	14%
Malaysia	<b>158</b>	118	<b>19%</b>	34%
China	<b>436</b>	294	<b>37%</b>	48%
Other Markets	<b>393</b>	337	<b>16%</b>	17%
Group Corporate Centre	<b>(25)</b>	–	<b>n/m</b>	n/m
<b>Total</b>	<b>2,653</b>	2,233	<b>14%</b>	19%

Note:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

OPAT grew by 14 per cent to US\$2,653 million compared with the first half of 2017 mainly driven by double-digit growth in Hong Kong, Malaysia, China and Other Markets. This performance was the result of growth in new business over time and the proactive management of our portfolio.

Hong Kong delivered growth of 12 per cent reflecting growth in our business and an improvement in claims experience, which was partly offset by a shift in product mix towards participating business. China achieved excellent growth of 37 per cent, primarily supported by the growing scale of our business and reflecting our high-quality sources of earnings.

Thailand and Singapore reported a 7 per cent and a 9 per cent increase in OPAT respectively in line with business growth. OPAT in Malaysia increased by 19 per cent as a result of improved claims and lapse experience.

Other Markets delivered strong OPAT growth of 16 per cent with strong performances in most of our operating markets.

Annualised operating ROE remained stable at 14.2 per cent reflecting strong OPAT growth offset by a higher average shareholders' allocated equity compared with the first half of 2017.

#### TWPI BY SEGMENT

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 30 June 2018</b>	Six months ended 30 June 2017	<b>YoY CER</b>	YoY AER
Hong Kong	<b>5,075</b>	4,275	<b>19%</b>	19%
Thailand	<b>1,803</b>	1,571	<b>5%</b>	15%
Singapore	<b>1,392</b>	1,172	<b>12%</b>	19%
Malaysia	<b>1,047</b>	882	<b>7%</b>	19%
China	<b>2,076</b>	1,467	<b>31%</b>	42%
Other Markets	<b>3,036</b>	2,807	<b>6%</b>	8%
<b>Total</b>	<b>14,429</b>	12,174	<b>14%</b>	19%

TWPI increased by 14 per cent to US\$14,429 million compared with the first half of 2017. The Group's persistency remained strong and stable at 95.4 per cent in the first half of 2018.

#### IFRS OPERATING PROFIT INVESTMENT RETURN

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 30 June 2018</b>	Six months ended 30 June 2017	<b>YoY CER</b>	YoY AER
Interest income	<b>3,009</b>	2,646	<b>9%</b>	14%
Expected long-term investment return for equities and real estate	<b>972</b>	783	<b>19%</b>	24%
<b>Total</b>	<b>3,981</b>	3,429	<b>11%</b>	16%

IFRS operating profit investment return increased by 11 per cent to US\$3,981 million compared with the first half of 2017. The growth was primarily driven by an increased level of investments over the period.

## OPERATING EXPENSES

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
Operating expenses	1,023	949	4%	8%

Operating expenses grew by 4 per cent to US\$1,023 million with a lower expense ratio of 7.1 per cent compared with 7.8 per cent in the first half of 2017.

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

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
OPAT	2,653	2,233	14%	19%
Short-term fluctuations in investment return related to equities and real estate, net of tax <sup>(2)</sup>	(675)	1,024	n/m	n/m
Reclassification of revaluation gain for property held for own use, net of tax <sup>(2)(3)</sup>	(177)	(20)	n/m	n/m
Other non-operating investment return and other items, net of tax <sup>(3)</sup>	(139)	4	n/m	n/m
<b>Total</b>	<b>1,662</b>	<b>3,241</b>	<b>(50)%</b>	<b>(49)%</b>

### Notes:

- (1) Attributable to shareholders of the Company only excluding non-controlling interests.
- (2) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
- (3) The comparative information has been adjusted to conform to current period presentation.



## IFRS NON-OPERATING MOVEMENT

AIA's IFRS net profit definition includes mark-to-market movements from our equity portfolio. Equity markets declined significantly during the first half of 2018, compared with large gains reported previously in 2017. Consequently, IFRS net profit decreased by 50 per cent to US\$1,662 million compared with the first half of 2017. The decrease was due to negative short-term fluctuations in investment returns of US\$675 million compared with positive movements of US\$1,024 million in the first half of 2017. Other non-operating items of negative US\$139 million in the first half of 2018 included tax expenses of US\$94 million in relation to the subsidiarisation of AIA Korea.

## MOVEMENT IN SHAREHOLDERS' ALLOCATED EQUITY

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 30 June 2018</b>	Year ended 31 December 2017	Six months ended 30 June 2017
<b>Opening shareholders' allocated equity</b>	<b>36,413</b>	29,653	29,653
Net profit	<b>1,662</b>	6,496	3,241
Purchase of shares held by employee share-based trusts	<b>(5)</b>	(10)	(5)
Dividends	<b>(1,140)</b>	(1,376)	(983)
Revaluation (losses)/gains on property held for own use	<b>(9)</b>	88	39
Foreign currency translation adjustments	<b>(644)</b>	1,409	660
Other capital movements	<b>51</b>	153	95
<b>Total movement in shareholders' allocated equity</b>	<b>(85)</b>	6,760	3,047
<b>Closing shareholders' allocated equity</b>	<b>36,328</b>	36,413	32,700
Average shareholders' allocated equity	<b>37,474</b>	33,034	32,097

The movement in shareholders' allocated equity is shown before fair value reserve movements. AIA believes this provides a clearer reflection of the underlying movement in shareholders' equity over the period, before the IFRS accounting treatment of market value movements in available for sale bonds.

Average shareholders' allocated equity increased by US\$5,377 million to US\$37,474 million in the first half of 2018 compared with US\$32,097 million in the first half of 2017 as a result of the strong capital market performance in 2017.

Shareholders' allocated equity remained stable at US\$36,328 million at 30 June 2018 reflecting net profit of US\$1,662 million for the period offset by the negative foreign exchange translation movements of US\$644 million and the payment of shareholder dividends of US\$1,140 million. The negative movement in foreign currency translation in the first half of 2018 was concentrated in the month of June 2018.

Sensitivities arising from foreign exchange rate, interest rate and equity price movements are included in note 22 to the interim financial statements.

## IFRS Earnings per Share (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders increased by 14 per cent to 22.08 US cents in the first half of 2018.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, decreased by 50 per cent to 13.83 US cents in the first half of 2018.

### IFRS EPS – BASIC

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	Six months ended 30 June 2018	Six months ended 30 June 2017	Six months ended 30 June 2018	Six months ended 30 June 2017
Profit (US\$ millions)	1,662	3,241	2,653	2,233
Weighted average number of ordinary shares (millions)	12,018	11,995	12,018	11,995
<b>Basic earnings per share (US cents)</b>	<b>13.83</b>	27.02	<b>22.08</b>	18.62

### IFRS EPS – DILUTED

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	Six months ended 30 June 2018	Six months ended 30 June 2017	Six months ended 30 June 2018	Six months ended 30 June 2017
Profit (US\$ millions)	1,662	3,241	2,653	2,233
Weighted average number of ordinary shares <sup>(2)</sup> (millions)	12,050	12,018	12,050	12,018
<b>Diluted earnings per share<sup>(2)</sup> (US cents)</b>	<b>13.79</b>	26.97	<b>22.02</b>	18.58

Notes:

- (1) Attributable to shareholders of the Company only excluding non-controlling interests.
- (2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 38 to the financial statements in our Annual Report 2017.

## Capital

### FREE SURPLUS GENERATION

The Group's free surplus at 30 June 2018 represented the excess of adjusted net worth over required capital including the consolidated reserving and capital requirements.

Free surplus increased by US\$1,101 million in the first half to US\$13,687 million at 30 June 2018. This included an increase of US\$1,886 million due to the subsidiarisation of AIA Korea.

Underlying free surplus generation, which excludes investment return variances and other items, increased to US\$2,497 million in the first half of 2018, representing growth of 11 per cent on a comparable basis before the reduction of US\$141 million in the first half of 2018 relating to the subsidiarisation of AIA Korea. This reflects the growing scale of our in-force business and our focus on writing quality new business with attractive returns on capital. The amount invested in writing new business increased by 22 per cent to US\$807 million.

The overall effect of investment return variances and other items including regulatory developments was negative US\$1,208 million and the payment of shareholder dividends was US\$1,140 million.

The following table summarises the change in free surplus:

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 30 June 2018</b>	Six months ended 30 June 2017
<b>Opening free surplus</b>	<b>12,586</b>	9,940
Release of free surplus through the subsidiarisation of AIA Korea on 1 January 2018	<b>1,886</b>	–
Underlying free surplus generated	<b>2,497</b>	2,290
Free surplus used to fund new business	<b>(807)</b>	(635)
Investment return variances and other items	<b>(1,208)</b>	833
Unallocated Group Office expenses	<b>(100)</b>	(107)
Dividends	<b>(1,140)</b>	(983)
Finance costs and other capital movements	<b>(27)</b>	22
<b>Closing free surplus</b>	<b>13,687</b>	11,360

## NET FUNDS TO GROUP CORPORATE CENTRE

Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. Working capital increased to US\$10,647 million at 30 June 2018.

Net remittances from business units totalled US\$1,188 million, while the borrowings increased by US\$1,463 million from the net proceeds of the issuance of medium-term notes of US\$991 million and short-term bank loans of US\$970 million, partly offset by the redemption of medium-term notes of US\$500 million upon maturity. The total increase in working capital is reported after the payment of shareholder dividends of US\$1,140 million. On 2 July 2018, AIA completed the acquisition of Sovereign Assurance Company Limited in New Zealand while the acquisition of CommInsure Life in Australia remains in progress, subject to securing all necessary regulatory and governmental approvals.

The movements in working capital are summarised as follows:

<b>US\$ millions, unless otherwise stated</b>	<b>Six months ended 30 June 2018</b>	Six months ended 30 June 2017
<b>Opening working capital</b>	<b>9,714</b>	8,404
Group Corporate Centre operating results	<b>(25)</b>	–
Capital flows from/(to) business units		
Hong Kong	<b>427</b>	602
Thailand	<b>145</b>	197
Malaysia	<b>97</b>	192
China	<b>440</b>	206
Other Markets	<b>79</b>	(28)
<b>Net funds remitted to Group Corporate Centre</b>	<b>1,188</b>	1,169
Increase in borrowings	<b>1,463</b>	508
Purchase of shares held by employee share-based trusts	<b>(5)</b>	(5)
Payment of dividends	<b>(1,140)</b>	(983)
Change in fair value reserve and others	<b>(548)</b>	45
<b>Closing working capital</b>	<b>10,647</b>	9,138

## IFRS Balance Sheet

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$ millions, unless otherwise stated	As at 30 June 2018	As at 31 December 2017	Change AER
<b>Assets</b>			
Financial investments	178,135	179,503	(1)%
Investment property	4,720	4,363	8%
Cash and cash equivalents	3,013	1,922	57%
Deferred acquisition and origination costs	23,473	21,950	7%
Other assets	11,379	10,908	4%
<b>Total assets</b>	<b>220,720</b>	<b>218,646</b>	<b>1%</b>
<b>Liabilities</b>			
Insurance and investment contract liabilities	164,285	159,685	3%
Borrowings	5,421	3,958	37%
Other liabilities	12,123	11,447	6%
<b>Less total liabilities</b>	<b>181,829</b>	<b>175,090</b>	<b>4%</b>
<b>Equity</b>			
Total equity	38,891	43,556	(11)%
Less non-controlling interests	385	380	1%
<b>Total equity attributable to shareholders of AIA Group Limited</b>	<b>38,506</b>	<b>43,176</b>	<b>(11)%</b>
Shareholders' allocated equity	36,328	36,413	–

### MOVEMENT IN SHAREHOLDERS' EQUITY

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Year ended 31 December 2017	Six months ended 30 June 2017
<b>Opening shareholders' equity</b>	<b>43,176</b>	<b>34,555</b>	<b>34,555</b>
Net profit	1,662	6,496	3,241
Fair value (losses)/gains on assets	(4,585)	1,861	1,449
Purchase of shares held by employee share- based trusts	(5)	(10)	(5)
Dividends	(1,140)	(1,376)	(983)
Revaluation (losses)/gains on property held for own use	(9)	88	39
Foreign currency translation adjustments	(644)	1,409	660
Other capital movements	51	153	95
<b>Total movement in shareholders' equity</b>	<b>(4,670)</b>	<b>8,621</b>	<b>4,496</b>
<b>Closing shareholders' equity</b>	<b>38,506</b>	<b>43,176</b>	<b>39,051</b>

## TOTAL INVESTMENTS

US\$ millions, unless otherwise stated	As at 30 June 2018	Percentage of total	As at 31 December 2017	Percentage of total
Total policyholder and shareholder	163,993	87%	162,676	87%
Total unit-linked contracts and consolidated investment funds	23,732	13%	24,815	13%
<b>Total investments</b>	<b>187,725</b>	<b>100%</b>	<b>187,491</b>	<b>100%</b>

The investment mix remained stable during the first half of the year as set out below:

## UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS

US\$ millions, unless otherwise stated	As at 30 June 2018	Percentage of total	As at 31 December 2017	Percentage of total
<b>Unit-linked contracts and consolidated investment funds</b>				
Debt securities	4,601	19%	4,720	19%
Loans and deposits	100	–	97	–
Equities	18,473	78%	19,522	79%
Cash and cash equivalents	556	3%	466	2%
Derivatives	2	–	10	–
<b>Total unit-linked contracts and consolidated investment funds</b>	<b>23,732</b>	<b>100%</b>	<b>24,815</b>	<b>100%</b>

## POLICYHOLDER AND SHAREHOLDER INVESTMENTS

US\$ millions, unless otherwise stated	As at 30 June 2018	Percentage of total	As at 31 December 2017	Percentage of total
<b>Participating funds</b>				
Government and government agency bonds	10,750	7%	10,011	7%
Corporate bonds and structured securities	10,574	7%	11,020	7%
Loans and deposits	2,090	1%	2,000	1%
<b>Subtotal – Fixed income investments</b>	<b>23,414</b>	<b>15%</b>	<b>23,031</b>	<b>15%</b>
Equities	6,766	4%	6,985	4%
Investment property and property held for own use	472	–	472	–
Cash and cash equivalents	188	–	158	–
Derivatives	46	–	81	–
<b>Subtotal participating funds</b>	<b>30,886</b>	<b>19%</b>	<b>30,727</b>	<b>19%</b>
<b>Other policyholder and shareholder</b>				
Government and government agency bonds	46,928	29%	47,152	29%
Corporate bonds and structured securities	59,631	36%	59,966	37%
Loans and deposits	5,421	3%	6,113	4%
<b>Subtotal – Fixed income investments</b>	<b>111,980</b>	<b>68%</b>	<b>113,231</b>	<b>70%</b>
Equities	12,418	8%	11,572	7%
Investment property and property held for own use	6,105	4%	5,594	3%
Cash and cash equivalents	2,269	1%	1,298	1%
Derivatives	335	–	254	–
<b>Subtotal other policyholder and shareholder</b>	<b>133,107</b>	<b>81%</b>	<b>131,949</b>	<b>81%</b>
<b>Total policyholder and shareholder</b>	<b>163,993</b>	<b>100%</b>	<b>162,676</b>	<b>100%</b>

## ASSETS

Total assets increased by US\$2,074 million to US\$220,720 million at 30 June 2018, compared with US\$218,646 million at 31 December 2017.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US\$234 million to US\$187,725 million at 30 June 2018, compared with US\$187,491 million at 31 December 2017.

Of the total US\$187,725 million investments at 30 June 2018, US\$163,993 million were held in respect of policyholders and shareholders and the remaining US\$23,732 million were backing unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US\$135,394 million at 30 June 2018 compared with US\$136,262 million at 31 December 2017. The average credit rating of the fixed income portfolio of A remained consistent with the position at 31 December 2017.

Government and government agency bonds represented 43 per cent of fixed income investments at 30 June 2018, compared with 42 per cent at 31 December 2017. Corporate bonds and structured securities accounted for 52 per cent of fixed income investments at 30 June 2018 and 31 December 2017.

Equity securities held in respect of policyholders and shareholders totalled US\$19,184 million at 30 June 2018, compared with US\$18,557 million at 31 December 2017. The US\$627 million increase in carrying value was mainly attributable to new purchases offset by negative mark-to-market movements. Within this figure, equity securities of US\$6,766 million were held in participating funds.

Cash and cash equivalents increased by US\$1,091 million to US\$3,013 million at 30 June 2018 compared with US\$1,922 million at 31 December 2017. The increase largely reflected positive net cash inflows from our operating business, net proceeds of the issuance of medium-term notes in April 2018 of US\$991 million and the short-term bank loans of US\$970 million, partly offset by the redemption of medium-term notes of US\$500 million upon maturity and the payment of shareholder dividends of US\$1,140 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US\$6,577 million at 30 June 2018 compared with US\$6,066 million at 31 December 2017.

Deferred acquisition and origination costs increased to US\$23,473 million at 30 June 2018 compared with US\$21,950 million at 31 December 2017, largely reflecting new business growth.

Other assets increased to US\$11,379 million at 30 June 2018 compared with US\$10,908 million at 31 December 2017, reflecting an increase in reinsurance recoveries, accrued interest and prepayments.

## LIABILITIES

Total liabilities increased to US\$181,829 million at 30 June 2018 from US\$175,090 million at 31 December 2017.

Insurance and investment contract liabilities grew to US\$164,285 million at 30 June 2018 compared with US\$159,685 million at 31 December 2017, reflecting the underlying growth of the in-force portfolio offset by negative mark-to-market movements on equities backing unit-linked and participating policies and negative foreign exchange translation.

Borrowings increased to US\$5,421 million at 30 June 2018, due to the net proceeds of the issuance of medium-term notes in April 2018 of US\$991 million and the short-term bank loans of US\$970 million, partly offset by the redemption of medium-term notes of US\$500 million upon maturity. Medium-term notes issued in 2014 will mature in March 2019 as disclosed in note 18 to the interim financial statements.

Other liabilities were US\$12,123 million at 30 June 2018, compared with US\$11,447 million at 31 December 2017.

Details of commitments and contingencies are included in note 25 to the interim financial statements.



## Regulatory Capital

The Group's lead insurance regulator is the Hong Kong Insurance Authority (HKIA). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer.

As at 30 June 2018, the total available capital for AIA Co., our main regulated entity, was US\$9,382 million as measured under the Hong Kong Insurance Ordinance (HKIO) basis, resulting in a solvency ratio of 458 per cent of regulatory minimum capital compared with 446 per cent at 31 December 2017.

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

US\$ millions, unless otherwise stated	As at	As at
	30 June 2018	31 December 2017
Total available capital	9,382	8,395
Regulatory minimum capital (100%)	2,047	1,882
Solvency ratio (%)	458%	446%

The Group's individual branches and subsidiaries are also subject to supervision in the jurisdictions in which they and their parent entity operate. This means that local operating units, including branches and subsidiaries, must meet the regulatory capital requirements of their local prudential and, where applicable, parent entity regulators. These various regulators overseeing the Group's branches and subsidiaries actively monitor their capital positions. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 30 June 2018.

## Regulatory and International Developments

Internationally, the regulatory environment facing life insurers has continued to evolve. In particular, the International Association of Insurance Supervisors (IAIS) continues a multi-year review of certain Insurance Core Principles with the longer-term aim of developing and implementing an updated common framework for the international regulation of insurance companies.

Regulators across AIA's span of operations continue a variety of initiatives intended to align their respective regulatory frameworks with the broad principles recommended by the IAIS. AIA continues to be involved in these initiatives across the region, and is an active participant in the international industry dialogue on a host of relevant issues, including formulation by the IAIS of an insurance capital standard (ICS). Field testing for the ICS is expected to be completed in 2019 with implementation of the ICS to be conducted in two phases. Under the first phase, ICS will be used for confidential reporting to group-wide supervisors in a monitoring period lasting five years. The second phase will be implementation of the ICS as a group-wide prescribed capital requirement.

In 2016, Bermuda's prudential framework for insurance was deemed to be equivalent to the regulatory standards applied to European insurers in accordance with the requirements of the Solvency II Directive. Under the enhanced commercial prudential return regime, the Bermuda Monetary Authority has instituted a number of changes to its statutory and prudential reporting requirements, including the need for commercial insurers to prepare an economic balance sheet. These new regulatory requirements were first applied to AIA's financial year ended 30 November 2017 and AIA continues to participate in the development and refinement of these initiatives.

Following the establishment of the HKIA on 26 June 2017 as the regulator of Hong Kong insurance companies, it is anticipated that the HKIA will also directly regulate intermediaries within two years. A multi-year consultation process is also underway to develop a risk-based capital regime for Hong Kong insurers. AIA continues to be closely and constructively engaged in these developments.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission (formerly the China Insurance Regulatory Commission) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, AIA will report under the HKIO the capital position of its China branches based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

On 18 May 2017, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 17, Insurance Contracts (previously IFRS 4 Phase II) which will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of Hong Kong Financial Reporting Standard (HKFRS) 17, Insurance Contracts. The Group is conducting a detailed assessment of the new standards and preparing for their implementation. The standards are mandatorily effective for financial periods beginning on or after 1 January 2021.

## **Global Medium-term Note (GMTN) and Securities Programme**

Under our US\$6 billion GMTN and Securities programme, the Company issued senior unsecured fixed rate notes with a nominal amount of US\$500 million and HK\$3,900 million in April 2018. The US\$500 million notes will mature in 2028 and bear annual interest of 3.90 per cent, while the HK\$3,900 million notes, which are not listed, will mature in 2021 and bear annual interest of 2.76 per cent. The Company redeemed senior unsecured fixed rate notes with a nominal amount of US\$500 million in March 2018. At 30 June 2018, the aggregate carrying amount of the debt issued under the GMTN and Securities programme was US\$4,451 million.

## **Credit Ratings**

At 30 June 2018, AIA Co. has financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from Standard & Poor's.

The Company has issuer credit ratings of A2 (Low Credit Risk) with a stable outlook from Moody's; AA- (Very High Credit Quality) with a stable outlook from Fitch; and A (Strong) with a stable outlook from Standard & Poor's.

## **Dividends**

The Board has declared an interim dividend of 29.20 Hong Kong cents per share. This represents a strong increase of 14 per cent compared with the interim dividend in 2017, reflecting the strength of our financial results in the first half of 2018 and our confidence in the outlook for the Group.

The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group.

## **BUSINESS REVIEW**

### **Distribution**

#### **AGENCY**

AIA's proprietary tied agency network is our core distribution platform and accounted for 71 per cent of the Group's total VONB in the first half of 2018. The professional advice and high-quality service provided by our agents enable AIA to partner with our customers over their lifetimes. Through these relationships, our agents help customers make informed choices from our comprehensive range of products and services. Regular and personalised interaction with customers is a key component of how we fulfil our brand promise to help people across the Asia-Pacific region live healthier, longer, better lives.

Disciplined execution of AIA's Premier Agency strategy continued to drive sustainable VONB growth. In the first half of 2018, agency VONB grew by 27 per cent to US\$1,457 million. ANP increased by 18 per cent to US\$2,062 million with a higher VONB margin of 70.6 per cent.

Building on our track record of success, we remained focused on enhancing the quality and capabilities of our Premier Agency in the first half of 2018. We raised minimum performance standards across all our markets and strengthened our best-in-class recruitment and training programmes to further differentiate our agents. This relentless focus on quality contributed to higher active agent productivity compared with the first half of 2017.

We continued to expand the functionality of our digital platforms. These investments enable our agents to more efficiently and effectively identify and meet our customers' changing needs throughout their lifetimes. We are integrating AIA's in-house data analytics capabilities and propensity models with our mobile-enabled agency support apps. This provides our agents with a real-time view of their customers' policies and notifies them of events such as a claim or a change in personal circumstances. These digital tools and services are widely used by our agents with more than 90 per cent of total cases across the Group issued through our digital interactive Point of Sale (iPoS) platform in June 2018.

Our focus on agent professionalism is reflected in our number of Million Dollar Round Table (MDRT) registered members. In 2018, AIA became the first multinational company to achieve the largest number of MDRT registered members for four consecutive years, and we now have more than 10,000 MDRT registered members across the Group.

## **PARTNERSHIPS**

AIA's partnership business is complementary to our agency distribution. These relationships provide us with broader access to potential customers across the Asia-Pacific region. As the middle-class populations continue to expand in the markets where we operate, the extensive nationwide reach of our partnerships helps us to meet the diverse and evolving purchasing preferences of our customers.

VONB from partnerships was US\$583 million in the first half of 2018, representing a reduction of 4 per cent due to the exceptionally strong performance in Hong Kong's retail IFA channel in the first half of 2017, as previously highlighted. VONB margin remained strong at 48.9 per cent, while ANP was lower at US\$1,190 million. Partnerships accounted for 29 per cent of the Group's total VONB in the first half of 2018.

Our intermediated channels, including IFAs, brokers, private banks and specialist advisers, reported lower VONB compared with the first half of 2017. We continue to realign our propositions and service support model to differentiate AIA and meet the needs of our partners' customers while driving long-term sustainable growth.

Our bancassurance partnerships delivered strong double-digit growth in VONB in the first half of 2018. This success was underpinned by our excellent progress in improving the productivity of in-branch insurance specialists through greater integration with our partners' financial advisory processes, the introduction of analytics-enhanced digital leads generation and customised sales management programmes. We have also delivered an increasing level of engagement with bank customers where we have embedded AIA Vitality into our products. We launched our strategic partnership with Bangkok Bank Public Company Limited (Bangkok Bank) in Thailand in March 2018.

VONB growth in our direct channel benefited from continued strong growth momentum in Korea, which was driven by the successful execution of our strategy in product propositions, promotional campaigns and expansion of sponsor partnerships.

## Customer Engagement and Marketing

Strengthening customer engagement and offering products and services that are tailored to meet an individual's specific needs are important strategic priorities for AIA. Our enriched customer data and the application of advanced propensity models, combined with our leading distribution capabilities, help to make this possible. These enhancements to how AIA collects and analyses customer data have enabled us to generate meaningful insights for our agents and distribution partners that enable them to offer the most relevant propositions to our customers. Pilot campaigns using these tools have demonstrated early signs of success. For example, one such customer campaign run by our Thailand business in the first half of 2018 saw a doubling of the repurchase rate for targeted customer segments.

Membership of our wellness programmes has nearly trebled over the last 12 months to close to 1 million members, with participants of AIA Vitality and AIA China's wellness programme now able to enjoy a broader range of positive and rewarding experiences. User activity on our mobile and web-enabled apps continues to grow, allowing AIA to engage with our customers on a regular basis to influence changes in behaviour and promote positive health outcomes. On average, our wellness programme members exercised once every two days in the first half of 2018 compared with once every five days in 2017.

To ensure that the AIA brand continues to resonate with our customers as their lifestyles and financial needs evolve, we launched a new brand promise in the first half of 2018: helping people live healthier, longer, better lives. This promise captures important aspects of the value that we offer to our customers and features prominently in our marketing and branding activities across the Group.

AIA's Global Ambassador David Beckham continued to promote AIA's brand promise around healthy living. The video of our global #WhatsYourWhy social media campaign featuring David has generated over 40 million online views. The campaign engaged with thousands of people across Asia, who each shared their motivation for wanting to live a healthier life.

Our long-term partnership with Tottenham Hotspur also supported the launch of our new brand promise. In the first half of 2018, elite coaches from the club hosted football festivals for children in Thailand, Indonesia, Cambodia, Hong Kong and Vietnam that attracted thousands of families to attend. These festivals are one of many company-driven initiatives to give back to the communities in which we operate through promoting the importance of a healthy lifestyle including nutritional balance and regular exercise.

In Hong Kong, AIA continued to sponsor the Hong Kong Observation Wheel at the iconic Central Harbourfront. In just over six months since AIA became the exclusive Principal Sponsor in December 2017, the Observation Wheel has hosted more than 15,000 charity guests and celebrated its one millionth visitor.

## Employee and Community Engagement

### EMPLOYEE ENGAGEMENT

At AIA we believe that our people represent our most valuable resource. We are dedicated to creating an engaging and enriching environment that will help us continue to attract outstanding people and allow them to develop and excel. Our commitment to attracting, developing and retaining the best people is underpinned by a culture of supporting people and rewarding performance.

To help achieve our vision to be the world's pre-eminent life insurance provider, we continue to expand participation in the AIA Leadership Centre (ALC) in Bangkok. The ALC provides bespoke leadership and development programmes designed to enhance the skills and knowledge of our senior executives, emerging leaders, distribution managers and technical leaders. The ALC plays an important role in equipping leaders to drive AIA's business strategy, which is guided by our Strategic Framework and Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come". Since opening in 2016, there have been more than 14,000 visits by senior executives, subsidiary board members, emerging leaders from the Group Office and the business units, as well as agency leaders and bank partners have attended programmes, events, meetings and conferences at the ALC.

Career Mobility remains an important tool in supporting people development at all levels of the Group. We actively facilitate the mobility of our people through deployment to various AIA locations and functions to provide a range of experiences and deepen learning.

We provide our employees with a comprehensive total rewards programme that supports the attraction, retention and engagement of the very best people in the industry. The Company's short-term and long-term incentive programmes are designed to balance the achievement of both near-term and longer-term initiatives to generate the best possible outcomes for our customers and sustainable value for our shareholders. These programmes are reviewed annually and are subject to dialogue between the Board Risk Committee and Remuneration Committee. All of our recognition and benefit programmes are assessed regularly to ensure they remain competitive and aligned with our long-term stakeholder interests, while remaining compliant with all applicable regulations.

An important component of our total rewards programme is the Employee Share Purchase Plan (ESPP) which is designed to encourage employees to become AIA shareholders, further aligning the interests of our more than 21,000 employees with those of our shareholders.

Sustaining the growth and success of our business necessitates the effective engagement and motivation of employees throughout the organisation. Every year, we conduct the Gallup Q<sup>12</sup> Survey, an independent survey which we use to measure employee engagement. The most recent survey findings resulted in AIA winning the Gallup Great Workplace Award for 2018. The award is one of Gallup's highest honour which recognises global organisations across different industries that achieve exceptional performance by fostering a culture of engagement.

## **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

AIA's business is underpinned by a promise to help our customers and indeed all of our stakeholders to live healthier, longer, better lives. We believe we can make a significant difference through the products we provide, the investments we make and the community initiatives we support.

Our CSR programme reflects our focus on healthier, longer, better lives. In practice, it enables AIA to support a diverse array of initiatives that promote healthy living and well-being while inspiring those in our local communities to embrace a healthy and active lifestyle from every age.

In Jakarta nearly 1,000 children took part in our first "Football for the Nation" event. AIA donated 10,000 footballs to schools across Indonesia with the aim of promoting sport among local children. As part of AIA's Health Fest initiative in Indonesia, we also invited 100 health-focused key opinion leaders from around the country to encourage conversations about health with the aim of reaching young, digitally savvy people on the topic. AIA's Global Ambassador David Beckham spoke at the event about the importance of pursuing healthy goals at every stage of life.

In Thailand, AIA launched its latest "AIA Operation Smile" project which helps to raise money and offer support for a hospital dedicated to patients with facial deformities and other physical ailments. This is the 14th year AIA has run the project, improving the lives of an estimated 2,400 patients to date.

Philam Life's CSR arm, the Philam Foundation, collaborated with other organisations to support the building of seven new classrooms in three separate schools across the province of Bukidnon in the Philippines. Each classroom can accommodate 50 students and is equipped with necessary learning equipment, electricity and sanitation facilities. Philam Life has so far constructed a total of 137 classrooms around the country.



## Geographical Markets

### HONG KONG

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
VONB <sup>(1)</sup>	796	723	10%	10%
VONB margin <sup>(2)</sup>	62.2%	49.2%	13.0 pps	13.0 pps
ANP	1,252	1,434	(13)%	(13)%
TWPI	5,075	4,275	19%	19%
Operating profit after tax	922	821	12%	12%

### Financial Highlights

AIA Hong Kong delivered 10 per cent growth in VONB to US\$796 million, building on an exceptionally strong performance in the first half of 2017. The excellent growth in our proprietary agency business was partly offset by lower volumes in the retail IFA channel. Sales of higher-margin products resulted in lower ANP of US\$1,252 million but with an increased VONB margin of 62.2 per cent. IFRS operating profit after tax grew by 12 per cent to US\$922 million, reflecting growth in our underlying business as well as an improvement in claims experience, partly offset by a shift in product mix towards participating business.

### Business Highlights

Our disciplined execution of AIA's Premier Agency strategy delivered very strong double-digit VONB growth for our agency business. AIA Hong Kong continues to attract and train high-calibre agents through the AIA Premier Academy, a comprehensive recruitment and training platform that identifies and develops future MDRT agents and Premier Agency leaders. We also support our highly-productive agency force with a broad suite of digital tools that covers training, point-of-sale and servicing, which enables our agents to better connect and engage with their customers.

AIA's long-term strategic partnership with Citibank, N.A. (Citibank) generated excellent double-digit growth in VONB, driven by higher levels of productivity as we continued to proactively support the bank's relationship managers and insurance specialists in meeting their customers' protection needs. VONB from the retail IFA channel was lower following an exceptional performance in the first half of 2017, as previously highlighted. We continue to drive further differentiation through enhancing our customer propositions and the training and sales support that we offer to our partners.

AIA Hong Kong continued to invest in deploying innovative technology and digital tools that make a material difference to customer experience and support our agents in providing tailored, professional advice. In March 2018, we launched AIA Connect, a mobile application that enables our customers to manage their individual life policies, group insurance policies, mandatory provident fund (MPF) accounts and AIA Vitality membership through a single portal. In June 2018, AIA Hong Kong also launched AIA iShop, our first online insurance purchase platform.

We continue to actively engage with existing customers and are committed to helping them meet their protection and long-term savings needs at every stage of their lives. Our initiatives to more closely engage with customers and to equip our agents with best-in-class digital tools delivered an increase of more than 30 per cent in VONB from our existing customers in the first half of 2018. Membership of AIA Vitality, our comprehensive science backed wellness programme, in Hong Kong increased by more than 60 per cent over the last 12 months.

## THAILAND

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
VONB <sup>(1)</sup>	204	179	5%	14%
VONB margin <sup>(2)</sup>	71.0%	75.3%	(4.4) pps	(4.3) pps
ANP	287	237	11%	21%
TWPI	1,803	1,571	5%	15%
Operating profit after tax	496	423	7%	17%

### Financial Highlights

AIA Thailand delivered 5 per cent VONB growth to US\$204 million in the first half of 2018, driven by stronger sales momentum. ANP grew by 11 per cent to US\$287 million, with regular premium business accounting for more than 95 per cent of ANP as we maintained our focus on providing long-term protection and savings solutions. IFRS operating profit after tax increased by 7 per cent to US\$496 million as a result of underlying business growth.

### Business Highlights

As part of our Premier Agency strategy, we continued to enhance and expand our Financial Adviser programme to drive the transformation of our agency force in Thailand and attract young high-calibre individuals to full-time, professional careers with AIA. In the first half of 2018, we delivered double-digit growth in new recruits to this programme and ANP from Financial Advisers grew by more than 30 per cent. Our number of registered MDRT members across the Thailand agency force increased by 48 per cent, demonstrating the enhanced quality of our agency. We continue to strictly apply minimum performance standards to reduce the numbers of less productive agents.

In October 2017, we announced that AIA Thailand had entered into a 15-year strategic bancassurance partnership with Bangkok Bank; the largest bank in Thailand by total assets with more than 16 million customer accounts. The partnership was officially launched in March 2018, and we focused on recruiting and training Bangkok Bank's in-branch insurance specialists in the second quarter of 2018 to lay the foundations for supporting future growth.

We continued to offer a wide range of products targeted towards meeting the needs of the emerging affluent and high net worth market in Thailand and maintained our leadership in the group insurance market. Membership of AIA Vitality in Thailand more than trebled over the last 12 months.

## SINGAPORE

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
VONB <sup>(1)</sup>	178	138	22%	29%
VONB margin <sup>(2)</sup>	61.4%	71.1%	(9.7) pps	(9.7) pps
ANP	290	194	42%	49%
TWPI	1,392	1,172	12%	19%
Operating profit after tax	273	240	9%	14%

### Financial Highlights

AIA Singapore delivered very strong VONB growth in the first half of 2018, with an increase of 22 per cent to US\$178 million. ANP grew by 42 per cent to US\$290 million from strong sales in both agency and partnership distribution. VONB margin was strong at 61.4 per cent, but reduced due to lower profitability from our HealthShield business and a shift in product mix. IFRS operating profit after tax increased by 9 per cent to US\$273 million.

### Business Highlights

AIA Singapore's market-leading agency force delivered very strong double-digit VONB growth with a focus on regular premium protection business. We continued to develop our professional, full-time agents and supplemented our recruitment and training programmes with innovative digital tools designed to enhance agency productivity. In the first half, we launched iConnect, which is a new mobile application that is integrated with our propensity models and helps agents to better engage with customers and tailor their advice to the needs of customers within their portfolio. Our focus on agency development has led to a 17 per cent increase in the number of active agents and a double-digit growth in agent productivity compared with the first half of 2017.

AIA Singapore's strategic partnership with Citibank generated excellent double-digit VONB growth through our sustained focus on enhancing the productivity of the bank's sales force and meeting the protection needs of its customers. Growth in the partnership was also supported by higher direct sales of simplified protection solutions to Citibank's credit card customer base.

Our commitment to delivering quality healthcare for our customers was reinforced by the launch of our exclusive partnership with Medix, the first-of-its-kind personal medical case management services in Singapore. We also increased the number of participating hospitals and expanded our AIA Quality Healthcare Partners network to provide our customers with greater flexibility when choosing the most suitable healthcare provider.

We also continued to enhance our AIA Vitality wellness programme by expanding its integration across our product suite. VONB from AIA Vitality integrated products grew by 57 per cent compared with the first half of 2017, while membership of AIA Vitality more than doubled over the last 12 months.

## MALAYSIA

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
VONB <sup>(1)</sup>	124	106	5%	17%
VONB margin <sup>(2)</sup>	60.3%	62.3%	(1.9) pps	(2.0) pps
ANP	204	169	8%	21%
TWPI	1,047	882	7%	19%
Operating profit after tax	158	118	19%	34%

### Financial Highlights

AIA Malaysia reported 5 per cent growth in VONB to US\$124 million in the first half of 2018. Following a strong first quarter, new business performance was affected in the second quarter by reduced consumer activity relating to Malaysia's general election and ahead of changes to Goods and Services Tax (GST). ANP increased by 8 per cent to US\$204 million, which was partially offset by a lower VONB margin of 60.3 per cent. IFRS operating profit after tax increased by 19 per cent to US\$158 million, driven by improved claims and lapse experience compared with the first half of 2017.

### Business Highlights

Our strategic priorities for agency distribution remained focused on quality recruitment and productivity enhancement. The Balanced Scorecard requirements imposed by the government on remuneration for insurance agents became effective in January 2018, and AIA Malaysia's Premier Agency model has ensured a smooth and successful transition to the new system.

AIA Malaysia continued to roll out initiatives aimed at improving agent productivity, including new apps on our digital platform. In the first half of 2018, we launched the AIA Life Planner App, which enables our agents to serve customers more efficiently with real-time updates on customer information and policy status. Usage of the app has reached 69 per cent within the first six months since launch. AIA Malaysia's agency recruitment programme has continued to drive quality recruitment, supported by the new AIA Recruiter App for agency leaders. We delivered double-digit growth in active Takaful-producing agents, which contributed to growth in our Takaful business. Low levels of insurance cover for the Malay population in Malaysia continue to offer significant growth opportunities with attractive new business returns although VONB margin is lower than conventional business.

Bancassurance delivered double-digit VONB growth as we worked closely with Public Bank on increasing the life insurance penetration of its customer base. In the first half of 2018, we upgraded our high sum assured regular premium unit-linked product tailored for the bank's customers, which contributed to a double-digit increase in average case size for the Public Bank partnership.

AIA is the clear leader in Malaysia's group insurance market. We delivered double-digit VONB growth with increased volume from existing clients and several new cases from large corporate accounts.

AIA Vitality continues to differentiate our insurance proposition from other industry participants and improve customer engagement. Membership of the programme increased by close to 50 per cent over the last 12 months.

## CHINA

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
VONB <sup>(1)</sup>	556	377	37%	47%
VONB margin <sup>(2)</sup>	91.0%	88.2%	2.8 pps	2.8 pps
ANP	611	428	32%	43%
TWPI	2,076	1,467	31%	42%
Operating profit after tax	436	294	37%	48%

### Financial Highlights

In the first half of 2018, AIA China was our fastest-growing operating segment with VONB growth of 37 per cent to US\$556 million. ANP grew by 32 per cent to US\$611 million as we maintained our focus on quality recruitment and the ongoing enhancement of agent productivity. VONB margin remained very strong at 91.0 per cent, reflecting our focus on regular premium protection products. IFRS operating profit after tax increased by 37 per cent to US\$436 million, in line with the growth in business and reflecting our high-quality sources of earnings.

### Business Highlights

AIA China's digital platform provides our agents with a comprehensive suite of tools to enable all aspects of their roles including recruitment, training, advice and service. In the first half of 2018 we launched a new tool, Master Planner, that supports our agency leaders to manage their teams in a more systematic and effective way, including new agent development, performance evaluation and business planning activities. Combined with our quality recruitment and training programmes, these digital tools have helped to deliver a significant increase in active new agent productivity compared with the first half of 2017. AIA China reported 31 per cent growth in registered MDRT members, clearly demonstrating the consistent execution of our Premier Agency strategy.

AIA China maintained its strong position in the protection market, with traditional protection business accounting for 86 per cent of VONB. We upgraded our flagship product, All-in-One, to tailor it to the specific needs of various customer segments with enriched features. We also launched a new long-term savings product that addresses the needs of the high net worth segment for retirement planning, asset allocation and wealth management.

Our wellness programme that was launched in March 2017 continued to be a key differentiator for AIA's customer proposition in China. Membership of the wellness programme grew by more than 60 per cent since the start of the year and has increased by nearly five times over the last 12 months. In May 2018, we formed a long-term strategic partnership with WeDoctor, China's leading technology-enabled healthcare solution platform. WeDoctor's more than 110 million registered customers will be offered our market-leading protection solutions in the areas where AIA China operates, while AIA's customers gained preferred access to WeDoctor's leading healthcare services across the nation.

## OTHER MARKETS

US\$ millions, unless otherwise stated	Six months ended 30 June 2018	Six months ended 30 June 2017	YoY CER	YoY AER
VONB <sup>(1)</sup>	201	185	7%	9%
VONB margin <sup>(2)</sup>	32.8%	41.2%	(8.6) pps	(8.4) pps
ANP	608	444	36%	37%
TWPI	3,036	2,807	6%	8%
Operating profit after tax	393	337	16%	17%

AIA's Other Markets include Australia (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India.

The financial results from our 49 per cent shareholding in Tata AIA, our joint venture with the Tata Group in India, are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.

### Financial Highlights

Other Markets reported 7 per cent VONB growth in the first half of 2018, building on the very strong growth last year. ANP grew by 36 per cent to US\$608 million and VONB margin reduced to 32.8 per cent. The reported results for Other Markets were affected by the uneven timing of large group insurance schemes in Australia. VONB growth of Other Markets was 18 per cent, excluding the impact of these large group schemes. IFRS operating profit after tax increased by 16 per cent to US\$393 million.

### Business Highlights

**Australia:** AIA Australia delivered a solid underlying performance in the first half of 2018 with the retail IFA business reporting double-digit VONB growth. We maintained our new business leadership position in the retail IFA channel as AIA Vitality remained a key differentiator for AIA in the market. Our group insurance business continued to make good progress by securing a new large scheme in March 2018, that will largely be reflected in the second-half VONB results.

In July 2018, we completed the acquisition of Sovereign Assurance Company Limited (Sovereign), which includes a 20-year strategic bancassurance partnership with ASB Bank Limited (ASB) in New Zealand. We continue to work with Commonwealth Bank of Australia (CBA) on completing our acquisition of the bank's Australian life insurance business and the associated 20-year strategic partnership with CBA in Australia.

**Cambodia:** AIA's Cambodian business continued to build momentum and increase scale since its official launch in May 2017. Our multi-channel distribution strategy remained focused on growing a full-time, professional agency and developing bancassurance partnerships. In the first half of 2018, we expanded our customer reach to include the affluent customer base of Cambodian Public Bank, which is a wholly-owned subsidiary of Public Bank Berhad in Malaysia.

**Indonesia:** AIA's agency business in Indonesia delivered double-digit VONB growth, driven by higher agent activity and productivity. Our quality recruitment programme in Indonesia contributed to a double-digit increase in the number of active new agents, with a strong focus on training our agents to meet the increasingly sophisticated financial protection needs of the rapidly growing middle-class population in Indonesia. The extension of our partnership with Bank Central Asia (BCA) has broadened our access to the bank's customer base. In the first half of 2018, we delivered strong sales momentum with BCA, driven by an increase in the number of active in-branch insurance specialists.

**Korea:** AIA Korea reported strong VONB growth in the first half of 2018. Our direct channel delivered an excellent performance as we engaged our sponsors for more telemarketing leads and recorded a double-digit increase in the number of our telesales representatives. We also made good progress in developing our new strategic partnership with SK Telecom, the leading telecommunications service provider in Korea that has approximately 30 million customers.

**Philippines:** Our business in the Philippines delivered a double-digit increase in VONB, with growth across both agency and bancassurance channels. We increased our focus on quality recruitment in the first half of 2018, leading to an increase in the number of active new agents. Our joint venture with the Bank of the Philippine Islands (BPI) delivered excellent VONB growth as we continued to support the bank's initiatives to improve the quality of our in-branch insurance specialists, which resulted in a higher number of active insurance specialists and a positive shift in product mix.

**Sri Lanka:** Our Sri Lankan business delivered double-digit ANP growth in the first half of 2018, driven by improved agency recruitment, strong performance of our key bank partners and the launch of new protection and retirement savings solutions. However, VONB was impacted by a change in tax regulations that took effect in April 2018.

**Taiwan:** AIA Taiwan achieved excellent double-digit VONB growth in the first half of 2018. Strong sales growth in both the IFA and bancassurance channels was driven by our insurance solutions which are targeted towards meeting customer needs for retirement and legacy planning.

**Vietnam:** AIA Vietnam's business reported double-digit VONB growth in the first half of 2018. Our sustained focus on the professional development of our agency force resulted in improved productivity and higher VONB. Partnership distribution achieved excellent growth, driven by the successful launch of our exclusive partnership with Vietnam Prosperity Joint-Stock Commercial Bank (VPBank) and higher production from our other bank partners. In the first half of 2018, we broadened our product portfolio with a first-to-market whole-life critical illness product and a diabetes protection product to meet our customers' needs for long-term protection solutions.

Notes:

Throughout the Distribution section:

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.



## **RISK MANAGEMENT**

The Group recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. For our policyholders it provides the security of knowing that we will always be there for them. For investors it is key to protecting and enhancing the long-term value of their investment. Finally, for regulators it supports industry growth and enhances the public's trust in the industry.

While effective risk management is vital to any organisation, it goes to the core of a life insurance business where it is a fundamental driver of value. The Group's Risk Management Framework (RMF) does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the creation of long-term value.

The Group's RMF is built around developing an appropriate and mindful risk culture at every level of the organisation in support of our strategic objectives. It provides business units with appropriate tools, processes and capabilities for the identification, assessment and, where required, escalation of identified material risks for further evaluation.

The Group's RMF consists of the following key components:

- Risk Culture;
- Risk Management Process;
- Risk Governance;
- Risk Appetite; and
- Risk Landscape.

The Group's RMF is described on pages 50 to 60 and note 36 to the financial statements on pages 219 to 226 of the Company's Annual Report 2017.

## CORPORATE GOVERNANCE

### COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the seven months ended 30 June 2018, the Company complied with all applicable code provisions set out in the Corporate Governance Code.

### COMPLIANCE WITH MODEL CODE

The Company has adopted its own Directors' and Chief Executives' Dealing Policy (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 required standards set out in the Model Code and the Dealing Policy throughout the seven months ended 30 June 2018.

### CHANGES IN DIRECTORS' INFORMATION

Changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Change(s)
Mr. Jack Chak-Kwong So	<ul style="list-style-type: none"><li>• Ceased to act as a member of the Chinese People's Political Consultative Conference with effect from 1 March 2018.</li><li>• Appointed as a non-official member of the Chief Executive's Council of Advisers on Innovation and Strategic Development with effect from 21 March 2018.</li></ul>
Mr. George Yong-Boon Yeo	<ul style="list-style-type: none"><li>• Appointed as a senior advisor to Brunswick Group LLP with effect from 1 March 2018.</li><li>• Appointed as an independent director of Pinduoduo Inc. (listed on the Nasdaq Global Select Market) with effect from 25 July 2018.</li></ul>
Professor Lawrence Juen-Yee Lau	<ul style="list-style-type: none"><li>• Ceased to act as a member of the 12th National Committee of the Chinese People's Political Consultative Conference and the Vice-Chairman of its Sub-committee of Economics with effect from 1 March 2018.</li><li>• Appointed as an independent non-executive director of Semiconductor Manufacturing International Corporation (listed on the Hong Kong Stock Exchange and the New York Stock Exchange) with effect from 22 June 2018.</li></ul>
Mr. Chung-Kong Chow	<ul style="list-style-type: none"><li>• Appointed as a non-official member of the Human Resources Planning Commission of the HKSAR Government with effect from 1 April 2018.</li><li>• Retired from the position of the Chairman of Hong Kong Exchanges and Clearing Limited (listed on the Hong Kong Stock Exchange) with effect from 25 April 2018.</li></ul>
Mr. Cesar Velasquez Purisima	<ul style="list-style-type: none"><li>• Appointed as an independent director of Ayala Land, Inc. (listed on The Philippine Stock Exchange, Inc.) with effect from 18 April 2018.</li><li>• Appointed as an independent director of Universal Robina Corporation (listed on The Philippine Stock Exchange, Inc.) with effect from 30 May 2018.</li><li>• Appointed as a member of the Global Advisory Council of Sumitomo Mitsui Banking Corporation with effect from 1 July 2018.</li></ul>
Mr. Mohamed Azman Yahya	<ul style="list-style-type: none"><li>• Retired from the board of Khazanah Nasional Berhad with effect from 31 July 2018.</li></ul>
Ms. Swee-Lian Teo	<ul style="list-style-type: none"><li>• Ceased to be a member of Corporate Governance Council of the Monetary Authority of Singapore with effect from 6 August 2018.</li><li>• Appointed as a director of Clifford Capital Pte. Ltd. with effect from 10 August 2018.</li></ul>

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

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

Reference is made to the particulars of two ongoing investigations involving Mr. Cesar Velasquez Purisima as set out on pages 25 to 26 of the circular of the Company dated 22 March 2018. Mr. Purisima had informed the Company that (i) the complaint filed with the Office of the Ombudsman of the Philippines for alleged conspiracy to award maintenance contracts of the Metro Rail Transit Line 3 to favoured contractors; and (ii) the complaint filed before the Office of the City Prosecutor, Davao City, Philippines alleging that the Philippines Deposit Insurance Corporation engaged in criminal deception, had both been dismissed against him.

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

As at 30 June 2018, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Interests in the shares and underlying shares of the Company:

Name of Director	Number of shares or underlying shares		Percentage of the total number of shares in issue <sup>(1)</sup>	Capacity
	Long Position (L)	Class		
Mr. Ng Keng Hooi	7,900,122 (L) <sup>(2)</sup>	Ordinary	0.07	Beneficial owner
	61,200 (L) <sup>(3)</sup>	Ordinary	<0.01	Interest of spouse <sup>(4)</sup>
Mr. Edmund Sze-Wing Tse	3,560,400 (L) <sup>(3)</sup>	Ordinary	0.03	Beneficial owner
Mr. Chung-Kong Chow	86,000 (L) <sup>(3)</sup>	Ordinary	<0.01	Beneficial owner
Mr. Jack Chak-Kwong So	260,000 (L) <sup>(3)</sup>	Ordinary	<0.01	Interest of controlled corporation <sup>(5)</sup>
Mr. John Barrie Harrison	75,000 (L) <sup>(3)</sup>	Ordinary	<0.01	Beneficial owner
Mr. George Yong-Boon Yeo	100,000 (L) <sup>(3)</sup>	Ordinary	<0.01	Beneficial owner
Professor Lawrence Juen-Yee Lau	60,000 (L) <sup>(3)</sup>	Ordinary	<0.01	Beneficial owner
	100,000 (L) <sup>(3)</sup>	Ordinary	<0.01	Interest of spouse <sup>(6)</sup>

Notes:

- (1) Based on 12,076,208,684 shares in issue as at 30 June 2018.
- (2) The interests included 2,347,324 shares, 4,309,630 share options under the Share Option Scheme (SO Scheme), 1,240,152 restricted share units under the Restricted Share Unit Scheme (RSU Scheme) and 3,016 matching RSPUs under the ESPP.
- (3) The interests were shares of the Company.
- (4) The 61,200 shares were held by Ms. Leong Seet Lan, the spouse of Mr. Ng Keng Hooi, as beneficial owner.
- (5) The 260,000 shares were held by Cyber Project Developments Limited, a company beneficially wholly owned by Mr. Jack Chak-Kwong So.
- (6) The 100,000 shares were held by Ms. Ayesha Abbas Macpherson, the spouse of Professor Lawrence Juen-Yee Lau, as beneficial owner.

Save as disclosed above, as at 30 June 2018, neither any Director nor the Chief Executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF PERSONS OTHER THAN THE DIRECTORS OR THE CHIEF EXECUTIVE

As at 30 June 2018, the following persons, other than the Directors or the Chief Executive of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Number of shares or underlying shares (Note 1)		Class	Percentage of the total number of shares in issue (Note 2)		Capacity
	Long Position (L)	Short Position (S)		Long Position (L)	Short Position (S)	
JPMorgan Chase & Co.	1,088,254,932 (L)		Ordinary	9.01 (L)		Note 3
	19,556,741 (S)			0.16 (S)		
	737,449,866 (P)			6.11 (P)		
The Capital Group Companies, Inc.	984,372,860 (L)		Ordinary	8.15 (L)		Interest of controlled corporations
The Bank of New York Mellon Corporation	751,880,605 (L)		Ordinary	6.23 (L)		Interest of controlled corporation
	709,200,742 (P)			5.87 (P)		–
Citigroup Inc.	624,117,422 (L)		Ordinary	5.17 (L)		Note 4
	1,153,224 (S)			0.01 (S)		
	605,938,943 (P)			5.02 (P)		
BlackRock, Inc.	604,419,448 (L)		Ordinary	5.01 (L)		Interest of controlled corporations
	4,404,600 (S)			0.04 (S)		

Notes:

- (1) The interests and short positions included underlying shares as follows:

Name of Shareholder	Long Position				Short Position			
	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives
JPMorgan Chase & Co.	4,623,648	1,556,000	491,200	6,687,175	1,082,000	10,685,300	1,725,066	5,889,375
The Capital Group Companies, Inc.	–	–	3,593,080	–	–	–	–	–
Citigroup Inc.	4,434,900	–	859,022	7,800	–	–	859,022	294,201
BlackRock, Inc.	–	–	–	281,400	–	–	–	3,238,000

- (2) Based on 12,076,208,684 shares in issue as at 30 June 2018.
- (3) JPMorgan Chase & Co. held the interests and short positions in the following capacities:

Capacity	Number of shares or underlying shares (Long Position)	Number of shares or underlying shares (Short Position)
Beneficial owner	100,979,108	19,556,741
Investment manager	249,550,900	–
Trustee (other than a bare trustee)	275,058	–
Custodian corporation/approved lending agent	737,449,866	–

(4) Citigroup Inc. held the interests and short positions in the following capacities:

<b>Capacity</b>	<b>Number of shares or underlying shares (Long Position)</b>	<b>Number of shares or underlying shares (Short Position)</b>
Interest of controlled corporations	18,178,479	1,153,224
Approved lending agent	605,938,943	–

Save as disclosed above, as at 30 June 2018, no person, other than the Directors or the Chief Executive of the Company whose interests are set out in the section entitled “Directors’ and the Chief Executive’s Interests and Short Positions in Shares and Underlying Shares”, had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Save for the purchase of 749,578 shares of the Company under the ESPP at a total consideration of approximately US\$6 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the seven months ended 30 June 2018. The share purchases under the ESPP were made by the scheme trustee on the Hong Kong Stock Exchange. These shares are held on trust for the relevant participants of the ESPP and therefore were not cancelled.

## SHARE-BASED COMPENSATION

### Long-term Incentive Plans

The RSU Scheme and the SO Scheme were both adopted by the Company on 28 September 2010 and are effective for a period of 10 years from the date of adoption. For further information regarding these schemes, please refer to pages 111 to 117 of the Company's 2017 Annual Report. 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.

### RSU SCHEME

During the seven months ended 30 June 2018, the Company awarded 11,434,382 restricted share units under the RSU Scheme. Since the adoption of the RSU Scheme on 28 September 2010 and up to 30 June 2018, a cumulative total of 74,373,590 restricted share units vested under the RSU Scheme, representing approximately 0.618 per cent of the shares in issue as at the Company's listing date. No new shares have been issued under the RSU Scheme since its adoption.

For the restricted share units awarded during the seven months ended 30 June 2018, the Company adopted the same performance measures as the restricted share units awarded in the year ended 30 November 2017. As a result of the change in financial year-end, the 2018 restricted share unit award performance measures will be assessed over a three-year period starting 1 January 2018.

The table below summarises the movements in restricted share unit awards.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day/month/year) <sup>(2)</sup>	Date of vesting (day/month/year) <sup>(3)</sup>	Restricted share units outstanding as at 1 December 2017	Restricted share units awarded during the seven months ended 30 June 2018	Restricted share units vested during the seven months ended 30 June 2018	Restricted share units cancelled/reclassified during the seven months ended 30 June 2018 <sup>(8)</sup>	Restricted share units outstanding as at 30 June 2018 <sup>(9)</sup>
Group Chief Executive and President, Director Mr. Ng Keng Hooi	12/3/2015	12/3/2018 <sup>(4)</sup>	283,490	–	(272,633)	(10,857)	–
	9/3/2016	9/3/2019 <sup>(4)</sup>	320,071	–	–	–	320,071
	10/3/2017	10/3/2020 <sup>(4)</sup>	267,659	–	–	–	267,659
	31/7/2017	1/6/2020 <sup>(4)</sup>	213,164	–	–	–	213,164
	15/3/2018	15/3/2021 <sup>(4)</sup>	–	439,258	–	–	439,258
Key Management Personnel (excluding the Group Chief Executive and President, Director)	12/3/2015	12/3/2018 <sup>(4)</sup>	1,284,096	–	(924,739)	(359,357)	–
	1/9/2015	See note <sup>(5)</sup>	169,688	–	–	–	169,688
	9/3/2016	9/3/2019 <sup>(4)</sup>	1,661,968	–	–	(364,163)	1,297,805
	1/8/2016	1/8/2019 <sup>(4)</sup>	41,249	–	–	–	41,249
	10/3/2017	10/3/2020 <sup>(4)</sup>	1,441,875	–	–	(304,526)	1,137,349
	31/7/2017	1/6/2020 <sup>(4)</sup>	311,947	–	–	–	311,947
	15/3/2018	15/3/2021 <sup>(4)</sup>	–	1,070,214	–	–	1,070,214
Other eligible employees and participants <sup>(1)</sup>	12/3/2015	12/3/2018 <sup>(4)</sup>	10,916,765	–	(10,309,414)	(607,351)	–
	1/9/2015	1/9/2018 <sup>(4)</sup>	20,316	–	–	–	20,316
	9/3/2016	9/3/2019 <sup>(4)</sup>	13,327,726	–	(41,026)	(636,814)	12,649,886
	1/8/2016	1/8/2019 <sup>(4)</sup>	34,621	–	–	–	34,621
	17/10/2016	1/8/2019 <sup>(6)</sup>	101,217	–	–	–	101,217
	17/10/2016	See Note <sup>(7)</sup>	41,875	–	–	–	41,875
	10/3/2017	10/3/2020 <sup>(4)</sup>	12,134,441	–	(16,648)	(631,117)	11,486,676
	31/7/2017	1/6/2020 <sup>(4)</sup>	28,519	–	–	–	28,519
	15/3/2018	15/3/2021 <sup>(4)</sup>	–	9,815,954	–	(84,968)	9,730,986
	29/6/2018	15/3/2021 <sup>(4)</sup>	–	108,956	–	–	108,956

Notes:

- (1) Include restricted share units outstanding as at 1 December 2017 for the retired Group Chief Executive and President, Mr. Mark Edward Tucker.
- (2) The measurement dates (i.e. the dates used to determine the value of the awards for accounting purposes) for awards made during the year ended 30 November 2015 were determined to be 12 March 2015 and 1 September 2015. The measurement dates for awards made during the year ended 30 November 2016 were determined to be 9 March 2016, 1 August 2016 and 17 October 2016. The measurement dates for awards made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement dates for awards made during the seven months ended 30 June 2018 were determined to be 15 March 2018 and 29 June 2018. These measurement dates were determined in accordance with IFRS 2.
- (3) The date of vesting is subject to applicable dealing restrictions.
- (4) The vesting of these restricted share units is subject to the achievement of performance measures shown on page 112 of the Company's 2017 Annual Report.
- (5) The vesting of these restricted share units is service-based only (meaning there are no further conditions attached). Three-quarters of restricted share units vested on 1 September 2017 and one-quarter (representing all of the outstanding share units as at 30 June 2018) will vest on 1 September 2018.
- (6) The vesting of these restricted share units is service-based only (meaning there are no further conditions attached). All restricted share units will vest on 1 August 2019.
- (7) The vesting of these restricted share units is service-based only (meaning there are no further conditions attached). One-third of restricted share units vested on 1 August 2017, one-third (representing half of the outstanding restricted share units as at 30 June 2018) will vest on 1 August 2018 and one-third (representing half of the outstanding restricted share units as at 30 June 2018) will vest on 1 August 2019.
- (8) These restricted share units lapsed or were reclassified during the seven months ended 30 June 2018. The reclassification of restricted share units was a result of two executives who were previously categorised as "Key Management Personnel" becoming "Other eligible employees and participants" during this period. There were no cancelled restricted share units during the seven months ended 30 June 2018.
- (9) Include restricted share units outstanding as at 30 June 2018 that, in accordance with the RSU Scheme rules, will lapse on or before the respective vesting date.



## SO SCHEME

During the seven months ended 30 June 2018, the Company awarded 4,439,362 share options under the SO Scheme. Since the adoption of the SO Scheme on 28 September 2010 and up to 30 June 2018, a cumulative total of 28,035,636 new shares were issued under the SO Scheme, representing approximately 0.233 per cent of the shares in issue as at the Company's listing date. No share options have been awarded to substantial shareholders, or in excess of the individual limit.

Details regarding the valuation of the share options are set out in note 23 to the interim financial statements.

The table below summarises the movements in share option awards.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day/month/year) <sup>(2)</sup>	Period during which share options are exercisable (day/month/year)	Share options					Share options cancelled/lapsed/ during the seven months ended 30 June 2018 <sup>(14)</sup>	Share options exercised during the seven months ended 30 June 2018	Exercise price (HK\$)	Share options outstanding as at 30 June 2018 <sup>(15)</sup>	Weighted average closing price of shares immediately before the dates on which share options were exercised (HK\$)
			Share options outstanding as at 1 December 2017	Share options awarded during the seven months ended 30 June 2018	Share options vested during the seven months ended 30 June 2018	Share options reclassified during the seven months ended 30 June 2018	Share options exercised during the seven months ended 30 June 2018					
Group Chief Executive and President, Director Mr. Ng Keng Hooi	5/3/2014	5/3/2017 – 4/3/2024 <sup>(3)</sup>	602,486	-	-	-	-	37.56	602,486	n/a		
	12/3/2015	12/3/2018 – 11/3/2025 <sup>(4)</sup>	541,692	-	541,692	-	-	47.73	541,692	n/a		
	9/3/2016	9/3/2019 – 8/3/2026 <sup>(5)</sup>	851,026	-	-	-	-	41.90	851,026	n/a		
	10/3/2017	10/3/2020 – 9/3/2027 <sup>(6)</sup>	732,574	-	-	-	-	50.30	732,574	n/a		
	31/7/2017	1/6/2020 – 30/7/2027 <sup>(7)</sup>	476,786	-	-	-	-	61.55	476,786	n/a		
15/3/2018	15/3/2021 – 14/3/2028 <sup>(8)</sup>	-	1,105,066	-	-	-	67.15	1,105,066	n/a			
Key Management Personnel (excluding the Group Chief Executive and President, Director)	1/6/2011	1/4/2014 – 31/5/2021 <sup>(9)</sup>	472,746	-	-	-	-	27.35	472,746	n/a		
	1/6/2011	1/4/2014 – 31/5/2021 <sup>(10)</sup>	547,738	-	-	-	-	27.35	547,738	n/a		
	15/3/2012	15/3/2015 – 14/3/2022 <sup>(11)</sup>	519,012	-	-	-	-	28.40	519,012	n/a		
	11/3/2013	11/3/2016 – 10/3/2023 <sup>(12)</sup>	792,680	-	-	(229,513)	-	34.35	563,167	n/a		
	5/3/2014	5/3/2017 – 4/3/2024 <sup>(3)</sup>	941,583	-	-	(277,793)	-	37.56	663,790	n/a		
	14/4/2014	14/4/2017 – 13/4/2024 <sup>(13)</sup>	332,282	-	-	-	-	39.45	332,282	n/a		
	12/3/2015	12/3/2018 – 11/3/2025 <sup>(4)</sup>	2,035,310	-	1,419,013	(616,297)	(435,169)	47.73	983,844	67.15		
	9/3/2016	9/3/2019 – 8/3/2026 <sup>(5)</sup>	3,737,698	-	-	(968,262)	-	41.90	2,769,436	n/a		
	10/3/2017	10/3/2020 – 9/3/2027 <sup>(6)</sup>	3,246,812	-	-	(833,479)	-	50.30	2,413,333	n/a		
	31/7/2017	1/6/2020 – 30/7/2027 <sup>(7)</sup>	697,732	-	-	-	-	61.55	697,732	n/a		
15/3/2018	15/3/2021 – 14/3/2028 <sup>(8)</sup>	-	2,692,372	-	-	-	67.15	2,692,372	n/a			
Other eligible employees and participants <sup>(1)</sup>	1/6/2011	1/4/2014 – 31/5/2021 <sup>(9)</sup>	668,366	-	-	-	-	27.35	668,366	n/a		
	1/6/2011	1/4/2014 – 31/5/2021 <sup>(10)</sup>	631,097	-	-	-	-	27.35	631,097	n/a		
	15/3/2012	15/3/2015 – 14/3/2022 <sup>(11)</sup>	755,175	-	-	-	-	28.40	755,175	n/a		
	11/3/2013	11/3/2016 – 10/3/2023 <sup>(12)</sup>	672,849	-	-	229,513	-	34.35	902,362	n/a		
	5/3/2014	5/3/2017 – 4/3/2024 <sup>(3)</sup>	2,636,920	-	-	277,793	-	37.56	2,914,713	n/a		
	12/3/2015	12/3/2018 – 11/3/2025 <sup>(4)</sup>	2,461,745	-	2,670,779	209,034	(65,038)	47.73	2,605,741	68.73		
	9/3/2016	9/3/2019 – 8/3/2026 <sup>(5)</sup>	2,988,827	-	-	253,463	-	41.90	3,242,290	n/a		
	10/3/2017	10/3/2020 – 9/3/2027 <sup>(6)</sup>	1,769,098	-	-	98,624	-	50.30	1,867,722	n/a		
	15/3/2018	15/3/2021 – 14/3/2028 <sup>(8)</sup>	-	641,924	-	-	-	67.15	641,924	n/a		

### Notes:

- (1) Include share options outstanding as at 1 December 2017 for the retired Group Chief Executive and President, Mr. Mark Edward Tucker.
- (2) The measurement date (i.e. the date used to determine the value of the awards for accounting purposes) for awards made during the year ended 30 November 2011 was determined to be 15 June 2011. The measurement date for awards made during the year ended 30 November 2012 was determined to be 15 March 2012. The measurement date for awards made during the year ended 30 November 2013 was determined to be 11 March 2013. The measurement dates for awards made during the year ended 30 November 2014 were determined to be 5 March 2014 and 14 April 2014. The measurement date for awards made during the year ended 30 November 2015 was determined to be 12 March 2015. The measurement date for awards made during the year ended 30 November 2016 was determined to be 9 March 2016. The measurement dates for awards made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. The measurement date for awards made during the seven months ended 30 June 2018 was determined to be 15 March 2018. These measurement dates were determined in accordance with IFRS 2.
- (3) The vesting of share options is service-based only. All share options vested on 5 March 2017.
- (4) The vesting of share options is service-based only. All share options vested on 12 March 2018.

- (5) The vesting of share options is service-based only. All share options will vest on 9 March 2019.
- (6) The vesting of share options is service-based only. All share options will vest on 10 March 2020.
- (7) The vesting of share options is service-based only. All share options will vest on 1 June 2020.
- (8) The closing price of the Company's shares immediately before the date on which share options were awarded was HK\$67.00. The vesting of share options is service-based only. All share options will vest on 15 March 2021.
- (9) The vesting of share options is service-based only. All share options vested on 1 April 2014.
- (10) The vesting of share options is service-based only. One-third of share options vested on 1 April 2014, one-third vested on 1 April 2015, and one third vested on 1 April 2016.
- (11) The vesting of share options is service-based only. All share options vested on 15 March 2015.
- (12) The vesting of share options is service-based only. All share options vested on 11 March 2016.
- (13) The vesting of share options is service-based only. All share options vested on 14 April 2017.
- (14) These share options lapsed or were reclassified during the seven months ended 30 June 2018. The reclassification of share options was a result of two executives who were previously categorised as "Key Management Personnel" becoming "Other eligible employees and participants" during this period. There were no cancelled share options during the seven months ended 30 June 2018.
- (15) Include share options outstanding as at 30 June 2018 that, in accordance with the SO Scheme rules, will lapse on or before the end of the respective periods during which the share options are exercisable.

## **ESPP**

The Company adopted the ESPP on 25 July 2011 (ESPP Adoption Date). Under the ESPP, eligible employees of the Group may elect to purchase the Company's shares and, after having been in the plan for a period of three years, receive one matching share for each two shares purchased through the award of matching RSPU. Each eligible employee's participation level is capped at a maximum purchase in any plan year of 8 per cent of his or her base salary or HK\$9,750 (or local equivalent) per calendar month, whichever is lower. Upon vesting of the matching RSPUs, those employees who are still in employment with the Group will receive one matching share for each RSPU which he or she holds. The matching shares can either be purchased on market by the trustee of the ESPP or provided to recipients through the issuance by the Company of new shares. The aggregate number of shares which can be issued by the Company under the ESPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ESPP Adoption Date. No new shares have been issued under the ESPP since its adoption.

During the seven months ended 30 June 2018, 749,580 matching RSPUs were awarded, 28,936 matching RSPUs were vested and no new shares were issued for the RSPUs pursuant to the ESPP. Since the ESPP Adoption Date and up to 30 June 2018, a cumulative total of 2,667,132 matching RSPUs vested under the ESPP, representing approximately 0.022 per cent of the shares in issue as at the ESPP Adoption Date.

## **AGENCY SHARE PURCHASE PLAN (ASPP)**

The Company adopted the ASPP on 23 February 2012 (ASPP Adoption Date). Under the ASPP, certain agents and agency leaders of the Group are selected to participate in the plan. Those agents selected for participation may elect to purchase the Company's shares and, after having been in the plan for a period of three years, receive one matching share for each two shares purchased through the award of matching RSSUs. Each eligible agent's participation level is capped at a maximum purchase in any plan year of US\$15,000. Upon vesting of the matching RSSUs, those agents who remain with the Group will receive one matching share for each RSSU which he or she holds. The aggregate number of shares which can be issued by the Company under the ASPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ASPP Adoption Date.

During the seven months ended 30 June 2018, 742,348 matching RSSUs were awarded, 1,167,021 matching RSSUs were vested, and 1,167,021 new shares (Awarded Shares) were issued for RSSUs vested pursuant to the ASPP. The Awarded Shares were issued at the subscription price of US\$1.00 each to Computershare Hong Kong Trustees Limited (being the scheme trustee) to hold the same on trust for certain eligible agents upon vesting of their matching RSSUs. The closing price of the Company's shares on 27 April 2018 (being the date on which the aforesaid matching RSSUs were vested) was HK\$69.00. The proceeds received amounted to approximately US\$1.17 million which were used to fund the administration expenses of the ASPP. From the ASPP Adoption Date to 30 June 2018, a cumulative total of 4,173,047 new shares were issued under the ASPP, representing approximately 0.035 per cent of the shares in issue as at the ASPP Adoption Date.

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018. This set of interim condensed consolidated financial statements of the Group adopting the new year-end date is for the seven months ended 30 June 2018 with the comparative figures prepared based on the six months ended 31 May 2017. In conjunction with the change, supplementary financial information on a calendar year basis covering the six months ended 30 June 2018 for the current period and the six months ended 30 June 2017 for the prior period is disclosed in note 27 for comparison purpose.

# 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 43 to 110, which comprise the interim consolidated statement of financial position of AIA Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 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 seven-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 and 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  
24 August 2018

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## INTERIM CONSOLIDATED INCOME STATEMENT

US\$m	Notes	Seven months ended 30 June 2018 (Unaudited)	Six months ended 31 May 2017 (Unaudited)
<b>Revenue</b>			
Premiums and fee income		17,511	12,530
Premiums ceded to reinsurers		(970)	(714)
Net premiums and fee income		<u>16,541</u>	<u>11,816</u>
Investment return	7	2,805	6,488
Other operating revenue		145	101
<b>Total revenue</b>		<u><u>19,491</u></u>	<u><u>18,405</u></u>
<b>Expenses</b>			
Insurance and investment contract benefits		13,716	12,610
Insurance and investment contract benefits ceded		(877)	(619)
<b>Net insurance and investment contract benefits</b>		<u>12,839</u>	<u>11,991</u>
Commission and other acquisition expenses		2,113	1,606
Operating expenses		1,218	936
Finance costs		100	85
Other expenses		395	278
<b>Total expenses</b>	8	<u><u>16,665</u></u>	<u><u>14,896</u></u>
<b>Profit before share of profit from associates and joint venture</b>		<u>2,826</u>	<u>3,509</u>
Share of profit from associates and joint venture		–	3
<b>Profit before tax</b>		<u><u>2,826</u></u>	<u><u>3,512</u></u>
Income tax credit/(expense) attributable to policyholders' returns		26	(104)
<b>Profit before tax attributable to shareholders' profits</b>		<u><u>2,852</u></u>	<u><u>3,408</u></u>
Tax expense	9	(562)	(553)
Tax attributable to policyholders' returns		(26)	104
Tax expense attributable to shareholders' profits		(588)	(449)
<b>Net profit</b>		<u><u>2,264</u></u>	<u><u>2,959</u></u>
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<u>2,228</u>	<u>2,925</u>
Non-controlling interests		36	34
<b>Earnings per share (US\$)</b>			
Basic	10	0.19	0.24
Diluted	10	0.18	0.24

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US\$m	Seven months ended 30 June 2018 (Unaudited)	Six months ended 31 May 2017 (Unaudited)
<b>Net profit</b>	<b>2,264</b>	2,959
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on available for sale financial assets (net of tax of: seven months ended 30 June 2018: US\$131m; six months ended 31 May 2017: US\$264m)	<b>(4,154)</b>	882
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: seven months ended 30 June 2018: US\$12m; six months ended 31 May 2017: US\$7m)	<b>(25)</b>	(51)
Foreign currency translation adjustments	<b>(442)</b>	470
Cash flow hedges	<b>-</b>	(11)
Share of other comprehensive expense from associates and joint venture	<b>(25)</b>	(33)
Subtotal	<u><b>(4,646)</b></u>	<u>1,257</u>
Items that will not be reclassified subsequently to profit or loss:		
Revaluation (losses)/gains on property held for own use (net of tax of: seven months ended 30 June 2018: US\$(2)m; six months ended 31 May 2017: US\$(6)m)	<b>(6)</b>	30
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: seven months ended 30 June 2018: nil; six months ended 31 May 2017: nil)	<b>-</b>	(2)
Subtotal	<u><b>(6)</b></u>	<u>28</u>
Total other comprehensive (expense)/income	<u><b>(4,652)</b></u>	<u>1,285</u>
<b>Total comprehensive (expense)/income</b>	<u><b>(2,388)</b></u>	<u>4,244</u>
<i>Total comprehensive (expense)/income attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>(2,398)</b>	4,212
Non-controlling interests	<b>10</b>	32

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	Notes	As at 30 June 2018 (Unaudited)	As at 30 November 2017
<b>Assets</b>			
Intangible assets	12	1,833	1,864
Investments in associates and joint venture		617	642
Property, plant and equipment		1,201	1,213
Investment property		4,720	4,365
Reinsurance assets		2,713	2,481
Deferred acquisition and origination costs		23,473	21,847
<b>Financial investments:</b>	13, 15		
Loans and deposits		7,611	7,973
Available for sale			
Debt securities		106,228	105,466
At fair value through profit or loss			
Debt securities		26,256	25,702
Equity securities		37,657	36,716
Derivative financial instruments	14	383	363
		<u>178,135</u>	<u>176,220</u>
Deferred tax assets		11	9
Current tax recoverable		123	131
Other assets		4,881	4,630
Cash and cash equivalents	16	3,013	2,289
<b>Total assets</b>		<u><b>220,720</b></u>	<u><b>215,691</b></u>
<b>Liabilities</b>			
Insurance contract liabilities	17	156,342	148,897
Investment contract liabilities	17	7,943	8,082
Borrowings	18	5,421	3,958
Obligations under repurchase agreements	19	1,977	1,883
Derivative financial instruments	14	430	361
Provisions		202	234
Deferred tax liabilities		3,426	3,595
Current tax liabilities		536	421
Other liabilities		5,552	5,888
<b>Total liabilities</b>		<u><b>181,829</b></u>	<u><b>173,319</b></u>



## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	Notes	As at 30 June 2018 (Unaudited)	As at 30 November 2017
<b>Equity</b>			
Share capital	20	14,069	14,065
Employee share-based trusts	20	(254)	(297)
Other reserves	20	(11,945)	(11,948)
Retained earnings		35,175	34,087
Fair value reserve	20	2,178	6,336
Foreign currency translation reserve	20	(1,213)	(751)
Property revaluation reserve	20	521	527
Others		(25)	(25)
Amounts reflected in other comprehensive income		<u>1,461</u>	<u>6,087</u>
<i>Total equity attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>38,506</b>	41,994
Non-controlling interests		<b>385</b>	378
<b>Total equity</b>		<b>38,891</b>	42,372
<b>Total liabilities and equity</b>		<b><u>220,720</u></b>	<b><u>215,691</u></b>

Approved and authorised for issue by the Board of Directors on 24 August 2018.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Note	Other comprehensive income									
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	Total equity
<b>Balance at 1 December 2017</b>		14,065	(297)	(11,948)	34,087	6,336	(751)	527	(25)	378	42,372
Net profit		-	-	-	2,228	-	-	-	-	36	2,264
Fair value losses on available for sale financial assets		-	-	-	-	(4,136)	-	-	-	(18)	(4,154)
Fair value gains on available for sale financial assets transferred to income on disposal		-	-	-	-	(25)	-	-	-	-	(25)
Foreign currency translation adjustments		-	-	-	-	-	(434)	-	-	(8)	(442)
Share of other comprehensive income/(expense) from associates and joint venture		-	-	-	-	3	(28)	-	-	-	(25)
Revaluation losses on property held for own use		-	-	-	-	-	-	(6)	-	-	(6)
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income/ (expense) for the period</b>		-	-	-	2,228	(4,158)	(462)	(6)	-	10	(2,388)
Dividends	11	-	-	-	(1,140)	-	-	-	-	(3)	(1,143)
Shares issued under share option scheme and agency share purchase plan		4	-	-	-	-	-	-	-	-	4
Share-based compensation		-	-	46	-	-	-	-	-	-	46
Purchase of shares held by employee share-based trusts		-	(7)	-	-	-	-	-	-	-	(7)
Transfer of vested shares from employee share-based trusts		-	50	(50)	-	-	-	-	-	-	-
Others		-	-	7	-	-	-	-	-	-	7
<b>Balance at 30 June 2018 – Unaudited</b>		<b>14,069</b>	<b>(254)</b>	<b>(11,945)</b>	<b>35,175</b>	<b>2,178</b>	<b>(1,213)</b>	<b>521</b>	<b>(25)</b>	<b>385</b>	<b>38,891</b>

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

US\$m	Note	Other comprehensive income									Total equity
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	
<b>Balance at 1 December 2016</b>		13,998	(351)	(11,954)	29,334	5,352	(1,812)	449	(32)	326	35,310
Net profit		-	-	-	2,925	-	-	-	-	34	2,959
Fair value gains/(losses) on available for sale financial assets		-	-	-	-	884	-	-	-	(2)	882
Fair value gains on available for sale financial assets transferred to income on disposal		-	-	-	-	(51)	-	-	-	-	(51)
Foreign currency translation adjustments		-	-	-	-	-	470	-	-	-	470
Cash flow hedges		-	-	-	-	-	-	-	(11)	-	(11)
Share of other comprehensive (expense)/income from associates and joint venture		-	-	-	-	(67)	32	2	-	-	(33)
Revaluation gains on property held for own use		-	-	-	-	-	-	30	-	-	30
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	-	(2)	-	(2)
<b>Total comprehensive income/ (expense) for the period</b>		-	-	-	2,925	766	502	32	(13)	32	4,244
Dividends	11	-	-	-	(983)	-	-	-	-	(1)	(984)
Shares issued under share option scheme and agency share purchase plan		66	-	-	-	-	-	-	-	-	66
Share-based compensation		-	-	40	-	-	-	-	-	-	40
Purchase of shares held by employee share-based trusts		-	(5)	-	-	-	-	-	-	-	(5)
Transfer of vested shares from employee share-based trusts		-	62	(62)	-	-	-	-	-	-	-
Capital contributions		-	-	-	-	-	-	-	-	4	4
Others		-	-	(9)	9	-	-	-	-	-	-
<b>Balance at 31 May 2017 – Unaudited</b>		<u>14,064</u>	<u>(294)</u>	<u>(11,985)</u>	<u>31,285</u>	<u>6,118</u>	<u>(1,310)</u>	<u>481</u>	<u>(45)</u>	<u>361</u>	<u>38,675</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

US\$m	Seven months ended 30 June 2018 (Unaudited)	Six months ended 31 May 2017 (Unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>2,826</b>	3,512
Adjustments for:		
Financial investments	(7,919)	(9,595)
Insurance and investment contract liabilities	6,979	6,767
Obligations under repurchase agreements	115	192
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items	(4,846)	(3,342)
Operating cash items:		
Interest received	3,654	2,735
Dividends received	448	313
Interest paid	(23)	(23)
Tax paid	(428)	(166)
<b>Net cash provided by operating activities</b>	<b>806</b>	393
<b>Cash flows from investing activities</b>		
Payments for intangible assets	(49)	(32)
Net payments for investment property and property, plant and equipment	(89)	(44)
Contribution to a joint venture	–	(6)
<b>Net cash used in investing activities</b>	<b>(138)</b>	(82)
<b>Cash flows from financing activities</b>		
Issuance of medium-term notes	991	497
Redemption of medium-term notes	(500)	–
Net proceeds from other borrowings	970	–
Interest paid on medium-term notes	(74)	(62)
Capital contributions from non-controlling interests	–	4
Dividends paid during the period	(1,143)	(984)
Purchase of shares held by employee share-based trusts	(7)	(5)
Shares issued under share option scheme and agency share purchase plan	4	66
<b>Net cash provided by/(used in) financing activities</b>	<b>241</b>	(484)
Net increase/(decrease) in cash and cash equivalents	909	(173)
Cash and cash equivalents at beginning of the financial period	1,787	1,482
Effect of exchange rate changes on cash and cash equivalents	(38)	31
<b>Cash and cash equivalents at end of the financial period</b>	<b>2,658</b>	1,340

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

	Note	As at 30 June 2018 (Unaudited)	As at 31 May 2017 (Unaudited)
Cash and cash equivalents in the interim consolidated statement of financial position	16	3,013	1,724
Bank overdrafts		(355)	(384)
<b>Cash and cash equivalents in the interim condensed consolidated statement of cash flows</b>		<b>2,658</b>	1,340

# 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 18 markets 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 Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting and International Accounting Standard (IAS) 34, Interim Financial Reporting. International Financial Reporting Standards (IFRS) is substantially consistent with Hong Kong Financial Reporting Standards (HKFRS) 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 HKFRS and IFRS. 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 HKFRS and IFRS 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 2017. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows.

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

The following relevant new amendments to standards have been adopted for the first time for the financial year ending 31 December 2018 and have no material impact to the Group:

- Amendments to IAS 7, Disclosure Initiative;
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IFRS 12, Clarification of the Scope of the Standard.

The following relevant new standards, interpretation and amendments to standards have been issued but are not effective for the financial year ending 31 December 2018 and have not been early adopted (the financial years for which the adoption is required for the Group 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 22, Foreign Currency Transactions and Advance Consideration (2019);
- IFRIC 23, Uncertainty Over Income Tax Treatment (2019);
- Amendments to IAS 12, Income Tax Consequences of Payments on Instruments Classified as Equity (2019);
- Amendments to IAS 23, Borrowing Costs Eligible for Capitalisation (2019);
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value (2019);
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (2019);
- Amendments to IAS 40, Transfers of Investment Property (2019);
- IFRS 15, Revenue from Contracts with Customers and amendments thereto (2019);
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (2019);
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement (2019); and
- Amendments to IFRS 3, Business Combinations and IFRS 11, Joint Arrangements – Remeasurement of Previously Held Interests (2019).

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

The following relevant new standards and requirements have been issued but are not effective for the financial year ending 31 December 2018 and have not been early adopted:

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in IAS 39. The Group is yet to fully assess the impact of the standard on its financial position and results of operations.

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 IASB made further changes to two areas of IFRS 9. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss. The Group is yet to fully assess the impact of the above new requirements and changes.

The standard is mandatorily effective for financial periods beginning on or after 1 January 2018 (except for prepayment features with negative compensation and modifications or exchange of financial liabilities that do not result in derecognition which will become effective for financial periods beginning on or after 1 January 2019), but the Group qualifies for a temporary exemption as explained below.

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of IFRS 17 and the financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before IFRS 17 is applied. Based on the amendments to IFRS 4, the Group is eligible for and will elect to apply the temporary option to defer the effective date of IFRS 9 in order to implement the changes in parallel with IFRS 17, Insurance Contracts.
- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants ("HKICPA") approved the issuance of HKFRS 17, Insurance Contracts. The Group is in the midst of conducting a detailed assessment of the new standards. The standards are mandatorily effective for financial periods beginning on or after 1 January 2021.



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

- IFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is in the midst of conducting a detailed assessment of the standard on its financial position and results of operations. The standard is mandatorily effective for financial periods beginning on or after 1 January 2019.

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 2017 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 HKFRS and IFRS.

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 42. 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 2017 that are included in the interim condensed consolidated financial statements as comparative information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. The Group has delivered the financial statements for the year ended 30 November 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 February 2018. Their report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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.

In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018 and the next audited financial statements of the Group will cover a 13-month period from 1 December 2017 to 31 December 2018. The first set of interim condensed consolidated financial statements of the Group adopting the new year-end date is for the seven months ended 30 June 2018.

### 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>Seven months ended 30 June 2018 (Unaudited)</b>	<b>Year ended 30 November 2017</b>	<b>Six months ended 31 May 2017 (Unaudited)</b>
Hong Kong	<b>7.83</b>	7.79	7.77
Thailand	<b>31.72</b>	34.15	35.02
Singapore	<b>1.32</b>	1.39	1.41
Malaysia	<b>3.95</b>	4.33	4.42
China	<b>6.39</b>	6.78	6.89

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

	<b>US dollar exchange rates</b>		
	<b>As at 30 June 2018 (Unaudited)</b>	<b>As at 30 November 2017</b>	<b>As at 31 May 2017 (Unaudited)</b>
Hong Kong	<b>7.85</b>	7.81	7.79
Thailand	<b>33.16</b>	32.62	34.08
Singapore	<b>1.36</b>	1.35	1.38
Malaysia	<b>4.04</b>	4.09	4.28
China	<b>6.62</b>	6.61	6.83

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>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
<b>Operating profit after tax</b>	6	<b>3,062</b>	2,277
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Short-term fluctuations in investment return related to equities and real estate (net of tax of: seven months ended 30 June 2018: US\$74m; six months ended 31 May 2017: US\$(37)m) <sup>(1)</sup>			
		<b>(498)</b>	789
Reclassification of revaluation gain for property held for own use (net of tax of: seven months ended 30 June 2018: US\$2m; six months ended 31 May 2017: US\$1m) <sup>(1)(2)</sup>			
		<b>(177)</b>	(20)
Other non-operating investment return and other items (net of tax of: seven months ended 30 June 2018: US\$(46)m; six months ended 31 May 2017: US\$16m) <sup>(2)</sup>			
		<b>(123)</b>	(87)
<b>Net profit</b>		<b><u>2,264</u></b>	<b><u>2,959</u></b>
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>3,039</b>	2,262
Non-controlling interests		<b>23</b>	15
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>2,228</b>	2,925
Non-controlling interests		<b>36</b>	34

Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.

Notes:

- (1) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform with IFRS measurement and presentation.
- (2) The comparative information has been adjusted to conform to current period presentation.

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

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). The Group measures new business activity using a performance measure referred to as annualised new premiums (ANP). The presentation of this note is consistent with our reportable segment presentation in note 6.

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 premiums and fee income recorded in the interim 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.

	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
<b>TWPI</b>		
US\$m		
<b>TWPI by geography</b>		
Hong Kong	6,132	4,507
Thailand	2,140	1,594
Singapore	1,560	1,143
Malaysia	1,209	875
China	2,436	1,509
Other Markets	3,518	2,765
<b>Total</b>	<b>16,995</b>	<b>12,393</b>
<b>First year premiums by geography</b>		
Hong Kong	1,168	1,601
Thailand	294	214
Singapore	185	127
Malaysia	174	137
China	633	460
Other Markets	549	408
<b>Total</b>	<b>3,003</b>	<b>2,947</b>
<b>Single premiums by geography</b>		
Hong Kong	1,551	942
Thailand	148	90
Singapore	1,013	554
Malaysia	107	73
China	87	71
Other Markets	404	313
<b>Total</b>	<b>3,310</b>	<b>2,043</b>

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

<b>TWPI (continued)</b> US\$m	<b>Seven months ended 30 June 2018 (Unaudited)</b>	<b>Six months ended 31 May 2017 (Unaudited)</b>
<b>Renewal premiums by geography</b>		
Hong Kong	4,809	2,812
Thailand	1,831	1,371
Singapore	1,274	960
Malaysia	1,024	731
China	1,794	1,042
Other Markets	2,929	2,326
<b>Total</b>	<b>13,661</b>	<b>9,242</b>
	<b>Seven months ended 30 June 2018 (Unaudited)</b>	<b>Six months ended 31 May 2017 (Unaudited)</b>
<b>ANP</b> US\$m		
<b>ANP by geography</b>		
Hong Kong	1,348	1,696
Thailand	324	232
Singapore	305	187
Malaysia	218	167
China	642	474
Other Markets	675	440
<b>Total</b>	<b>3,512</b>	<b>3,196</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, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

As 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 return;
- 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 after tax expressed as a percentage of TWPI; and
- operating return on shareholders' allocated equity measured on an annualised basis as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing shareholders' allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests and fair value reserve).

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.

## 6. Segment information (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>Seven months ended 30 June 2018 – Unaudited</b>								
ANP	1,348	324	305	218	642	675	-	3,512
TWPI	6,132	2,140	1,560	1,209	2,436	3,518	-	16,995
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	7,081	2,110	1,768	1,063	2,332	2,319	11	16,684
Investment return	1,473	780	687	354	509	635	195	4,633
<b>Total revenue</b>	<b>8,554</b>	<b>2,890</b>	<b>2,455</b>	<b>1,417</b>	<b>2,841</b>	<b>2,954</b>	<b>206</b>	<b>21,317</b>
Net insurance and investment contract benefits	6,315	1,600	1,791	916	1,819	1,608	12	14,061
Commission and other acquisition expenses	780	439	191	157	157	383	1	2,108
Operating expenses	221	125	119	107	171	354	121	1,218
Finance costs and other expenses	74	30	18	6	18	34	70	250
<b>Total expenses</b>	<b>7,390</b>	<b>2,194</b>	<b>2,119</b>	<b>1,186</b>	<b>2,165</b>	<b>2,379</b>	<b>204</b>	<b>17,637</b>
Share of (losses)/profit from associates and joint venture	-	-	(1)	-	-	2	(1)	-
<b>Operating profit before tax</b>	<b>1,164</b>	<b>696</b>	<b>335</b>	<b>231</b>	<b>676</b>	<b>577</b>	<b>1</b>	<b>3,680</b>
Tax on operating profit before tax	(90)	(134)	(21)	(46)	(171)	(126)	(30)	(618)
<b>Operating profit/(losses) after tax</b>	<b>1,074</b>	<b>562</b>	<b>314</b>	<b>185</b>	<b>505</b>	<b>451</b>	<b>(29)</b>	<b>3,062</b>
<i>Operating profit/(losses) after tax attributable to:</i>								
Shareholders of AIA Group Limited	1,066	562	314	183	505	438	(29)	3,039
Non-controlling interests	8	-	-	2	-	13	-	23

### Key operating ratios:

Expense ratio	3.6%	5.8%	7.6%	8.9%	7.0%	10.1%	-	7.2%
Operating margin	17.5%	26.3%	20.1%	15.3%	20.7%	12.8%	-	18.0%
Operating return on shareholders' allocated equity	21.6%	16.6%	17.7%	19.6%	24.1%	11.4%	-	14.1%

### Operating profit before tax includes:

Finance costs	17	1	-	-	11	2	60	91
Depreciation and amortisation	17	6	10	10	13	27	6	89

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>30 June 2018 – Unaudited</b>								
Total assets	68,416	30,542	35,997	14,634	22,510	36,002	12,619	220,720
Total liabilities	59,189	24,026	33,029	13,076	18,901	28,621	4,987	181,829
Total equity	9,227	6,516	2,968	1,558	3,609	7,381	7,632	38,891
Shareholders' allocated equity	8,282	5,672	2,903	1,548	3,431	6,468	8,024	36,328
Net capital (out)/in flows	(427)	(145)	-	(97)	(440)	(2)	21	(1,090)

### Total assets include:

Investments in associates and joint venture	-	-	-	7	-	610	-	617
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## 6. Segment information (continued)

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

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items <sup>(1)</sup>	Interim consolidated income statement	
<b>Seven months ended 30 June 2018</b>					
<b>- Unaudited</b>					
Net premiums, fee income and other operating revenue	16,684	-	2	16,686	Net premiums, fee income and other operating revenue
Investment return	4,633	(880)	(948)	2,805	Investment return
<b>Total revenue</b>	<b>21,317</b>	<b>(880)</b>	<b>(946)</b>	<b>19,491</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	14,061	(308)	(914)	12,839	Net insurance and investment contract benefits
Other expenses	3,576	-	250	3,826	Other expenses
<b>Total expenses</b>	<b>17,637</b>	<b>(308)</b>	<b>(664)</b>	<b>16,665</b>	<b>Total expenses</b>
Share of profit from associates and joint venture	-	-	-	-	Share of profit from associates and joint venture
<b>Operating profit before tax</b>	<b>3,680</b>	<b>(572)</b>	<b>(282)</b>	<b>2,826</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 6. Segment information (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>Six months ended 31 May 2017 – Unaudited</b>								
<b>ANP</b>	1,696	232	187	167	474	440	–	3,196
<b>TWPI</b>	4,507	1,594	1,143	875	1,509	2,765	–	12,393
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	4,932	1,618	1,312	778	1,456	1,820	1	11,917
Investment return	1,022	561	524	260	341	521	173	3,402
<b>Total revenue</b>	<b>5,954</b>	<b>2,179</b>	<b>1,836</b>	<b>1,038</b>	<b>1,797</b>	<b>2,341</b>	<b>174</b>	<b>15,319</b>
Net insurance and investment contract benefits	4,273	1,182	1,330	691	1,166	1,256	–	9,898
Commission and other acquisition expenses	551	360	151	109	90	343	(3)	1,601
Operating expenses	171	97	86	81	129	265	107	936
Finance costs and other expenses	56	23	10	5	9	21	57	181
<b>Total expenses</b>	<b>5,051</b>	<b>1,662</b>	<b>1,577</b>	<b>886</b>	<b>1,394</b>	<b>1,885</b>	<b>161</b>	<b>12,616</b>
Share of profit from associates and joint venture	–	–	–	–	–	3	–	3
<b>Operating profit before tax</b>	<b>903</b>	<b>517</b>	<b>259</b>	<b>152</b>	<b>403</b>	<b>459</b>	<b>13</b>	<b>2,706</b>
Tax on operating profit before tax	(61)	(104)	(24)	(32)	(98)	(102)	(8)	(429)
<b>Operating profit after tax</b>	<b>842</b>	<b>413</b>	<b>235</b>	<b>120</b>	<b>305</b>	<b>357</b>	<b>5</b>	<b>2,277</b>
<i>Operating profit after tax attributable to:</i>								
<b>Shareholders of AIA Group Limited</b>	<b>836</b>	<b>413</b>	<b>235</b>	<b>119</b>	<b>305</b>	<b>349</b>	<b>5</b>	<b>2,262</b>
Non-controlling interests	6	–	–	1	–	8	–	15

### Key operating ratios:

Expense ratio	3.8%	6.1%	7.5%	9.3%	8.5%	9.6%	–	7.6%
Operating margin	18.7%	25.9%	20.6%	13.7%	20.2%	12.9%	–	18.4%
Operating return on shareholders' allocated equity	24.4%	17.0%	16.8%	17.1%	19.8%	12.0%	–	14.2%

### Operating profit before tax includes:

Finance costs	14	3	–	–	2	1	46	66
Depreciation and amortisation	12	5	7	4	4	16	3	51

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>30 November 2017</b>								
<b>Total assets</b>	65,485	31,319	35,922	14,347	19,915	37,145	11,558	215,691
<b>Total liabilities</b>	54,023	24,358	32,501	12,806	16,789	29,172	3,670	173,319
<b>Total equity</b>	<b>11,462</b>	<b>6,961</b>	<b>3,421</b>	<b>1,541</b>	<b>3,126</b>	<b>7,973</b>	<b>7,888</b>	<b>42,372</b>
<b>Shareholders' allocated equity</b>	<b>7,909</b>	<b>5,510</b>	<b>2,961</b>	<b>1,524</b>	<b>3,391</b>	<b>6,430</b>	<b>7,933</b>	<b>35,658</b>
Net capital (out)/in flows	(952)	(467)	(238)	(192)	(207)	(50)	866	(1,240)

### Total assets include:

Investments in associates and joint venture	–	–	1	6	–	635	–	642
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## 6. Segment information (continued)

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

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items <sup>(1)</sup>	Interim consolidated income statement	
<b>Six months ended 31 May 2017</b>					
<b>- Unaudited</b>					
Net premiums, fee income and other operating revenue	11,917	–	–	11,917	Net premiums, fee income and other operating revenue
Investment return	3,402	1,109	1,977	6,488	Investment return
<b>Total revenue</b>	<b>15,319</b>	<b>1,109</b>	<b>1,977</b>	<b>18,405</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	9,898	283	1,810	11,991	Net insurance and investment contract benefits
Other expenses	2,718	–	187	2,905	Other expenses
<b>Total expenses</b>	<b>12,616</b>	<b>283</b>	<b>1,997</b>	<b>14,896</b>	<b>Total expenses</b>
Share of profit from associates and joint venture	3	–	–	3	Share of profit from associates and joint venture
<b>Operating profit before tax</b>	<b>2,706</b>	<b>826</b>	<b>(20)</b>	<b>3,512</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 7. Investment return

US\$m	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Interest income	3,612	2,727
Dividend income	451	325
Rental income	98	74
<b>Investment income</b>	<b>4,161</b>	<b>3,126</b>
<b>Available for sale</b>		
Net realised gains from debt securities	37	60
<b>Net gains of available for sale financial assets reflected in the interim consolidated income statement</b>	<b>37</b>	<b>60</b>
<b>At fair value through profit or loss</b>		
<b>Net (losses)/gains of financial assets designated at fair value through profit or loss</b>		
Net (losses)/gains of debt securities	(361)	78
Net (losses)/gains of equity securities	(1,395)	3,011
<b>Net (losses)/gains of financial instruments held for trading</b>		
Net fair value movement on derivatives	(194)	310
<b>Net (losses)/gains in respect of financial instruments at fair value through profit or loss</b>	<b>(1,950)</b>	<b>3,399</b>
Net fair value movement of investment property	391	198
Net foreign exchange gains/(losses)	170	(294)
Other net realised losses	(4)	(1)
<b>Investment experience</b>	<b>(1,356)</b>	<b>3,362</b>
<b>Investment return</b>	<b>2,805</b>	<b>6,488</b>

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

US\$m	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Foreign exchange gains/(losses)	197	(142)

## 8. Expenses

US\$m	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Insurance contract benefits	6,996	5,171
Change in insurance contract liabilities	6,707	6,799
Investment contract benefits	13	640
<b>Insurance and investment contract benefits</b>	<b>13,716</b>	<b>12,610</b>
Insurance and investment contract benefits ceded	(877)	(619)
<b>Insurance and investment contract benefits, net of reinsurance ceded</b>	<b>12,839</b>	<b>11,991</b>
Commission and other acquisition expenses incurred	3,458	2,826
Deferral and amortisation of acquisition costs	(1,345)	(1,220)
<b>Commission and other acquisition expenses</b>	<b>2,113</b>	<b>1,606</b>
Employee benefit expenses	780	603
Depreciation	42	30
Amortisation	28	21
Operating lease rentals	96	72
Other operating expenses	272	210
<b>Operating expenses</b>	<b>1,218</b>	<b>936</b>
Investment management expenses and others	269	181
Depreciation on property held for own use	14	11
Restructuring and other non-operating costs <sup>(1)</sup>	125	71
Change in third-party interests in consolidated investment funds	(13)	15
<b>Other expenses</b>	<b>395</b>	<b>278</b>
Finance costs	100	85
<b>Total</b>	<b>16,665</b>	<b>14,896</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 integration costs and implementation costs driven by the new accounting and regulatory requirements.

## 8. Expenses (continued)

Finance costs may be analysed as:

US\$m	Seven months ended 30 June 2018 (Unaudited)	Six months ended 31 May 2017 (Unaudited)
Repurchase agreements (see note 19 for details)	15	23
Medium-term notes	83	60
Other loans	2	2
<b>Total</b>	<b>100</b>	<b>85</b>

Employee benefit expenses consist of:

US\$m	Seven months ended 30 June 2018 (Unaudited)	Six months ended 31 May 2017 (Unaudited)
Wages and salaries	634	491
Share-based compensation	41	36
Pension costs – defined contribution plans	46	34
Pension costs – defined benefit plans	7	4
Other employee benefit expenses	52	38
<b>Total</b>	<b>780</b>	<b>603</b>

## 9. Income tax

US\$m	Seven months ended 30 June 2018 (Unaudited)	Six months ended 31 May 2017 (Unaudited)
<b>Tax charged in the interim consolidated income statement</b>		
Current income tax – Hong Kong Profits Tax	82	54
Current income tax – overseas	476	244
Deferred income tax on temporary differences	4	255
<b>Total</b>	<b>562</b>	<b>553</b>

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 life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, the Philippines and Sri Lanka is included in the tax charge or credit and is analysed separately in the interim consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from period to period. The tax credit attributable to policyholders' returns included above is US\$26m (six months ended 31 May 2017: tax expense of US\$104m).

## 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.

	Seven months ended 30 June 2018 (Unaudited)	Six months ended 31 May 2017 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	2,228	2,925
Weighted average number of ordinary shares in issue (million)	12,017	11,989
<b>Basic earnings per share (US cents per share)</b>	<b>18.54</b>	<b>24.40</b>

## 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 30 June 2018 and 31 May 2017, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 23.

	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	<b>2,228</b>	2,925
Weighted average number of ordinary shares in issue (million)	<b>12,017</b>	11,989
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	<b>33</b>	23
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>12,050</b>	12,012
<b>Diluted earnings per share (US cents per share)</b>	<b>18.49</b>	24.35

At 30 June 2018, 5,613,880 share options (31 May 2017: 13,673,927) 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 30 June 2018 and 31 May 2017, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 23.

	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Basic (US cents per share)	<b>25.29</b>	18.87
Diluted (US cents per share)	<b>25.22</b>	18.83



## 11. Dividends

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

US\$m	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Interim dividend declared after the reporting date of 29.20 Hong Kong cents per share (six months ended 31 May 2017: 25.62 Hong Kong cents per share) <sup>(1)</sup>	<b>447</b>	395

Note:

(1) Based upon shares outstanding at 30 June 2018 and 31 May 2017 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 to shareholders of the Company attributable to the previous financial year, approved and paid during the interim period:

US\$m	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of 74.38 Hong Kong cents per share (six months ended 31 May 2017: 63.75 Hong Kong cents per share)	<b>1,140</b>	983

## 12. Intangible assets

US\$m	Goodwill	Computer software	Distribution and other rights	Total
<b>Cost</b>				
At 1 December 2017	835	526	907	2,268
Additions	–	28	–	28
Disposals	–	(1)	(1)	(2)
Foreign exchange movements	3	(4)	(11)	(12)
<b>At 30 June 2018 – Unaudited</b>	<b>838</b>	<b>549</b>	<b>895</b>	<b>2,282</b>
<b>Accumulated amortisation</b>				
At 1 December 2017	(4)	(297)	(103)	(404)
Amortisation charge for the period	–	(28)	(19)	(47)
Foreign exchange movements	–	1	1	2
<b>At 30 June 2018 – Unaudited</b>	<b>(4)</b>	<b>(324)</b>	<b>(121)</b>	<b>(449)</b>
<b>Net book value</b>				
At 30 November 2017	831	229	804	1,864
<b>At 30 June 2018 – Unaudited</b>	<b>834</b>	<b>225</b>	<b>774</b>	<b>1,833</b>

The Group holds intangible assets for its long-term use and the annual amortisation charge of US\$82m (30 November 2017: US\$84m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period.

## 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>30 June 2018 – Unaudited</b>							
Government bonds	6,553	79	38,491	45,123	1,200	-	46,323
Government agency bonds <sup>(1)</sup>	4,197	13	8,345	12,555	239	346	13,140
Corporate bonds	10,398	199	58,677	69,274	1,199	1,617	72,090
Structured securities <sup>(2)</sup>	176	40	715	931	-	-	931
<b>Total<sup>(3)</sup></b>	<b>21,324</b>	<b>331</b>	<b>106,228</b>	<b>127,883</b>	<b>2,638</b>	<b>1,963</b>	<b>132,484</b>
<b>30 November 2017</b>							
Government bonds	5,681	82	37,122	42,885	1,147	-	44,032
Government agency bonds <sup>(1)</sup>	3,904	14	9,229	13,147	210	319	13,676
Corporate bonds	10,895	187	58,484	69,566	1,359	1,669	72,594
Structured securities <sup>(2)</sup>	194	41	631	866	-	-	866
<b>Total<sup>(3)</sup></b>	<b>20,674</b>	<b>324</b>	<b>105,466</b>	<b>126,464</b>	<b>2,716</b>	<b>1,988</b>	<b>131,168</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\$4,939m (30 November 2017: US\$4,900m) are restricted due to local regulatory requirements.
- (4) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

### 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>30 June 2018 – Unaudited</b>						
Equity shares	4,614	10,088	14,702	4,338	-	19,040
Interests in investment funds	2,152	2,330	4,482	14,135	-	18,617
<b>Total</b>	<b>6,766</b>	<b>12,418</b>	<b>19,184</b>	<b>18,473</b>	<b>-</b>	<b>37,657</b>
<b>30 November 2017</b>						
Equity shares	4,631	9,267	13,898	4,610	-	18,508
Interests in investment funds	2,191	1,674	3,865	14,343	-	18,208
<b>Total</b>	<b>6,822</b>	<b>10,941</b>	<b>17,763</b>	<b>18,953</b>	<b>-</b>	<b>36,716</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 30 June 2018 (Unaudited)	As at 30 November 2017
<b>Debt securities</b>		
Listed	102,190	100,647
Unlisted	30,294	30,521
<b>Total</b>	<b>132,484</b>	<b>131,168</b>
<b>Equity securities</b>		
Listed	20,358	20,205
Unlisted <sup>(1)</sup>	17,299	16,511
<b>Total</b>	<b>37,657</b>	<b>36,716</b>

Note:

(1) Including US\$15,882m (30 November 2017: US\$15,375m) of investment funds which can be redeemed daily.

### 13. Financial investments (continued)

#### LOANS AND DEPOSITS

US\$m	<b>As at 30 June 2018 (Unaudited)</b>	As at 30 November 2017
Policy loans	<b>2,795</b>	2,726
Mortgage loans on residential real estate	<b>618</b>	600
Mortgage loans on commercial real estate	<b>44</b>	53
Other loans	<b>982</b>	889
Allowance for loan losses	<b>(12)</b>	(12)
<b>Loans</b>	<b>4,427</b>	4,256
Term deposits	<b>1,631</b>	2,138
Promissory notes <sup>(1)</sup>	<b>1,553</b>	1,579
<b>Total</b>	<b>7,611</b>	7,973

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\$1,732m (30 November 2017: US\$1,749m).

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 30 June 2018, the carrying value of such receivables is US\$375m (30 November 2017: US\$326m).

## 14. Derivative financial instruments

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

US\$m	Notional amount	Fair value	
		Assets	Liabilities
<b>30 June 2018 – Unaudited</b>			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	7,442	174	(198)
Forwards	4,627	65	(166)
Foreign exchange futures	124	–	–
Currency options	6	–	–
<b>Total foreign exchange contracts</b>	<b>12,199</b>	<b>239</b>	<b>(364)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	3,592	88	(66)
<b>Other</b>			
Warrants and options	4,674	56	–
<b>Netting</b>	<b>(124)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>20,341</b>	<b>383</b>	<b>(430)</b>
<b>30 November 2017</b>			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	7,569	249	(164)
Forwards	5,921	47	(142)
Foreign exchange futures	139	–	–
Currency options	7	–	–
<b>Total foreign exchange contracts</b>	<b>13,636</b>	<b>296</b>	<b>(306)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	3,157	51	(55)
<b>Other</b>			
Warrants and options	161	16	–
<b>Netting</b>	<b>(139)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>16,815</b>	<b>363</b>	<b>(361)</b>

The column “notional amount” in the above table represents the pay leg of derivative transactions other than equity index option. For certain equity-index call and put options with same notional amount that are purchased to hedge the downside risk of the underlying equities by means of a collar strategy, the notional amount represents the exposure of the hedged equities.

Of the total derivatives, US\$5m (30 November 2017: US\$8m) 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 risks, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the interim 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 interim 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 gains and losses 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.

### **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 30 June 2018, the Group had posted cash collateral of US\$15m (30 November 2017: US\$10m) and pledged debt securities with carrying value of US\$250m (30 November 2017: US\$227m) for liabilities and held cash collateral of US\$166m (30 November 2017: US\$141m), debt securities collateral with carrying value of US\$35m (30 November 2017: US\$15m) 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 repurchase agreements.

## 15. Fair value measurement of financial instruments

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost, except for investment contracts with DPF which are accounted for under IFRS 4.

The following tables present the fair values of the Group's financial assets and financial liabilities:

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
<b>30 June 2018 – Unaudited</b>						
Financial investments	13					
Loans and deposits		–	–	7,611	7,611	7,612
Debt securities		26,256	106,228	–	132,484	132,484
Equity securities		37,657	–	–	37,657	37,657
Derivative financial instruments	14	383	–	–	383	383
Reinsurance receivables		–	–	553	553	553
Other receivables		–	–	2,040	2,040	2,040
Accrued investment income		–	–	1,723	1,723	1,723
Cash and cash equivalents	16	–	–	3,013	3,013	3,013
<b>Financial assets</b>		<b>64,296</b>	<b>106,228</b>	<b>14,940</b>	<b>185,464</b>	<b>185,465</b>
	Notes	Fair value through profit or loss		Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities	17	7,350		593	7,943	7,943
Borrowings	18	–		5,421	5,421	5,524
Obligations under repurchase agreements	19	–		1,977	1,977	1,977
Derivative financial instruments	14	430		–	430	430
Other liabilities		1,164		4,388	5,552	5,552
<b>Financial liabilities</b>		<b>8,944</b>		<b>12,379</b>	<b>21,323</b>	<b>21,426</b>



## 15. Fair value measurement of financial instruments (continued)

### FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
<b>30 November 2017</b>						
Financial investments	13					
Loans and deposits		–	–	7,973	7,973	7,977
Debt securities		25,702	105,466	–	131,168	131,168
Equity securities		36,716	–	–	36,716	36,716
Derivative financial instruments	14	363	–	–	363	363
Reinsurance receivables		–	–	506	506	506
Other receivables		–	–	2,150	2,150	2,150
Accrued investment income		–	–	1,541	1,541	1,541
Cash and cash equivalents	16	–	–	2,289	2,289	2,289
<b>Financial assets</b>		<b>62,781</b>	<b>105,466</b>	<b>14,459</b>	<b>182,706</b>	<b>182,710</b>
	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value	
Financial liabilities						
Investment contract liabilities	17	7,502	580	8,082	8,082	
Borrowings	18	–	3,958	3,958	4,144	
Obligations under repurchase agreements	19	–	1,883	1,883	1,883	
Derivative financial instruments	14	361	–	361	361	
Other liabilities		1,225	4,663	5,888	5,888	
<b>Financial liabilities</b>		<b>9,088</b>	<b>11,084</b>	<b>20,172</b>	<b>20,358</b>	

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the seven months ended 30 June 2018.

When the Group holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Group takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that require the exchange of collateral on the basis of each party's net credit risk exposure). The Group measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

## 15. Fair value measurement of financial instruments (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A 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>30 June 2018 – Unaudited</b>				
<b>Recurring fair value measurement</b>				
<b>Financial assets</b>				
Available for sale				
Debt securities	–	104,948	1,280	106,228
At fair value through profit or loss				
Debt securities				
Participating funds	–	20,795	529	21,324
Unit-linked contracts and consolidated investment funds	3	4,529	69	4,601
Other policyholder and shareholder	–	265	66	331
Equity securities				
Participating funds	5,787	488	491	6,766
Unit-linked contracts and consolidated investment funds	18,303	169	1	18,473
Other policyholder and shareholder	10,749	840	829	12,418
Derivative financial instruments				
Foreign exchange contracts	–	239	–	239
Interest rate contracts	–	88	–	88
Other contracts	5	51	–	56
<b>Total financial assets on a recurring fair value measurement basis</b>	<b>34,847</b>	<b>132,412</b>	<b>3,265</b>	<b>170,524</b>
<i>% of Total</i>	<i>20.4</i>	<i>77.7</i>	<i>1.9</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	7,350	7,350
Derivative financial instruments				
Foreign exchange contracts	–	364	–	364
Interest rate contracts	–	66	–	66
Other liabilities	–	1,164	–	1,164
<b>Total financial liabilities on a recurring fair value measurement basis</b>	<b>–</b>	<b>1,594</b>	<b>7,350</b>	<b>8,944</b>
<i>% of Total</i>	<i>–</i>	<i>17.8</i>	<i>82.2</i>	<i>100.0</i>

## 15. Fair value measurement of financial instruments (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A RECURRING BASIS (continued)

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
<b>30 November 2017</b>				
<b>Recurring fair value measurement</b>				
<b>Financial assets</b>				
Available for sale				
Debt securities	–	104,318	1,148	105,466
At fair value through profit or loss				
Debt securities				
Participating funds	–	20,255	419	20,674
Unit-linked contracts and consolidated investment funds	–	4,604	100	4,704
Other policyholder and shareholder	–	259	65	324
Equity securities				
Participating funds	6,034	355	433	6,822
Unit-linked contracts and consolidated investment funds	18,803	149	1	18,953
Other policyholder and shareholder	9,625	690	626	10,941
Derivative financial instruments				
Foreign exchange contracts	–	296	–	296
Interest rate contracts	–	51	–	51
Other contracts	8	8	–	16
<b>Total financial assets on a recurring fair value measurement basis</b>	<b>34,470</b>	<b>130,985</b>	<b>2,792</b>	<b>168,247</b>
<i>% of Total</i>	<i>20.5</i>	<i>77.8</i>	<i>1.7</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	7,502	7,502
Derivative financial instruments				
Foreign exchange contracts	–	306	–	306
Interest rate contracts	–	55	–	55
Other liabilities	–	1,225	–	1,225
<b>Total financial liabilities on a recurring fair value measurement basis</b>	<b>–</b>	<b>1,586</b>	<b>7,502</b>	<b>9,088</b>
<i>% of Total</i>	<i>–</i>	<i>17.5</i>	<i>82.5</i>	<i>100.0</i>

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the seven months ended 30 June 2018, the Group transferred US\$244m (30 November 2017: US\$50m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$2m (30 November 2017: US\$148m) of assets from Level 2 to Level 1 during the seven months ended 30 June 2018.

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 of financial instruments (continued)

### FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A 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 seven months ended 30 June 2018. The table reflects gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 30 June 2018.

#### Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
<b>At 1 December 2017</b>	<b>1,732</b>	<b>1,060</b>	<b>-</b>	<b>(7,502)</b>
Net movement on investment contract liabilities	-	-	-	152
Total gains/(losses)				
Reported under investment return in the interim consolidated income statement	15	9	-	-
Reported under fair value reserve and foreign currency translation reserve in the interim consolidated statement of comprehensive income	(12)	(38)	-	-
Purchases	358	311	-	-
Sales	(9)	(21)	-	-
Settlements	(171)	-	-	-
Transfer into Level 3	31	-	-	-
<b>At 30 June 2018 – Unaudited</b>	<b>1,944</b>	<b>1,321</b>	<b>-</b>	<b>(7,350)</b>
<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</b>	<b>13</b>	<b>(4)</b>	<b>-</b>	<b>-</b>

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

There are not any 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 of financial instruments (continued)

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

As at 30 June 2018, 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 30 June 2018 (Unaudited) (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	1,053	Discounted cash flows	Discount rate for liquidity	4.68%-12.29%

### 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 third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment 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 Valuations Advisory Committee 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 for 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	<b>As at 30 June 2018 (Unaudited)</b>	As at 30 November 2017
Cash	2,363	1,735
Cash equivalents	650	554
<b>Total<sup>(1)</sup></b>	<b>3,013</b>	<b>2,289</b>

Note:

(1) Of cash and cash equivalents, US\$469m (30 November 2017: US\$385m) are held to back unit-linked contracts and US\$87m (30 November 2017: US\$71m) 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. Insurance and investment contract liabilities

### INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can be analysed as follows:

US\$m	<b>As at 30 June 2018 (Unaudited)</b>	As at 30 November 2017
Deferred profit	7,717	7,046
Unearned revenue	3,156	2,674
Policyholders' share of participating surplus	7,564	7,935
Liabilities for future policyholder benefits	137,905	131,242
<b>Total</b>	<b>156,342</b>	<b>148,897</b>

### INVESTMENT CONTRACT LIABILITIES

Investment contract liabilities include deferred fee income of US\$446m (30 November 2017: US\$482m).

## 18. Borrowings

US\$m	<b>As at 30 June 2018 (Unaudited)</b>	As at 30 November 2017
Other loans	<b>970</b>	–
Medium-term notes	<b>4,451</b>	3,958
<b>Total</b>	<b><u>5,421</u></b>	<b><u>3,958</u></b>

At 30 June 2018 and 30 November 2017, the Group did not have assets pledged as security with respect to amounts disclosed as other loans above.

The following table summarises the Company's outstanding medium-term notes at 30 June 2018:

Issue date	Nominal amount	Interest rate	Tenor
13 March 2013 <sup>(1)</sup>	US\$500m	3.125%	10 years
11 March 2014 <sup>(1)</sup>	US\$500m	2.250%	5 years
11 March 2014 <sup>(1)</sup>	US\$500m	4.875%	30 years
11 March 2015 <sup>(1)</sup>	US\$750m	3.200%	10 years
16 March 2016 <sup>(1)</sup>	US\$750m	4.500%	30 years
23 May 2017 <sup>(2)</sup>	US\$500m	4.470%	30 years
6 April 2018 <sup>(1)</sup>	US\$500m	3.900%	10 years
12 April 2018	HK\$3,900m	2.760%	3 years

Notes:

(1) These medium-term notes are listed on The Stock Exchange of Hong Kong Limited.

(2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

The net proceeds from issuance during the seven months ended 30 June 2018 are used for general corporate purposes.

The Group has access to an aggregate of US\$3,074m unsecured committed credit facilities, which includes a US\$300m revolving three-year credit facility expiring in 2020, along with a temporary increase to the facility of US\$700m, as well as a US\$2,074m five-year credit facility expiring in 2022. The credit facilities will be used for general corporate purposes. There were outstanding borrowings of US\$970m under these credit facilities as of 30 June 2018 (30 November 2017: nil).

## 19. Obligations under repurchase agreements

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 de-recognised from the Group's interim consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the 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 repurchase agreements which do not qualify for de-recognition at each period end:

US\$m	As at 30 June 2018 (Unaudited)	As at 30 November 2017
Debt securities – AFS	1,987	1,854
Debt securities – FVTPL	35	12
<b>Total</b>	<b>2,022</b>	<b>1,866</b>

### COLLATERAL

At 30 June 2018, the Group had no pledged debt securities (30 November 2017: US\$1m). No cash collateral (30 November 2017: US\$1m) and debt collateral of US\$2m (30 November 2017: nil) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the interim consolidated statement of financial position.

At 30 June 2018, the obligations under repurchase agreements were US\$1,977m (30 November 2017: US\$1,883m).



## 20. Share capital and reserves

### SHARE CAPITAL

	As at 30 June 2018		As at 30 November 2017	
	Million shares (Unaudited)	US\$m (Unaudited)	Million shares	US\$m
<b>At beginning of the financial period</b>	<b>12,074</b>	<b>14,065</b>	12,056	13,998
Shares issued under share option scheme and agency share purchase plan	<b>2</b>	<b>4</b>	18	67
<b>At end of the financial period</b>	<b>12,076</b>	<b>14,069</b>	<b>12,074</b>	<b>14,065</b>

The Company issued 500,207 shares under share option scheme (30 November 2017: 17,053,136 shares) and 1,167,021 shares under agency share purchase plan (30 November 2017: 1,037,294 shares) during the seven months ended 30 June 2018.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the seven months ended 30 June 2018 with the exception of 749,578 shares (30 November 2017: 1,395,132 shares) of the Company purchased by and nil share (30 November 2017: nil) of the Company sold by the employee share-based trusts. 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.

During the seven months ended 30 June 2018, 11,750,286 shares (six months ended 31 May 2017: 14,417,864 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 30 June 2018, 52,719,492 shares (30 November 2017: 63,720,201 shares) of the Company were held by the employee share-based trusts.

## **20. Share capital and reserves (continued)**

### **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 plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

#### **Property revaluation reserve**

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

#### **Other reserves**

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

## 21. 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 Insurance Authority (HKIA), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (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.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission (formerly the China Insurance Regulatory Commission) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, AIA will report under the Hong Kong Insurance Ordinance the capital position of its China branches based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

AIA has given an undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in each of AIA Co. and AIA International.

The capital positions of the Group's two principal operating companies as of 30 June 2018 and 30 November 2017 are as follows:

US\$m	30 June 2018 (Unaudited)			30 November 2017		
	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	9,382	2,047	458%	8,248	1,862	443%
AIA International	8,007	1,706	469%	7,826	2,431	322%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum 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 and their parent entity 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 HKIA of their solvency margin position based on their annual audited financial statements.

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 without the consent from regulators for certain individual branches or subsidiaries of the Group. The payment of dividends, distributions and other payments to shareholders is subject to the oversight of the HKIA.

## **22. Risk management**

The risks that the Group is exposed to include, but are not limited to, credit risk, interest rate risk, equity price risk, foreign exchange rate risk and liquidity risk.

### **CREDIT RISK**

Credit risk is the risk that third parties fail to meet their obligations to the Group when they fall due. Although the primary source of credit risk is the Group's investment portfolio, such risk can also arise through reinsurance, procurement, and treasury activities.

The Group's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of business. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Group's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating recommended by the first lines of business. The Group's Risk Management function manages the Group's internal ratings framework and reviews these recommendations and makes final decision on the assigned ratings. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

### **INTEREST RATE RISK**

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Group's insurance liabilities.

AIA manages interest rate risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

### **EQUITY PRICE RISK**

Equity price risk arises from changes in the market value of equity securities. Investments in equity securities on a long-term basis are expected to provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group's strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

## 22. Risk management (continued)

### Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. 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.

Information is presented to illustrate the estimated impact on profits and total equity 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 total equity 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. As 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 not any corresponding effect on liabilities.

US\$m	30 June 2018 (Unaudited)			30 November 2017		
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
<b>Equity price risk</b>						
10 per cent increase in equity prices	1,329	1,329	1,329	1,182	1,182	1,182
10 per cent decrease in equity prices	(1,329)	(1,329)	(1,329)	(1,182)	(1,182)	(1,182)
<b>Interest rate risk</b>						
+ 50 basis points shift in yield curves	(174)	(5,847)	(174)	(157)	(5,676)	(157)
- 50 basis points shift in yield curves	187	6,475	187	169	6,272	169

### FOREIGN EXCHANGE RATE RISK

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in the Asia-Pacific region and the translation of multiple currencies to US dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

However, assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

## 22. Risk management (continued)

### FOREIGN EXCHANGE RATE RISK (continued)

#### Foreign exchange rate net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
<b>30 June 2018 – Unaudited</b>						
Equity analysed by original currency	19,748	2,932	3,411	(2,323)	2,220	3,950
Net notional amounts of currency derivative positions	(8,479)	594	2,692	2,862	–	6
<b>Currency exposure</b>	<b>11,269</b>	<b>3,526</b>	<b>6,103</b>	<b>539</b>	<b>2,220</b>	<b>3,956</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	177	(10)	(9)	22	5	15
Impact on other comprehensive income	(193)	151	314	5	106	183
<b>Impact on total equity</b>	<b>(16)</b>	<b>141</b>	<b>305</b>	<b>27</b>	<b>111</b>	<b>198</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	177	46	10	(7)	(3)	(14)
Impact on other comprehensive income	(193)	(187)	(315)	(20)	(108)	(184)
<b>Impact on total equity</b>	<b>(16)</b>	<b>(141)</b>	<b>(305)</b>	<b>(27)</b>	<b>(111)</b>	<b>(198)</b>
US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
<b>30 November 2017</b>						
Equity analysed by original currency	24,497	2,772	3,768	(2,356)	2,157	3,527
Net notional amounts of currency derivative positions	(9,225)	597	2,535	3,005	–	8
<b>Currency exposure</b>	<b>15,272</b>	<b>3,369</b>	<b>6,303</b>	<b>649</b>	<b>2,157</b>	<b>3,535</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	164	3	(8)	21	4	19
Impact on other comprehensive income	(188)	133	323	12	104	158
<b>Impact on total equity</b>	<b>(24)</b>	<b>136</b>	<b>315</b>	<b>33</b>	<b>108</b>	<b>177</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	164	30	9	(5)	(3)	(16)
Impact on other comprehensive income	(188)	(166)	(324)	(28)	(105)	(161)
<b>Impact on total equity</b>	<b>(24)</b>	<b>(136)</b>	<b>(315)</b>	<b>(33)</b>	<b>(108)</b>	<b>(177)</b>

## 22. Risk management (continued)

### LIQUIDITY RISK

AIA identifies liquidity risk as occurring in two ways, financial liquidity risk and investment liquidity risk. Financial liquidity risk is the risk that insufficient cash is available to meet payment obligations to counterparties as they fall due. One area of particular focus in the management of financial liquidity is collateral. AIA manages this exposure by determining limits for its activities in the derivatives and repurchase agreement markets based on the collateral available within the relevant fund or subsidiary to withstand extreme market events. More broadly AIA supports its liquidity through committed bank facilities, use of the bond repurchase markets and maintaining access to debt markets via the Company's Global Medium-term Note and Securities programme.

Investment liquidity risk occurs in relation to the Group's ability to buy and sell investments. This is a function of the size of the Group's holdings relative to the availability of counterparties willing to buy or sell these holdings at any given time. In times of stress, market losses will generally be compounded by forced sellers seeking unwilling buyers.

While life insurance companies are characterised by a relatively low need for liquidity to cover those of their liabilities which are directly linked to mortality and morbidity, this risk is nevertheless carefully managed by continuously assessing the relative liquidity of the Group's assets and managing the size of individual holdings through limits.

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
<b>30 June 2018 – Unaudited</b>						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	7,511	994	1,045	294	2,379	2,799
Other receivables	1,706	1,585	74	2	-	45
Debt securities	127,883	3,155	17,725	29,373	77,630	-
Equity securities	19,184	-	-	-	-	19,184
Reinsurance receivables	553	553	-	-	-	-
Accrued investment income	1,670	1,667	-	-	-	3
Cash and cash equivalents	2,457	2,457	-	-	-	-
Derivative financial instruments	381	137	85	145	14	-
Subtotal	161,345	10,548	18,929	29,814	80,023	22,031
Financial assets (Unit-linked contracts and consolidated investment funds)						
	23,860	-	-	-	-	23,860
<b>Total</b>	<b>185,205</b>	<b>10,548</b>	<b>18,929</b>	<b>29,814</b>	<b>80,023</b>	<b>45,891</b>

## 22. Risk management (continued)

### LIQUIDITY RISK (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	115,814	2,676	10,579	11,527	91,032	-
Borrowings	5,421	1,469	994 <sup>(1)</sup>	1,241	1,717	-
Obligations under repurchase agreements	1,977	1,977	-	-	-	-
Other liabilities	4,266	3,165	110	2	-	989
Derivative financial instruments	430	185	95	97	53	-
Subtotal	127,908	9,472	11,778	12,867	92,802	989
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	23,865	-	-	-	-	23,865
<b>Total</b>	<b>151,773</b>	<b>9,472</b>	<b>11,778</b>	<b>12,867</b>	<b>92,802</b>	<b>24,854</b>

Note:

(1) These borrowings fall due after 2 years through 5 years.



## 22. Risk management (continued)

### LIQUIDITY RISK (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
<b>30 November 2017</b>						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	7,866	1,427	919	399	2,392	2,729
Other receivables	1,727	1,617	59	6	–	45
Debt securities	126,464	3,834	17,553	31,334	73,743	–
Equity securities	17,763	–	–	–	–	17,763
Reinsurance receivables	506	506	–	–	–	–
Accrued investment income	1,494	1,486	1	–	–	7
Cash and cash equivalents	1,833	1,833	–	–	–	–
Derivative financial instruments	352	76	142	122	12	–
Subtotal	158,005	10,779	18,674	31,861	76,147	20,544
Financial assets (Unit-linked contracts and consolidated investment funds)	24,450	–	–	–	–	24,450
<b>Total</b>	<b>182,455</b>	<b>10,779</b>	<b>18,674</b>	<b>31,861</b>	<b>76,147</b>	<b>44,994</b>
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	109,900	2,609	10,420	11,404	85,467	–
Borrowings	3,958	500	499 <sup>(1)</sup>	1,242	1,717	–
Obligations under repurchase agreements	1,883	1,883	–	–	–	–
Other liabilities	4,445	3,314	47	2	–	1,082
Derivative financial instruments	361	170	57	86	48	–
Subtotal	120,547	8,476	11,023	12,734	87,232	1,082
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	24,450	–	–	–	–	24,450
<b>Total</b>	<b>144,997</b>	<b>8,476</b>	<b>11,023</b>	<b>12,734</b>	<b>87,232</b>	<b>25,532</b>

Note:

(1) No borrowings are due after 2 years through 5 years.

## 23. Share-based compensation

### SHARE-BASED COMPENSATION PLANS

During the seven months ended 30 June 2018, the Group made further awards of share options, restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP). In addition, the Group made further awards of restricted stock subscription units (RSSUs) 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 awards, 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 made. 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. 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. An allowance for forfeiture prior to vesting is not 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 awards	
	Seven months ended 30 June 2018 (Unaudited)	Year ended 30 November 2017
<b>Assumptions</b>		
Risk-free interest rate	1.87%	1.45% – 1.90%
Volatility	20%	20%
Dividend yield	1.8%	1.8%
Exercise price (HK\$)	67.15	50.30 – 61.55
Share option life (in years)	10	10
Expected life (in years)	7.95	7.95 – 8.00
Weighted average fair value per option/unit at measurement date (HK\$)	13.68	10.47

The weighted average share price for share option valuation for awards made during the seven months ended 30 June 2018 is HK\$67.15 (30 November 2017: HK\$51.70). The total fair value of share options awarded during the seven months ended 30 June 2018 is US\$8m (six months ended 31 May 2017: US\$11m).

### RECOGNISED COMPENSATION COST

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the seven months ended 30 June 2018 is US\$46m (six months ended 31 May 2017: US\$39m).

## 24. Remuneration of key management personnel

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

US\$	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
<b>Key management compensation and other expenses</b>		
Salaries and other short-term employee benefits	<b>15,169,418</b>	9,101,227
Post-employment benefits	<b>377,096</b>	4,792,340
Share-based payments	<b>8,503,129</b>	12,431,182
Termination benefits	–	4,725,943
<b>Total</b>	<b><u>24,049,643</u></b>	<b><u>31,050,692</u></b>

The emoluments of the key management personnel are within the following bands:

US\$	<b>Seven months ended 30 June 2018 (Unaudited)</b>	Six months ended 31 May 2017 (Unaudited)
Below 1,000,000	–	3
1,000,001 to 2,000,000	<b>7</b>	5
2,000,001 to 3,000,000	<b>4</b>	1
3,000,001 to 4,000,000	–	1
4,000,001 to 5,000,000	<b>1</b>	1
Over 7,000,000	–	1

## 25. Commitments and contingencies

### COMMITMENTS UNDER OPERATING LEASES

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

US\$m	<b>As at 30 June 2018 (Unaudited)</b>	As at 30 November 2017
<b>Properties and others expiring</b>		
Not later than one year	<b>150</b>	128
Later than one and not later than five years	<b>291</b>	219
Later than five years	<b>47</b>	48
<b>Total</b>	<b><u>488</u></b>	<b><u>395</u></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 reviewed at the end of the lease term to reflect market rates. None of the leases include contingent rentals.

## 25. Commitments and contingencies (continued)

### INVESTMENT AND CAPITAL COMMITMENTS

US\$m	As at 30 June 2018 (Unaudited)	As at 30 November 2017
Not later than one year	1,368	1,231
Later than one and not later than five years	3	6
<b>Total</b>	<b>1,371</b>	<b>1,237</b>

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

### 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. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$529m at 30 June 2018 (30 November 2017: US\$561m). The liabilities and related reinsurance assets, which totalled US\$2m (30 November 2017: US\$2m), 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.

## 26. Events after the reporting period

In September 2017, the Group reached an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia and life and health insurance businesses in New Zealand. The transaction includes 20-year strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand. On 2 July 2018, the Group completed the acquisition of 100 per cent of share capital of 6 subsidiaries under CBA in New Zealand while the acquisition of CBA's life insurance business in Australia remains in progress, subject to securing all necessary regulatory and governmental approvals. The transaction will expand the Group's distribution capabilities and customer reach in Australia and New Zealand markets. As announced on 21 September 2017, the total gross consideration to be paid with respect to the proposed transaction is expected to be approximately US\$3.0 billion payable in cash on completion of the proposed transaction and subject to certain adjustments at completion. After taking into account the expected proceeds from reinsurance agreements and the expected free surplus of the acquired business, the final net cash outlay by AIA is expected to be approximately US\$1.5 billion.

On 24 August 2018, a Committee appointed by the Board of Directors declared an interim dividend of 29.20 Hong Kong cents per share (six months ended 31 May 2017: 25.62 Hong Kong cents per share).

## 27. Supplementary financial information on a calendar year basis

In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018 and the next audited financial statements of the Group will cover a 13-month period from 1 December 2017 to 31 December 2018. In conjunction with this change, the following financial information is voluntarily disclosed by the Company for comparison purpose.

The accounting policies adopted to prepare the following supplementary financial information are consistent with those shown in note 2 of this 2018 interim condensed consolidated financial statements and note 2 of the 2017 consolidated financial statements.

### (A) INTERIM CONSOLIDATED INCOME STATEMENT

US\$m	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
<b>Revenue</b>		
Premiums and fee income	14,901	12,307
Premiums ceded to reinsurers	(844)	(728)
Net premiums and fee income	<u>14,057</u>	<u>11,579</u>
Investment return	1,382	7,377
Other operating revenue	123	104
<b>Total revenue</b>	<u><u>15,562</u></u>	<u><u>19,060</u></u>
<b>Expenses</b>		
Insurance and investment contract benefits	10,965	12,948
Insurance and investment contract benefits ceded	(764)	(606)
<b>Net insurance and investment contract benefits</b>	<u>10,201</u>	<u>12,342</u>
Commission and other acquisition expenses	1,757	1,525
Operating expenses	1,023	949
Finance costs	84	88
Other expenses	334	296
<b>Total expenses</b>	<u><u>13,399</u></u>	<u><u>15,200</u></u>
<b>Profit before share of profit from associates and joint venture</b>	<u>2,163</u>	<u>3,860</u>
Share of profit from associates and joint venture	1	3
<b>Profit before tax</b>	<u><u>2,164</u></u>	<u><u>3,863</u></u>
Income tax credit/(expense) attributable to policyholders' returns	40	(106)
<b>Profit before tax attributable to shareholders' profits</b>	<u><u>2,204</u></u>	<u><u>3,757</u></u>
Tax expense	(467)	(586)
Tax attributable to policyholders' returns	(40)	106
Tax expense attributable to shareholders' profits	(507)	(480)
<b>Net profit</b>	<u><u>1,697</u></u>	<u><u>3,277</u></u>
<i>Net profit attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<u>1,662</u>	<u>3,241</u>
Non-controlling interests	35	36
<b>Earnings per share (US\$)</b>		
Basic	0.14	0.27
Diluted	0.14	0.27

## 27. Supplementary financial information on a calendar year basis (continued)

### (B) INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Unaudited)
<b>Assets</b>		
Intangible assets	1,833	1,870
Investments in associates and joint venture	617	643
Property, plant and equipment <sup>(1)</sup>	1,201	1,225
Investment property <sup>(1)</sup>	4,720	4,363
Reinsurance assets	2,713	2,549
Deferred acquisition and origination costs	23,473	21,950
<b>Financial investments:</b>		
Loans and deposits	7,611	8,210
Available for sale		
Debt securities	106,228	106,788
At fair value through profit or loss		
Debt securities	26,256	26,081
Equity securities	37,657	38,079
Derivative financial instruments	383	345
	<u>178,135</u>	<u>179,503</u>
Deferred tax assets	11	13
Current tax recoverable	123	117
Other assets	4,881	4,491
Cash and cash equivalents	3,013	1,922
<b>Total assets</b>	<b><u>220,720</u></b>	<b><u>218,646</u></b>
<b>Liabilities</b>		
Insurance contract liabilities	156,342	151,475
Investment contract liabilities	7,943	8,210
Borrowings	5,421	3,958
Obligations under repurchase agreements	1,977	1,557
Derivative financial instruments	430	271
Provisions	202	223
Deferred tax liabilities	3,426	3,611
Current tax liabilities	536	497
Other liabilities	5,552	5,288
<b>Total liabilities</b>	<b><u>181,829</u></b>	<b><u>175,090</u></b>
<b>Equity</b>		
Share capital	14,069	14,065
Employee share-based trusts	(254)	(298)
Other reserves	(11,945)	(11,943)
Retained earnings	35,175	34,653
Fair value reserve	2,178	6,763
Foreign currency translation reserve	(1,213)	(569)
Property revaluation reserve	521	530
Others	(25)	(25)
Amounts reflected in other comprehensive income	1,461	6,699
<i>Total equity attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>38,506</b>	<b>43,176</b>
Non-controlling interests	<b>385</b>	<b>380</b>
<b>Total equity</b>	<b><u>38,891</u></b>	<b><u>43,556</u></b>
<b>Total liabilities and equity</b>	<b><u>220,720</u></b>	<b><u>218,646</u></b>

Note:

- (1) The appraisal values for the real estate of the Group as at 31 December 2017 remain unchanged from those reported in the consolidated financial statements of the Group as at 30 November 2017.

## 27. Supplementary financial information on a calendar year basis (continued)

### (C) 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</b>	<b>Six months ended</b>
	<b>30 June 2018</b>	<b>30 June 2017</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Hong Kong	<b>7.84</b>	7.77
Thailand	<b>31.74</b>	34.71
Singapore	<b>1.33</b>	1.40
Malaysia	<b>3.94</b>	4.39
China	<b>6.37</b>	6.87

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

	<b>US dollar exchange rates</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Hong Kong	<b>7.85</b>	7.82
Thailand	<b>33.16</b>	32.61
Singapore	<b>1.36</b>	1.34
Malaysia	<b>4.04</b>	4.05
China	<b>6.62</b>	6.51

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

## 27. Supplementary financial information on a calendar year basis (continued)

### (D) OPERATING PROFIT AFTER TAX

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

US\$m	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
<b>Operating profit after tax</b>	<b>2,674</b>	2,251
Non-operating items, net of related changes in insurance and investment contract liabilities:		
Short-term fluctuations in investment return related to equities and real estate (net of tax of: six months ended 30 June 2018: US\$97m; six months ended 30 June 2017: US\$(51)m) <sup>(1)</sup>	<b>(653)</b>	1,040
Reclassification of revaluation gain for property held for own use (net of tax of: six months ended 30 June 2018: US\$2m; six months ended 30 June 2017: US\$1m) <sup>(1)(2)</sup>	<b>(177)</b>	(20)
Other non-operating investment return and other items (net of tax of: six months ended 30 June 2018: US\$(56)m; six months ended 30 June 2017: US\$(1)m) <sup>(2)</sup>	<b>(147)</b>	6
<b>Net profit</b>	<b><u>1,697</u></b>	<b><u>3,277</u></b>
<i>Operating profit after tax attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>2,653</b>	2,233
Non-controlling interests	<b>21</b>	18
<i>Net profit attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>1,662</b>	3,241
Non-controlling interests	<b>35</b>	36

Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.

Notes:

- (1) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform with IFRS measurement and presentation.
- (2) The comparative information has been adjusted to conform to current period presentation.



## 27. Supplementary financial information on a calendar year basis (continued)

### (E) TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

TWPI US\$m	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
<b>TWPI by geography</b>		
Hong Kong	5,075	4,275
Thailand	1,803	1,571
Singapore	1,392	1,172
Malaysia	1,047	882
China	2,076	1,467
Other Markets	3,036	2,807
<b>Total</b>	<b>14,429</b>	<b>12,174</b>
<b>First year premiums by geography</b>		
Hong Kong	1,096	1,345
Thailand	259	216
Singapore	173	131
Malaysia	153	136
China	601	415
Other Markets	489	422
<b>Total</b>	<b>2,771</b>	<b>2,665</b>
<b>Single premiums by geography</b>		
Hong Kong	1,340	912
Thailand	133	90
Singapore	960	570
Malaysia	100	76
China	78	62
Other Markets	354	309
<b>Total</b>	<b>2,965</b>	<b>2,019</b>
<b>Renewal premiums by geography</b>		
Hong Kong	3,845	2,839
Thailand	1,531	1,346
Singapore	1,123	984
Malaysia	884	738
China	1,467	1,046
Other Markets	2,512	2,354
<b>Total</b>	<b>11,362</b>	<b>9,307</b>
<b>ANP</b> US\$m	<b>Six months ended 30 June 2018 (Unaudited)</b>	<b>Six months ended 30 June 2017 (Unaudited)</b>
<b>ANP by geography</b>		
Hong Kong	1,252	1,434
Thailand	287	237
Singapore	290	194
Malaysia	204	169
China	611	428
Other Markets	608	444
<b>Total</b>	<b>3,252</b>	<b>2,906</b>

## 27. Supplementary financial information on a calendar year basis (continued)

### (F) SEGMENT INFORMATION

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>Six months ended 30 June 2018</b>								
<b>- Unaudited</b>								
<b>ANP</b>	1,252	287	290	204	611	608	-	3,252
<b>TWPI</b>	5,075	1,803	1,392	1,047	2,076	3,036	-	14,429
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	5,892	1,786	1,587	924	1,989	1,990	10	14,178
Investment return	1,272	670	590	303	435	546	165	3,981
<b>Total revenue</b>	<b>7,164</b>	<b>2,456</b>	<b>2,177</b>	<b>1,227</b>	<b>2,424</b>	<b>2,536</b>	<b>175</b>	<b>18,159</b>
Net insurance and investment contract benefits	5,286	1,340	1,604	791	1,542	1,368	12	11,943
Commission and other acquisition expenses	626	368	164	138	130	329	1	1,756
Operating expenses	183	108	102	92	145	294	99	1,023
Finance costs and other expenses	63	26	15	5	15	30	60	214
<b>Total expenses</b>	<b>6,158</b>	<b>1,842</b>	<b>1,885</b>	<b>1,026</b>	<b>1,832</b>	<b>2,021</b>	<b>172</b>	<b>14,936</b>
Share of (losses)/profit from associates and joint venture	-	-	(1)	-	-	3	(1)	1
<b>Operating profit before tax</b>	<b>1,006</b>	<b>614</b>	<b>291</b>	<b>201</b>	<b>592</b>	<b>518</b>	<b>2</b>	<b>3,224</b>
Tax on operating profit before tax	(77)	(118)	(18)	(41)	(156)	(113)	(27)	(550)
<b>Operating profit/(losses) after tax</b>	<b>929</b>	<b>496</b>	<b>273</b>	<b>160</b>	<b>436</b>	<b>405</b>	<b>(25)</b>	<b>2,674</b>
<i>Operating profit/(losses) after tax attributable to:</i>								
<b>Shareholders of AIA Group Limited</b>	<b>922</b>	<b>496</b>	<b>273</b>	<b>158</b>	<b>436</b>	<b>393</b>	<b>(25)</b>	<b>2,653</b>
Non-controlling interests	7	-	-	2	-	12	-	21
<b>Key operating ratios:</b>								
Expense ratio	3.6%	6.0%	7.3%	8.8%	7.0%	9.7%	-	7.1%
Operating margin	18.3%	27.5%	19.6%	15.3%	21.0%	13.3%	-	18.5%
Operating return on shareholders' allocated equity <sup>(1)</sup>	21.3%	16.8%	17.6%	19.3%	23.6%	11.7%	-	14.2%
<i>Operating profit before tax includes:</i>								
Finance costs	14	1	-	-	9	2	50	76
Depreciation and amortisation	15	5	8	8	12	22	5	75

Note:

(1) Operating return on shareholders' allocated equity was measured on an annualised basis.

## 27. Supplementary financial information on a calendar year basis (continued)

### (F) SEGMENT INFORMATION (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>30 June 2018</b>								
<b>- Unaudited</b>								
Total assets	68,416	30,542	35,997	14,634	22,510	36,002	12,619	220,720
Total liabilities	59,189	24,026	33,029	13,076	18,901	28,621	4,987	181,829
Total equity	9,227	6,516	2,968	1,558	3,609	7,381	7,632	38,891
Shareholders' allocated equity	8,282	5,672	2,903	1,548	3,431	6,468	8,024	36,328
Net capital (out)/in flows	(427)	(145)	-	(97)	(440)	(79)	94	(1,094)

Total assets includes:

Investments in associates and joint venture	-	-	-	7	-	610	-	617
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Segment information may be reconciled to the interim consolidated income statement as shown below:

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items <sup>(1)</sup>	Interim consolidated income statement	
<b>Six months ended 30 June 2018</b>					
<b>- Unaudited</b>					
Net premiums, fee income and other operating revenue	14,178	-	2	14,180	Net premiums, fee income and other operating revenue
Investment return	3,981	(1,092)	(1,507)	1,382	Investment return
<b>Total revenue</b>	<b>18,159</b>	<b>(1,092)</b>	<b>(1,505)</b>	<b>15,562</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	11,943	(342)	(1,400)	10,201	Net insurance and investment contract benefits
Other expenses	2,993	-	205	3,198	Other expenses
<b>Total expenses</b>	<b>14,936</b>	<b>(342)</b>	<b>(1,195)</b>	<b>13,399</b>	<b>Total expenses</b>
Share of profit from associates and joint venture	1	-	-	1	Share of profit from associates and joint venture
<b>Operating profit before tax</b>	<b>3,224</b>	<b>(750)</b>	<b>(310)</b>	<b>2,164</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 27. Supplementary financial information on a calendar year basis (continued)

### (F) SEGMENT INFORMATION (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>Six months ended 30 June 2017</b>								
<b>– Unaudited</b>								
<b>ANP</b>	1,434	237	194	169	428	444	–	2,906
<b>TWPI</b>	4,275	1,571	1,172	882	1,467	2,807	–	12,174
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	4,717	1,599	1,344	782	1,401	1,839	1	11,683
Investment return	1,033	566	529	260	346	523	172	3,429
<b>Total revenue</b>	<b>5,750</b>	<b>2,165</b>	<b>1,873</b>	<b>1,042</b>	<b>1,747</b>	<b>2,362</b>	<b>173</b>	<b>15,112</b>
Net insurance and investment contract benefits	4,141	1,167	1,356	700	1,124	1,289	1	9,778
Commission and other acquisition expenses	492	346	153	105	86	336	–	1,518
Operating expenses	173	99	86	84	132	271	104	949
Finance costs and other expenses	55	23	14	6	12	20	60	190
<b>Total expenses</b>	<b>4,861</b>	<b>1,635</b>	<b>1,609</b>	<b>895</b>	<b>1,354</b>	<b>1,916</b>	<b>165</b>	<b>12,435</b>
Share of profit from associates and joint venture	–	–	–	–	–	3	–	3
<b>Operating profit before tax</b>	<b>889</b>	<b>530</b>	<b>264</b>	<b>147</b>	<b>393</b>	<b>449</b>	<b>8</b>	<b>2,680</b>
Tax on operating profit before tax	(62)	(107)	(24)	(28)	(99)	(101)	(8)	(429)
<b>Operating profit after tax</b>	<b>827</b>	<b>423</b>	<b>240</b>	<b>119</b>	<b>294</b>	<b>348</b>	<b>–</b>	<b>2,251</b>
<i>Operating profit after tax attributable to:</i>								
<b>Shareholders of AIA</b>								
<b>Group Limited</b>	821	423	240	118	294	337	–	2,233
Non-controlling interests	6	–	–	1	–	11	–	18
<b>Key operating ratios:</b>								
Expense ratio	4.0%	6.3%	7.3%	9.5%	9.0%	9.7%	–	7.8%
Operating margin	19.3%	26.9%	20.5%	13.5%	20.0%	12.4%	–	18.5%
Operating return on shareholders' allocated equity <sup>(1)</sup>	23.8%	17.2%	17.0%	16.8%	19.1%	11.5%	–	13.9%

Operating profit before tax includes:

Finance costs	14	3	–	–	4	1	48	70
Depreciation and amortisation	9	3	5	7	8	15	5	52

Note:

(1) Operating return on shareholders' allocated equity was measured on an annualised basis.

## 27. Supplementary financial information on a calendar year basis (continued)

### (F) SEGMENT INFORMATION (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
<b>30 June 2017 – Unaudited</b>								
<b>Total assets</b>	60,604	28,398	34,132	13,444	19,297	35,336	10,986	202,197
<b>Total liabilities</b>	50,355	22,213	30,758	12,073	16,173	27,633	3,578	162,783
<b>Total equity</b>	10,249	6,185	3,374	1,371	3,124	7,703	7,408	39,414
<b>Shareholders' allocated equity</b>	6,990	4,986	2,919	1,347	3,030	6,012	7,416	32,700
Net capital (out)/in flows	(602)	(197)	–	(192)	(206)	28	288	(881)

Total assets includes:

Investments in associates and joint venture	–	–	1	6	–	623	–	630
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Segment information may be reconciled to the interim consolidated income statement as shown below:

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items <sup>(1)</sup>	Interim consolidated income statement	
<b>Six months ended 30 June 2017 – Unaudited</b>					
Net premiums, fee income and other operating revenue	11,683	–	–	11,683	Net premiums, fee income and other operating revenue
Investment return	3,429	1,487	2,461	7,377	Investment return
<b>Total revenue</b>	<b>15,112</b>	<b>1,487</b>	<b>2,461</b>	<b>19,060</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	9,778	396	2,168	12,342	Net insurance and investment contract benefits
Other expenses	2,657	–	201	2,858	Other expenses
<b>Total expenses</b>	<b>12,435</b>	<b>396</b>	<b>2,369</b>	<b>15,200</b>	<b>Total expenses</b>
Share of profit from associates and joint venture	3	–	–	3	Share of profit from associates and joint venture
<b>Operating profit before tax</b>	<b>2,680</b>	<b>1,091</b>	<b>92</b>	<b>3,863</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 27. Supplementary financial information on a calendar year basis (continued)

### (G) INVESTMENT RETURN

US\$m	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Interest income	3,062	2,736
Dividend income	438	341
Rental income	85	74
<b>Investment income</b>	<b>3,585</b>	<b>3,151</b>
<b>Available for sale</b>		
Net realised gains from debt securities	14	83
<b>Net gains of available for sale financial assets reflected in the interim consolidated income statement</b>	<b>14</b>	<b>83</b>
<b>At fair value through profit or loss</b>		
<b>Net (losses)/gains of financial assets designated at fair value through profit or loss</b>		
Net (losses)/gains of debt securities	(371)	241
Net (losses)/gains of equity securities	(2,181)	3,653
<b>Net (losses)/gains of financial instruments held for trading</b>		
Net fair value movement on derivatives	(279)	467
<b>Net (losses)/gains in respect of financial instruments at fair value through profit or loss</b>	<b>(2,831)</b>	<b>4,361</b>
Net fair value movement of investment property	391	200
Net foreign exchange gains/(losses)	226	(415)
Other net realised losses	(3)	(3)
<b>Investment experience</b>	<b>(2,203)</b>	<b>4,226</b>
<b>Investment return</b>	<b>1,382</b>	<b>7,377</b>

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

US\$m	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Foreign exchange gains/(losses)	212	(132)

## 27. Supplementary financial information on a calendar year basis (continued)

### (H) EXPENSES

US\$m	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Insurance contract benefits	5,892	5,155
Change in insurance contract liabilities	5,193	7,029
Investment contract benefits	(120)	764
<b>Insurance and investment contract benefits</b>	<b>10,965</b>	<b>12,948</b>
Insurance and investment contract benefits ceded	(764)	(606)
<b>Insurance and investment contract benefits, net of reinsurance ceded</b>	<b>10,201</b>	<b>12,342</b>
Commission and other acquisition expenses incurred	3,065	2,687
Deferral and amortisation of acquisition costs	(1,308)	(1,162)
<b>Commission and other acquisition expenses</b>	<b>1,757</b>	<b>1,525</b>
Employee benefit expenses	663	613
Depreciation	36	31
Amortisation	24	21
Operating lease rentals	81	72
Other operating expenses	219	212
<b>Operating expenses</b>	<b>1,023</b>	<b>949</b>
Investment management expenses and others	231	188
Depreciation on property held for own use	12	11
Restructuring and other non-operating costs <sup>(1)</sup>	107	73
Change in third-party interests in consolidated investment funds	(16)	24
<b>Other expenses</b>	<b>334</b>	<b>296</b>
Finance costs	84	88
<b>Total</b>	<b>13,399</b>	<b>15,200</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, integration costs and implementation costs driven by the new accounting and regulatory requirements.

Finance costs may be analysed as:

US\$m	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Repurchase agreements	12	24
Medium-term notes	70	62
Other loans	2	2
<b>Total</b>	<b>84</b>	<b>88</b>

## 27. Supplementary financial information on a calendar year basis (continued)

### (I) EARNINGS PER SHARE

#### Basic

	<b>Six months ended 30 June 2018 (Unaudited)</b>	Six months ended 30 June 2017 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	1,662	3,241
Weighted average number of ordinary shares in issue (million)	12,018	11,995
<b>Basic earnings per share (US cents per share)</b>	<b>13.83</b>	<b>27.02</b>

#### Diluted

	<b>Six months ended 30 June 2018 (Unaudited)</b>	Six months ended 30 June 2017 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	1,662	3,241
Weighted average number of ordinary shares in issue (million)	12,018	11,995
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	32	23
Weighted average number of ordinary shares for diluted earnings per share (million)	12,050	12,018
<b>Diluted earnings per share (US cents per share)</b>	<b>13.79</b>	<b>26.97</b>

At 30 June 2018, 5,613,880 share options (30 June 2017: 5,529,112) 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

	<b>Six months ended 30 June 2018 (Unaudited)</b>	Six months ended 30 June 2017 (Unaudited)
Basic (US cents per share)	22.08	18.62
Diluted (US cents per share)	22.02	18.58



## 27. Supplementary financial information on a calendar year basis (continued)

### (J) 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 December 2017</b>							
<b>- Unaudited</b>							
Government bonds	6,069	88	37,823	43,980	1,131	-	45,111
Government agency bonds <sup>(1)</sup>	3,942	13	9,228	13,183	212	344	13,739
Corporate bonds	10,841	187	59,116	70,144	1,365	1,668	73,177
Structured securities <sup>(2)</sup>	179	42	621	842	-	-	842
<b>Total<sup>(3)</sup></b>	<b>21,031</b>	<b>330</b>	<b>106,788</b>	<b>128,149</b>	<b>2,708</b>	<b>2,012</b>	<b>132,869</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) As of 31 December 2017, debt securities of US\$4,692m are restricted due to local regulatory requirements.
- (4) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

#### 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	Other policyholder and shareholder				
	FVTPL	FVTPL				
<b>31 December 2017</b>						
<b>- Unaudited</b>						
Equity shares	4,716	9,797	14,513	4,832	-	19,345
Interests in investment funds	2,269	1,775	4,044	14,690	-	18,734
<b>Total</b>	<b>6,985</b>	<b>11,572</b>	<b>18,557</b>	<b>19,522</b>	<b>-</b>	<b>38,079</b>

Note:

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

## 27. Supplementary financial information on a calendar year basis (continued)

### (J) FINANCIAL INVESTMENTS (continued)

#### Debt and equity securities

US\$m	As at 31 December 2017 (Unaudited)
<b>Debt securities</b>	
Listed	102,106
Unlisted	30,763
<b>Total</b>	<u>132,869</u>
<b>Equity securities</b>	
Listed	21,118
Unlisted <sup>(1)</sup>	16,961
<b>Total</b>	<u>38,079</u>

Note:

(1) As of 31 December 2017, the balance includes US\$15,804m of investment funds which can be redeemed daily.

#### Loans and deposits

US\$m	As at 31 December 2017 (Unaudited)
Policy loans	2,765
Mortgage loans on residential real estate	607
Mortgage loans on commercial real estate	44
Other loans	1,114
Allowance for loan losses	(12)
<b>Loans</b>	<u>4,518</u>
Term deposits	2,113
Promissory notes <sup>(1)</sup>	1,579
<b>Total</b>	<u>8,210</u>

Note:

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

## 27. Supplementary financial information on a calendar year basis (continued)

### (K) INSURANCE AND INVESTMENT CONTRACT LIABILITIES

#### Insurance contract liabilities

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can be analysed as follows:

US\$m	As at 31 December 2017 (Unaudited)
Deferred profit	7,213
Unearned revenue	2,605
Policyholders' share of participating surplus	8,117
Liabilities for future policyholder benefits	133,540
<b>Total</b>	<b>151,475</b>

#### Investment contract liabilities

Investment contract liabilities include deferred fee income of US\$475m.

### (L) GROUP CAPITAL STRUCTURE

#### Regulatory Solvency

The capital positions of the Group's two principal operating companies as of 31 December 2017 are as follows:

US\$m	31 December 2017 (Unaudited)		Solvency ratio
	Total available capital	Regulatory minimum capital	
AIA Co.	8,395	1,882	446%
AIA International	7,883	2,511	314%

# REPORT ON REVIEW OF SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 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 Supplementary Embedded Value Information (the “EV Information”) set out on pages 112 to 130, which comprises the EV consolidated results of AIA Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at and for the six-month period ended 30 June 2018, sensitivity analysis and a summary of significant methodology and assumptions and other explanatory notes. The directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information. Our responsibility is to express a conclusion on this EV Information 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 the EV Information, including the summary of significant methodology and assumptions, 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 EV Information is not prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

## Basis of Preparation

Without modifying our conclusion, we draw attention to Sections 4 and 5 of the EV Information, which describes the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. This report does not extend to any financial statements of the Company.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 24 August 2018

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## **SUPPLEMENTARY EMBEDDED VALUE INFORMATION**

### **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 the 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.

The Supplementary Embedded Value Information is unaudited, but has been reviewed by PricewaterhouseCoopers 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. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 111.

## 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 the business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB). This methodology makes an implicit overall level of allowance for 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 the economic cost of capital, through the use of a risk discount rate. The equity attributable to shareholders of the Company on the EV basis (EV Equity) is the total of the 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.

In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial year-end date of the Company is 31 December 2018. In conjunction with this change, the financial information as at 30 June 2017 and 31 December 2017 is provided for comparative purposes.

### Summary of key metrics<sup>(1)</sup> (US\$ millions)

	As at 30 June 2018 (Unaudited)	As at 31 December 2017	Growth CER <sup>(2)</sup>	Growth AER <sup>(3)</sup>
Equity attributable to shareholders of the Company on the EV basis (EV Equity)	53,628	52,429	4%	2%
Embedded value (EV)	52,012	50,779	4%	2%
Adjusted net worth (ANW)	22,975	20,974	10%	10%
Value of in-force business (VIF)	29,037	29,805	–	(3)%

  

	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)	YoY CER	YoY AER
Value of new business (VONB)	1,954	1,605	17%	22%
Annualised new premiums (ANP)	3,252	2,906	9%	12%
VONB margin	59.5%	54.5%	4.4 pps	5.0 pps
EV operating profit	4,152	3,370	19%	23%
Operating return on EV (Operating ROEV) <sup>(4)</sup>	17.0%	16.3%	0.7 pps	0.7 pps

#### Notes:

- (1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.
- (2) Constant exchange rates (CER). Change on constant exchange rates is calculated using constant average exchange rates for the current year and for the prior year other than for EV Equity, EV, ANW and VIF that use constant exchange rates as at the end of the current year and as at the end of the prior year.
- (3) Actual exchange rates (AER).
- (4) On an annualised basis.

## 2. Embedded Value Results

### 2.1 EMBEDDED VALUE BY BUSINESS UNIT

The EV as at 30 June 2018 is presented consistently with the segment information in the IFRS financial statements.

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

Business Unit	As at 30 June 2018 (Unaudited)				EV
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	
AIA Hong Kong	6,572	11,871	814	11,057	17,629
AIA Thailand	4,680	4,479	790	3,689	8,369
AIA Singapore	2,201	3,928	649	3,279	5,480
AIA Malaysia	1,140	1,597	207	1,390	2,530
AIA China	2,507	5,068	–	5,068	7,575
Other Markets	4,442	3,352	860	2,492	6,934
Group Corporate Centre	8,055	(130)	–	(130)	7,925
<b>Subtotal</b>	<b>29,597</b>	<b>30,165</b>	<b>3,320</b>	<b>26,845</b>	<b>56,442</b>
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(6,622)	3,999	795	3,204	(3,418)
After-tax value of unallocated Group Office expenses	–	(1,012)	–	(1,012)	(1,012)
<b>Total</b>	<b>22,975</b>	<b>33,152</b>	<b>4,115</b>	<b>29,037</b>	<b>52,012</b>

  

Business Unit	As at 31 December 2017				EV
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	
AIA Hong Kong	6,701	11,158	935	10,223	16,924
AIA Thailand	4,566	4,719	784	3,935	8,501
AIA Singapore	2,516	3,643	721	2,922	5,438
AIA Malaysia	1,200	1,508	218	1,290	2,490
AIA China	2,143	4,863	–	4,863	7,006
Other Markets	4,823	3,258	978	2,280	7,103
Group Corporate Centre	8,381	(121)	(1)	(120)	8,261
<b>Subtotal</b>	<b>30,330</b>	<b>29,028</b>	<b>3,635</b>	<b>25,393</b>	<b>55,723</b>
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(9,356)	5,597	118	5,479	(3,877)
After-tax value of unallocated Group Office expenses	–	(1,067)	–	(1,067)	(1,067)
<b>Total</b>	<b>20,974</b>	<b>33,558</b>	<b>3,753</b>	<b>29,805</b>	<b>50,779</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) Adjustment to reflect consolidated reserving and capital requirements as described in Section 2.3 of this report.

## 2. Embedded Value Results (continued)

### 2.2 RECONCILIATION OF ANW TO IFRS EQUITY

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

	As at 30 June 2018 (Unaudited)	As at 31 December 2017
<b>IFRS equity attributable to shareholders of the Company</b>	<b>38,506</b>	43,176
Elimination of IFRS deferred acquisition and origination costs assets	<b>(23,473)</b>	(21,950)
Difference between IFRS policy liabilities and local statutory policy liabilities	<b>13,944</b>	8,588
Difference between net IFRS policy liabilities and local statutory policy liabilities	<b>(9,529)</b>	(13,362)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	<b>494</b>	348
Elimination of intangible assets	<b>(1,833)</b>	(1,870)
Recognition of deferred tax impacts of the above adjustments	<b>1,902</b>	1,979
Recognition of non-controlling interests impacts of the above adjustments	<b>57</b>	59
<b>ANW (Business Unit)</b>	<b>29,597</b>	30,330
Adjustment to reflect consolidated reserving requirements, net of tax	<b>(6,622)</b>	(9,356)
<b>ANW (Consolidated)</b>	<b>22,975</b>	20,974

### 2.3 BREAKDOWN OF ANW

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, is set out below:

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

	As at 30 June 2018 (Unaudited)		As at 31 December 2017	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	21,363	13,687	21,831	12,586
Required capital	8,234	9,288	8,499	8,388
<b>ANW</b>	<b>29,597</b>	<b>22,975</b>	<b>30,330</b>	<b>20,974</b>

The Company's subsidiaries, AIA Company Limited (AIA Co.) and AIA International Limited (AIA International) are both subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

As at 30 June 2018, the Hong Kong reserving and capital requirements, where applicable, are in excess of both the local reserving and capital requirements and the BMA reserving and capital requirements.



## 2. Embedded Value Results (continued)

### 2.4 EARNINGS PROFILE

The tables below show 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 consolidated reserving and capital requirements.

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

Expected period of emergence	As at 30 June 2018 (Unaudited)	
	Undiscounted	Discounted
1 – 5 years	18,662	15,577
6 – 10 years	14,033	7,847
11 – 15 years	13,563	5,137
16 – 20 years	12,720	3,323
21 years and thereafter	133,617	6,441
<b>Total</b>	<b>192,595</b>	<b>38,325</b>

  

Expected period of emergence	As at 31 December 2017	
	Undiscounted	Discounted
1 – 5 years	18,434	15,175
6 – 10 years	14,491	7,952
11 – 15 years	14,499	5,386
16 – 20 years	13,425	3,434
21 years and thereafter	126,545	6,246
<b>Total</b>	<b>187,394</b>	<b>38,193</b>

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$38,325 million (31 December 2017: US\$38,193 million) plus the free surplus of US\$13,687 million (31 December 2017: US\$12,586 million) shown in Section 2.3 of this report is equal to the EV of US\$52,012 million (31 December 2017: US\$50,779 million) shown in Section 2.1 of this report.

## 2. Embedded Value Results (continued)

### 2.5 VALUE OF NEW BUSINESS

The VONB for the Group for the six months ended 30 June 2018 is summarised in the table 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 consistently with the segment information in the IFRS financial statements.

The Group VONB for the six months ended 30 June 2018 was US\$1,954 million, an increase of US\$349 million, or 22 per cent on actual exchange rates, from US\$1,605 million for the six months ended 30 June 2017.

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

Business Unit	Six months ended 30 June 2018 (Unaudited)			Six months ended 30 June 2017 (Unaudited)		
	VONB before CoC	CoC	VONB after CoC <sup>(1)</sup>	VONB before CoC	CoC	VONB after CoC <sup>(1)</sup>
AIA Hong Kong	858	62	<b>796</b>	791	68	723
AIA Thailand	228	24	<b>204</b>	202	23	179
AIA Singapore	209	31	<b>178</b>	156	18	138
AIA Malaysia	133	9	<b>124</b>	115	9	106
AIA China	605	49	<b>556</b>	410	33	377
Other Markets	244	43	<b>201</b>	231	46	185
<b>Total before unallocated Group Office expenses (Business Unit)</b>	<b>2,277</b>	<b>218</b>	<b>2,059</b>	<b>1,905</b>	<b>197</b>	<b>1,708</b>
Adjustment to reflect consolidated reserving and capital requirements	(33)	(5)	<b>(28)</b>	(36)	(12)	(24)
<b>Total before unallocated Group Office expenses (Consolidated)</b>	<b>2,244</b>	<b>213</b>	<b>2,031</b>	<b>1,869</b>	<b>185</b>	<b>1,684</b>
After-tax value of unallocated Group Office expenses	(77)	–	<b>(77)</b>	(79)	–	(79)
<b>Total</b>	<b>2,167</b>	<b>213</b>	<b>1,954</b>	<b>1,790</b>	<b>185</b>	<b>1,605</b>

Note:

- (1) 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 30 June 2018 and 30 June 2017 were US\$13 million and US\$11 million respectively.

## 2. Embedded Value Results (continued)

### 2.5 VALUE OF NEW BUSINESS (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the six months ended 30 June 2018.

The VONB margin and PVNBP margin are defined as VONB, excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB for pension business is excluded from the margin calculation to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the six months ended 30 June 2018 was 59.5 per cent compared with 54.5 per cent for the six months ended 30 June 2017. The Group PVNBP margin for the six months ended 30 June 2018 was 10 per cent compared with 9 per cent for the six months ended 30 June 2017.

#### Breakdown of VONB, ANP, VONB margin and PVNBP margin (US\$ millions)

	<u>VONB after CoC</u>	<u>ANP</u>	<u>VONB Margin</u>	<u>PVNBP Margin</u>
<b>Half year</b>				
<b>Values for 2018</b>				
6 months ended 30 June 2018 (Unaudited)	<b>1,954</b>	<b>3,252</b>	<b>59.5%</b>	<b>10%</b>
<b>Values for 2017</b>				
6 months ended 30 June 2017 (Unaudited)	1,605	2,906	54.5%	9%
<b>Quarter</b>				
<b>Values for 2018</b>				
3 months ended 31 March 2018 (Unaudited)	<b>1,021</b>	<b>1,696</b>	<b>59.7%</b>	<b>10%</b>
3 months ended 30 June 2018 (Unaudited)	<b>933</b>	<b>1,556</b>	<b>59.3%</b>	<b>10%</b>
<b>Values for 2017</b>				
3 months ended 31 March 2017 (Unaudited)	811	1,630	49.2%	9%
3 months ended 30 June 2017 (Unaudited)	794	1,276	61.3%	10%

## 2. Embedded Value Results (continued)

### 2.5 VALUE OF NEW BUSINESS (continued)

The table below shows the VONB (excluding pension business), ANP, and VONB margin by Business Unit.

#### Summary of VONB excluding pension, ANP and VONB margin by Business Unit (US\$ millions)

Business Unit	Six months ended 30 June 2018 (Unaudited)			Six months ended 30 June 2017 (Unaudited)		
	VONB Excluding Pension	ANP	VONB Margin	VONB Excluding Pension	ANP	VONB Margin
AIA Hong Kong	779	1,252	62.2%	705	1,434	49.2%
AIA Thailand	204	287	71.0%	179	237	75.3%
AIA Singapore	178	290	61.4%	138	194	71.1%
AIA Malaysia	123	204	60.3%	105	169	62.3%
AIA China	556	611	91.0%	377	428	88.2%
Other Markets	200	608	32.8%	183	444	41.2%
<b>Total before unallocated Group Office expenses (Business Unit)</b>	<b>2,040</b>	<b>3,252</b>	<b>62.7%</b>	<b>1,687</b>	<b>2,906</b>	<b>58.1%</b>
Adjustment to reflect consolidated reserving and capital requirements	(28)	–		(25)	–	
<b>Total before unallocated Group Office expenses (Consolidated)</b>	<b>2,012</b>	<b>3,252</b>	<b>61.9%</b>	<b>1,662</b>	<b>2,906</b>	<b>57.2%</b>
After-tax value of unallocated Group Office expenses	(77)	–		(79)	–	
<b>Total</b>	<b>1,935</b>	<b>3,252</b>	<b>59.5%</b>	<b>1,583</b>	<b>2,906</b>	<b>54.5%</b>

## 2. Embedded Value Results (continued)

### 2.6 ANALYSIS OF EV MOVEMENT

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

	Six months ended 30 June 2018 (Unaudited)			Six months ended 30 June 2017 (Unaudited)			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
<b>Opening EV</b>	20,974	29,805	<b>50,779</b>	16,862	25,986	42,848	19%
Value of new business	(357)	2,311	<b>1,954</b>	(291)	1,896	1,605	22%
Expected return on EV	2,164	(234)	<b>1,930</b>	2,042	(374)	1,668	16%
Operating experience variances	277	68	<b>345</b>	325	(103)	222	55%
Operating assumption changes	8	(13)	<b>(5)</b>	(213)	152	(61)	(92)%
Finance costs	(72)	–	<b>(72)</b>	(64)	–	(64)	13%
<b>EV operating profit</b>	2,020	2,132	<b>4,152</b>	1,799	1,571	3,370	23%
Investment return variances	(1,724)	278	<b>(1,446)</b>	877	160	1,037	n/m <sup>(1)</sup>
Effect of changes in economic assumptions	–	–	<b>–</b>	–	–	–	n/m
Other non-operating variances	3,160	(2,784)	<b>376</b>	282	(506)	(224)	n/m
<b>Total EV profit</b>	3,456	(374)	<b>3,082</b>	2,958	1,225	4,183	(26)%
Dividends	(1,140)	–	<b>(1,140)</b>	(983)	–	(983)	16%
Other capital movements	45	–	<b>45</b>	86	–	86	(48)%
Effect of changes in exchange rates	(360)	(394)	<b>(754)</b>	144	757	901	n/m
<b>Closing EV</b>	<b>22,975</b>	<b>29,037</b>	<b>52,012</b>	<b>19,067</b>	<b>27,968</b>	<b>47,035</b>	<b>11%</b>

Note:

(1) Not meaningful (n/m).

## 2. Embedded Value Results (continued)

### 2.6 ANALYSIS OF EV MOVEMENT (continued)

EV operating profit grew by 23 per cent on actual exchange rates to US\$4,152 million (2017: US\$3,370 million) compared with 2017. The growth reflected a combination of a higher VONB of US\$1,954 million (2017: US\$1,605 million) and a higher expected return on EV of US\$1,930 million (2017: US\$1,668 million). Overall operating experience variances and operating assumption changes were again positive at US\$340 million (2017: US\$161 million). Finance costs were US\$72 million (2017: US\$64 million).

The VONB 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 30 June 2018 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, were US\$345 million (2017: US\$222 million), reflecting:

- Expense variances of US\$68 million (2017: US\$17 million);
- Mortality and morbidity claims variances of US\$141 million (2017: US\$120 million); and
- Persistency and other variances of US\$136 million (2017: US\$85 million).

The effect of the changes in operating assumptions during the period was US\$(5) million (2017: US\$(61) million).

The EV profit of US\$3,082 million (2017: US\$4,183 million) is the total of the 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 reflecting short-term fluctuations in investment returns. This amounted to US\$(1,446) million (2017: US\$1,037 million) from the effect of short-term equity market and other capital market movements on the Group's investment portfolio and statutory reserves compared with the expected returns.

There were no changes in long-term economic assumptions used in the EV basis during the period (2017: nil).

Other non-operating variances amounted to US\$376 million (2017: US\$(224) million) which comprised the effects of subsidiarising AIA Korea and the transitional arrangement for equivalence as described in Section 4 partly offset by others including modelling-related enhancements.

The final dividend declared for 2017 was US\$1,140 million (2017: US\$983 million) which was paid in the first half of 2018.

Foreign exchange movements were US\$(754) million (2017: US\$901 million).

## 2. Embedded Value Results (continued)

### 2.6 ANALYSIS OF EV MOVEMENT (continued)

#### Operating ROEV (US\$ millions)

Operating return on EV (Operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 17.0% (2017: 16.3%) for the six months ended 30 June 2018.

	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)	YoY CER	YoY AER
EV operating profit	4,152	3,370	19%	23%
Opening EV	50,779	42,848	14%	19%
<b>Operating ROEV<sup>(1)</sup></b>	<b>17.0%</b>	<b>16.3%</b>	<b>0.7 pps</b>	<b>0.7 pps</b>

Note:

(1) On an annualised basis.

### 2.7 EV EQUITY

The EV Equity grew to US\$53,628 million at 30 June 2018, an increase of 2 per cent on actual exchange rates from US\$52,429 million as at 31 December 2017.

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

	As at 30 June 2018 (Unaudited)	As at 31 December 2017	Growth CER	Growth AER
EV	52,012	50,779	4%	2%
Goodwill and other intangible assets <sup>(1)</sup>	1,616	1,650	(1)%	(2)%
<b>EV Equity</b>	<b>53,628</b>	<b>52,429</b>	<b>4%</b>	<b>2%</b>

Note:

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

### 3. Sensitivity Analysis

The EV as at 30 June 2018 and the VONB for the six months ended 30 June 2018 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

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 30 June 2018 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 30 June 2018); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 June 2018).

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 30 June 2018 and the values of debt instruments held at 30 June 2018 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets in the Asia-Pacific region, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 30 June 2018 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 30 June 2018 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.



### 3. Sensitivity Analysis (continued)

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

#### Sensitivity of EV (US\$ millions)

Scenario	As at 30 June 2018 (Unaudited)		As at 31 December 2017	
	EV	Ratio	EV	Ratio
<b>Central value</b>	<b>52,012</b>		50,779	
<i>Impact of:</i>				
200 bps increase in risk discount rates	(6,304)	(12.1)%	(6,227)	(12.3)%
200 bps decrease in risk discount rates	10,125	19.5%	10,052	19.8%
10% increase in equity prices	783	1.5%	750	1.5%
10% decrease in equity prices	(780)	(1.5)%	(743)	(1.5)%
50 bps increase in interest rates	342	0.7%	49	0.1%
50 bps decrease in interest rates	(296)	(0.6)%	(456)	(0.9)%
5% appreciation in the presentation currency	(1,669)	(3.2)%	(1,589)	(3.1)%
5% depreciation in the presentation currency	1,669	3.2%	1,589	3.1%
10% increase in lapse/discontinuance rates	(831)	(1.6)%	(763)	(1.5)%
10% decrease in lapse/discontinuance rates	927	1.8%	886	1.7%
10% increase in mortality/morbidity rates	(3,623)	(7.0)%	(3,730)	(7.3)%
10% decrease in mortality/morbidity rates	3,620	7.0%	3,665	7.2%
10% decrease in maintenance expenses	615	1.2%	574	1.1%
Expense inflation set to 0%	645	1.2%	605	1.2%

#### Sensitivity of VONB (US\$ millions)

Scenario	Six months ended 30 June 2018 (Unaudited)		Six months ended 30 June 2017 (Unaudited)	
	VONB	Ratio	VONB	Ratio
<b>Central value</b>	<b>1,954</b>		1,605	
<i>Impact of:</i>				
200 bps increase in risk discount rates	(481)	(24.6)%	(464)	(28.9)%
200 bps decrease in risk discount rates	816	41.8%	889	55.4%
50 bps increase in interest rates	91	4.7%	86	5.4%
50 bps decrease in interest rates	(111)	(5.7)%	(131)	(8.2)%
5% appreciation in the presentation currency	(61)	(3.1)%	(49)	(3.1)%
5% depreciation in the presentation currency	61	3.1%	49	3.1%
10% increase in lapse/discontinuance rates	(100)	(5.1)%	(85)	(5.3)%
10% decrease in lapse/discontinuance rates	111	5.7%	90	5.6%
10% increase in mortality/morbidity rates	(185)	(9.5)%	(164)	(10.2)%
10% decrease in mortality/morbidity rates	179	9.2%	158	9.8%
10% decrease in maintenance expenses	50	2.6%	41	2.6%
Expense inflation set to 0%	33	1.7%	26	1.6%

## 4. Methodology

The methodology used by the Group for determining the EV results for the period is consistent with that described in Section 4 of the Supplementary Embedded Value Information in the Company's Annual Report 2017 taking into account the regulatory capital requirements as set out in Section 4.1 below.

### 4.1 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 the table below.

#### Required capital by Business Unit

Business Unit	Required Capital
AIA Australia	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
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 Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of regulatory 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

#### Capital Requirements on Consolidation

The Group has an undertaking to the Hong Kong Insurance Authority (HKIA) to maintain required capital not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of AIA Hong Kong and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong.

AIA International and its subsidiaries hold required capital at no less than 120% of the BMA regulatory capital requirements.

Upon completion of transfer of AIA International's insurance business in Korea from a branch to a wholly-owned subsidiary on 1 January 2018, AIA Life Insurance Co. Ltd. (AIA Korea) is subject to capital requirements determined internally by the Group for the purpose of consolidation, in addition to the above mentioned capital requirements.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission (formerly the China Insurance Regulatory Commission) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, AIA will report under the Hong Kong Insurance Ordinance the capital position of its China branches based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

## **5. Assumptions**

### **5.1 INTRODUCTION**

This section summarises the assumptions used by the Group to determine the EV as at 30 June 2018 and as at 31 December 2017 and the VONB for the six months ended 30 June 2018 and 30 June 2017.

Long-term economic assumptions used in the EV basis for the interim results remain unchanged from those shown in Section 5.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2017. This is consistent with the approach that has been followed since the IPO in 2010.

The non-economic assumptions used are based on those at 30 November 2017, updated to reflect the Group's view of the latest experience observed. A more detailed description of the assumptions as at 30 November 2017 and as at 31 May 2017 can be found in Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2017 and Interim Report 2017, respectively.

For clarity, the long-term economic assumptions used for the results as at 31 December 2017 and as at 30 June 2017 remain unchanged from those shown in Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2017 and Interim Report 2017, respectively. The non-economic assumptions used for the results as at 31 December 2017 and as at 30 June 2017 are based on those as at 30 November 2017 and as at 31 May 2017, respectively.

Note that the VONB results were calculated based on start-of-period economic assumptions consistent with measurement at the point of sale.

### **5.2 ECONOMIC ASSUMPTIONS**

#### **Investment returns**

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

## 5. Assumptions (continued)

### 5.2 ECONOMIC ASSUMPTIONS (continued)

#### Risk discount rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

Business Unit	Current market 10-year government bond yields referenced in EV calculations (%)		
	As at 30 June 2018 (Unaudited)	As at 31 December 2017	As at 30 June 2017 (Unaudited)
AIA Australia	2.63	2.63	2.60
AIA China	3.48	3.88	3.57
AIA Hong Kong <sup>(1)</sup>	2.86	2.42	2.33
AIA Indonesia	7.80	6.32	6.83
AIA Korea	2.56	2.47	2.21
AIA Malaysia	4.20	3.91	3.93
AIA Philippines	6.42	5.70	4.67
AIA Singapore	2.53	2.00	2.09
AIA Sri Lanka	10.62	11.17	12.71
AIA Taiwan	0.93	0.95	1.08
AIA Thailand	2.79	2.54	2.56
AIA Vietnam	4.85	5.15	5.65

Note:

- (1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

## 5. Assumptions (continued)

### 5.2 ECONOMIC ASSUMPTIONS (continued)

#### Risk discount rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. 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 the point of sale. The investment returns shown are gross of tax and investment expenses.

Business Unit	Risk discount rates assumed in EV calculations (%)			Long-term investment returns assumed in EV calculations (%)					
				10-year government bonds			Local equities		
	As at 30 Jun 2018 (Unaudited)	As at 31 Dec 2017	As at 30 Jun 2017 (Unaudited)	As at 30 Jun 2018 (Unaudited)	As at 31 Dec 2017	As at 30 Jun 2017 (Unaudited)	As at 30 Jun 2018 (Unaudited)	As at 31 Dec 2017	As at 30 Jun 2017 (Unaudited)
	AIA Australia	7.35	7.35	7.35	3.00	3.00	3.00	7.50	7.50
AIA China	9.75	9.75	9.55	3.70	3.70	3.50	9.30	9.30	9.30
AIA Hong Kong <sup>(1)</sup>	7.30	7.30	7.00	2.80	2.80	2.50	7.60	7.60	7.60
AIA Indonesia	13.00	13.00	13.50	7.50	7.50	8.00	12.00	12.00	12.50
AIA Korea	8.60	8.60	8.60	2.70	2.70	2.70	7.20	7.20	7.20
AIA Malaysia	8.75	8.75	8.75	4.20	4.20	4.20	8.80	8.80	8.80
AIA Philippines	11.30	11.30	11.00	4.80	4.80	4.50	10.00	10.00	9.70
AIA Singapore	6.90	6.90	6.90	2.50	2.50	2.50	7.00	7.00	7.00
AIA Sri Lanka	15.70	15.70	15.70	10.00	10.00	10.00	12.00	12.00	12.00
AIA Taiwan	7.85	7.85	7.85	1.60	1.60	1.60	6.60	6.60	6.60
AIA Thailand	8.60	8.60	8.60	3.20	3.20	3.20	9.00	9.00	9.00
AIA Vietnam	12.30	12.30	12.80	6.50	6.50	7.00	11.80	11.80	12.30

**Note:**

- (1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

## 5. Assumptions (continued)

### 5.3 EXPENSE INFLATION

The assumed net expense inflation rates used by each Business Unit are set out below:

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

Business Unit	As at 30 June 2018 (Unaudited)	As at 31 December 2017
AIA Australia	3.0	3.0
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 Philippines	3.5	3.5
AIA Singapore	2.0	2.0
AIA Sri Lanka	6.5	6.5
AIA Taiwan	1.2	1.2
AIA Thailand	2.0	2.0
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.

## 5. Assumptions (continued)

### 5.4 TAXATION

The projections of distributable earnings underlying the values presented in this report are net of corporate income tax, based on current taxation legislation and corporate income 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 income tax rates used by each Business Unit are set out below:

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

Business Unit	As at 30 June 2018 (Unaudited)	As at 31 December 2017
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	27.5 <sup>(1)</sup>	24.2
AIA Malaysia	24.0	24.0
AIA Philippines	30.0	30.0
AIA Singapore	17.0	17.0
AIA Sri Lanka	28.0	28.0
AIA Taiwan	20.0	17.0
AIA Thailand	20.0	20.0
AIA Vietnam	20.0	20.0

Note:

(1) From fiscal years 2018 to 2020, AIA Korea is subject to an assumed corporate income tax of 27.5%, which includes an Accumulated Earnings Tax following the subsidiarisation of AIA Korea. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2021.

The tax assumptions used in the valuation reflect the local corporate income 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 30 June 2018 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

## 6. Events after the Reporting Period

In September 2017, the Group reached an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia and life and health insurance businesses in New Zealand. The transaction includes 20-year strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand. On 2 July 2018, the Group completed the acquisition of 100 per cent of share capital of 6 subsidiaries under CBA in New Zealand while the acquisition of CBA's life insurance business in Australia remains in progress, subject to securing all necessary regulatory and governmental approvals. The transaction will expand the Group's distribution capabilities and customer reach in Australia and New Zealand markets. As announced on 21 September 2017, the total gross consideration to be paid with respect to the proposed transaction is expected to be approximately US\$3.0 billion payable in cash on completion of the proposed transaction and subject to certain adjustments at completion. After taking into account the expected proceeds from reinsurance agreements and the expected free surplus of the acquired business, the final net cash outlay by AIA is expected to be approximately US\$1.5 billion.

On 24 August 2018, a Committee appointed by the Board of Directors declared an interim dividend of 29.20 Hong Kong cents per share (six months ended 31 May 2017: 25.62 Hong Kong cents per share).

## CONDENSED BUSINESS AND FINANCIAL REVIEW FOR THE SEVEN MONTHS ENDED 30 JUNE 2018

The Company has changed its financial year-end to 31 December with the first set of interim condensed consolidated financial statements adopting the new year-end date for the seven months ended 30 June 2018. To facilitate a meaningful comparison of our performance in 2018 and 2017, we are also reporting supplementary financial information on a calendar year basis covering the six months ended 30 June 2018 for the current period and the six months ended 30 June 2017 for the prior period, and these are set out in note 27 to the interim financial statements. The financial information in the Financial and Operating Review as set out on page 2 to page 19 has been prepared on a like-for-like basis, that also covers the six months period from 1 January 2018 to 30 June 2018 for the current period and the six months period from 1 January 2017 to 30 June 2017 for the prior period.

This set of management discussion and analysis below covers the financial results for the seven months period from 1 December 2017 to 30 June 2018 for the current period and for the six months period from 1 December 2016 to 31 May 2017 for the prior period. When reporting the Group's consolidated figures, there is currency translation effect as we report in US dollars. We have provided growth rates and commentaries on our key operating performance on a CER basis unless otherwise stated, as this provides a clearer picture of the performance of the underlying businesses.

### BUSINESS REVIEW FOR THE SEVEN MONTHS ENDED 30 JUNE 2018

US\$ millions, unless otherwise stated	Seven months ended 30 June 2018	Six months ended 31 May 2017	YoY CER	YoY AER
VONB	2,066	1,753	13%	18%
VONB margin	58.1%	54.2%	3.3pps	3.9pps
ANP	3,512	3,196	7%	10%
Operating profit after tax	3,039	2,262	29%	34%

VONB increased by 13 per cent to US\$2,066 million. All of our reportable market segments delivered positive VONB growth. Agency distribution remains our main source of new business and accounted for 71 per cent of the Group's total VONB for the seven months ended 30 June 2018. The disciplined execution of our Premier Agency strategy has enabled us to deliver the 19 per cent VONB growth. VONB from partnership distribution remained stable, building on the exceptionally strong performance in our Hong Kong retail IFA channel for the six months ended 31 May 2017 as previously highlighted.

ANP grew by 7 per cent to US\$3,512 million and VONB margin was up by 3.3 pps to 58.1 per cent.

IFRS OPAT grew by 29 per cent for the seven months ended 30 June 2018, primarily due to the additional one-month of profit relative to the result for the six months ended 31 May 2017, the new business growth over time and the proactive management of our portfolio.



## New Business Performance

### VONB, ANP AND MARGIN BY SEGMENT

US\$ millions, unless otherwise stated	Seven months ended 30 June 2018			Six months ended 31 May 2017			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	847	61.3%	1,348	828	47.9%	1,696	2%	2%
Thailand	229	70.7%	324	173	74.7%	232	20%	32%
Singapore	181	59.3%	305	135	72.0%	187	27%	34%
Malaysia	133	60.3%	218	104	61.8%	167	15%	28%
China	579	90.1%	642	434	91.7%	474	24%	33%
Other Markets	216	31.9%	675	184	41.1%	440	16%	17%
<b>Subtotal</b>	<b>2,185</b>	<b>61.5%</b>	<b>3,512</b>	<b>1,858</b>	<b>57.5%</b>	<b>3,196</b>	<b>13%</b>	<b>18%</b>
Adjustment to reflect consolidated reserving and capital requirements	(31)	n/m	n/m	(27)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(88)	n/m	n/m	(78)	n/m	n/m	n/m	n/m
<b>Total</b>	<b>2,066</b>	<b>58.1%</b>	<b>3,512</b>	<b>1,753</b>	<b>54.2%</b>	<b>3,196</b>	<b>13%</b>	<b>18%</b>

VONB grew by 13 per cent to US\$2,066 million for the seven months ended 30 June 2018, building on a very strong performance of 42 per cent growth in VONB for the six months ended 31 May 2017. The result for the six months ended 31 May 2017 included an exceptional performance in the Hong Kong retail IFA channel.

ANP was higher by 7 per cent to US\$3,512 million. VONB margin increased by 3.3 pps to 58.1 per cent and present value of new business premium (PVNBP) margin remained stable at 10 per cent compared with the six months ended 31 May 2017.

Agency distribution remains our main source of new business and accounted for 71 per cent of the Group's total VONB for the seven months ended 30 June 2018. The disciplined execution of our Premier Agency strategy has enabled us to deliver a 19 per cent VONB growth. VONB from partnership distribution remained stable, building on the exceptionally strong performance in the Hong Kong retail IFA channel for the six months ended 31 May 2017.

Hong Kong delivered VONB growth of 2 per cent to US\$847 million for the seven months ended 30 June 2018 with a very strong performance in both agency and bancassurance channels. Sales of higher-margin products resulted in lower ANP of US\$1,348 million but with an increased VONB margin of 61.3 per cent.

AIA's wholly-owned operation in China delivered VONB growth of 24 per cent to US\$579 million for the seven months ended 30 June 2018, predominantly from higher sale volumes as we continued to focus on quality recruitment and ongoing productivity enhancement through the disciplined execution of our Premier Agency strategy.

Thailand reported VONB growth of 20 per cent to US\$229 million for the seven months ended 30 June 2018. Sales momentum strengthened during the period as we continued to enhance and expand our Financial Adviser programme to drive the transformation of our agency force in Thailand.

Singapore delivered VONB growth of 27 per cent mainly driven by 53 per cent growth in ANP for the seven months ended 30 June 2018. VONB margin was lower at 59.3 per cent as a result of lower profitability from our HealthShield business and a shift in product mix.

Malaysia reported VONB growth of 15 per cent to US\$133 million for the seven months ended 30 June 2018. New business performance for the period was affected by reduced consumer activity relating to the country's general election and ahead of changes to Goods and Services Tax (GST).

Other Markets reported VONB growth of 16 per cent. Highlights included strong performances from Indonesia, Korea, the Philippines, Taiwan and Vietnam. ANP grew by 52 per cent to US\$675 million and VONB margin reduced to 31.9 per cent. The reported results for Other Markets were affected by the uneven timing of large group insurance schemes in Australia.

VONB is reported after a US\$119 million total deduction for the consolidated reserving and capital requirements over and above local statutory requirements and for the present value of unallocated Group Office expenses.

## IFRS FINANCIAL REVIEW FOR THE SEVEN MONTHS ENDED 30 JUNE 2018

### OPAT<sup>(1)</sup> BY SEGMENT

US\$ millions, unless otherwise stated	Seven months ended 30 June 2018	Six months ended 31 May 2017	YoY CER	YoY AER
Hong Kong	1,066	836	28%	28%
Thailand	562	413	23%	36%
Singapore	314	235	27%	34%
Malaysia	183	119	36%	54%
China	505	305	53%	66%
Other Markets	438	349	24%	26%
Group Corporate Centre	(29)	5	n/m	n/m
<b>Total</b>	<b>3,039</b>	<b>2,262</b>	<b>29%</b>	<b>34%</b>

Note:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

OPAT for the seven months ended 30 June 2018 was US\$3,039 million, up by 29 per cent as compared with the six months ended 31 May 2017 primarily due to the additional one-month of profit for June 2018, the growth in new business over time and the proactive management of our portfolio.

Hong Kong delivered strong result reflecting growth in our business and an improvement in claims experience, which was partly offset by a shift in product mix towards participating business. China achieved excellent growth, primarily supported by the growing scale of our business and reflecting our high-quality sources of earnings.

Thailand and Singapore also had strong OPAT in line with business growth. OPAT in Malaysia increased as a result of improved claims and lapse experience for the seven months ended 30 June 2018. Other Markets delivered strong OPAT growth with strong performances in most of our operating markets.

Annualised operating ROE for the seven months ended 30 June 2018 was 14.1 per cent compared with 14.2 per cent for the six months ended 31 May 2017, reflecting strong OPAT growth offset by a higher average shareholders' allocated equity for the seven months ended 30 June 2018.

## TWPI BY SEGMENT

<b>US\$ millions, unless otherwise stated</b>	<b>Seven months ended 30 June 2018</b>	Six months ended 31 May 2017	<b>YoY CER</b>	YoY AER
Hong Kong	<b>6,132</b>	4,507	<b>36%</b>	36%
Thailand	<b>2,140</b>	1,594	<b>22%</b>	34%
Singapore	<b>1,560</b>	1,143	<b>28%</b>	36%
Malaysia	<b>1,209</b>	875	<b>23%</b>	38%
China	<b>2,436</b>	1,509	<b>50%</b>	61%
Other Markets	<b>3,518</b>	2,765	<b>24%</b>	27%
<b>Total</b>	<b>16,995</b>	12,393	<b>31%</b>	37%

TWPI increased to US\$16,995 million for the seven months ended 30 June 2018 compared with the six-month period ended 31 May 2017 due to business growth.

## IFRS OPERATING PROFIT INVESTMENT RETURN

<b>US\$ millions, unless otherwise stated</b>	<b>Seven months ended 30 June 2018</b>	Six months ended 31 May 2017	<b>YoY CER</b>	YoY AER
Interest income	<b>3,508</b>	2,635	<b>27%</b>	33%
Expected long-term investment return for equities and real estate	<b>1,125</b>	767	<b>40%</b>	47%
<b>Total</b>	<b>4,633</b>	3,402	<b>30%</b>	36%

IFRS operating profit investment return increased to US\$4,633 million for the seven months ended 30 June 2018 compared with US\$3,402 million for the six months ended 31 May 2017. The growth was primarily driven by an increased level of investments over the period.

## OPERATING EXPENSES

<b>US\$ millions, unless otherwise stated</b>	<b>Seven months ended 30 June 2018</b>	Six months ended 31 May 2017	<b>YoY CER</b>	YoY AER
Operating expenses	<b>1,218</b>	936	<b>25%</b>	30%

Operating expenses grew to US\$1,218 million for the seven months ended 30 June 2018 mainly due to the additional one-month result for June 2018. Expense ratio for the seven months ended 30 June 2018 was 7.2 per cent compared with 7.6 per cent for the six months ended 31 May 2017.

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

US\$ millions, unless otherwise stated	Seven months ended 30 June 2018	Six months ended 31 May 2017	YoY CER	YoY AER
OPAT	3,039	2,262	29%	34%
Short-term fluctuations in investment return related to equities and real estate, net of tax <sup>(2)</sup>	(520)	773	n/m	n/m
Reclassification of revaluation gain for property held for own use, net of tax <sup>(2)(3)</sup>	(177)	(20)	n/m	n/m
Other non-operating investment return and other items, net of tax <sup>(3)</sup>	(114)	(90)	n/m	n/m
<b>Total</b>	<b>2,228</b>	<b>2,925</b>	<b>(26)%</b>	<b>(24)%</b>

### Notes:

- (1) Attributable to shareholders of the Company only excluding non-controlling interests.
- (2) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
- (3) The comparative information has been adjusted to conform to current period presentation.

## IFRS NON-OPERATING MOVEMENT

AIA's IFRS net profit definition includes mark-to-market movements from our equity portfolio. Equity markets declined significantly for the seven months ended 30 June 2018, compared with large gains reported previously in 2017. Consequently, IFRS net profit decreased to US\$2,228 million driven by negative short-term fluctuations in investment returns of US\$520 million for the seven months ended 30 June 2018 compared with positive movements of US\$773 million for the six months ended 31 May 2017. Other non-operating items of negative US\$114 million for the seven months ended 30 June 2018 included tax expenses of US\$94 million in relation to the subsidiarisation of AIA Korea.

## MOVEMENT IN SHAREHOLDERS' ALLOCATED EQUITY

US\$ millions, unless otherwise stated	Seven months ended 30 June 2018	Year ended 30 November 2017	Six months ended 31 May 2017
<b>Opening shareholders' allocated equity</b>	<b>35,658</b>	29,632	29,632
Net profit	2,228	6,120	2,925
Purchase of shares held by employee share-based trusts	(7)	(10)	(5)
Dividends	(1,140)	(1,376)	(983)
Revaluation (losses)/gains on property held for own use	(6)	78	32
Foreign currency translation adjustments	(462)	1,061	502
Other capital movements	57	153	93
<b>Total movement in shareholders' allocated equity</b>	<b>670</b>	6,026	2,564
<b>Closing shareholders' allocated equity</b>	<b>36,328</b>	35,658	32,196
Average shareholders' allocated equity	36,855	32,645	31,848

The movement in shareholders' allocated equity is shown before fair value reserve movements. AIA believes this provides a clearer reflection of the underlying movement in shareholders' equity over the period, before the IFRS accounting treatment of market value movements in available for sale bonds.

Average shareholders' allocated equity increased by US\$5,007 million to US\$36,855 million for the seven months ended 30 June 2018 compared with US\$31,848 million for the six months ended 31 May 2017 as a result of the strong capital market performance in 2017.

Shareholders' allocated equity grew to US\$36,328 million at 30 June 2018 reflecting net profit of US\$2,228 million for the period partly offset by the negative foreign exchange translation movements of US\$462 million and the payment of shareholder dividends of US\$1,140 million. The negative movement in foreign currency translation for the seven months ended 30 June 2018 was concentrated in the month of June 2018.

## IFRS Earnings per Share (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders increased to 25.29 US cents as a result of OPAT growth for the seven months ended 30 June 2018.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, decreased to 18.54 US cents for the seven months ended 30 June 2018.

### IFRS EPS – BASIC

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	Seven months ended 30 June 2018	Six months ended 31 May 2017	Seven months ended 30 June 2018	Six months ended 31 May 2017
Profit (US\$ millions)	2,228	2,925	3,039	2,262
Weighted average number of ordinary shares (millions)	12,017	11,989	12,017	11,989
<b>Basic earnings per share (US cents)</b>	<b>18.54</b>	24.40	<b>25.29</b>	18.87

### IFRS EPS – DILUTED

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	Seven months ended 30 June 2018	Six months ended 31 May 2017	Seven months ended 30 June 2018	Six months ended 31 May 2017
Profit (US\$ millions)	2,228	2,925	3,039	2,262
Weighted average number of ordinary shares <sup>(2)</sup> (millions)	12,050	12,012	12,050	12,012
<b>Diluted earnings per share<sup>(2)</sup> (US cents)</b>	<b>18.49</b>	24.35	<b>25.22</b>	18.83

Notes:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

(2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 38 to the financial statements in our Annual Report 2017.

## IFRS Balance Sheet

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$ millions, unless otherwise stated	As at 30 June 2018	As at 30 November 2017	Change AER
<b>Assets</b>			
Financial investments	178,135	176,220	1%
Investment property	4,720	4,365	8%
Cash and cash equivalents	3,013	2,289	32%
Deferred acquisition and origination costs	23,473	21,847	7%
Other assets	11,379	10,970	4%
<b>Total assets</b>	<b>220,720</b>	<b>215,691</b>	<b>2%</b>
<b>Liabilities</b>			
Insurance and investment contract liabilities	164,285	156,979	5%
Borrowings	5,421	3,958	37%
Other liabilities	12,123	12,382	(2)%
<b>Less total liabilities</b>	<b>181,829</b>	<b>173,319</b>	<b>5%</b>
<b>Equity</b>			
Total equity	38,891	42,372	(8)%
Less non-controlling interests	385	378	2%
<b>Total equity attributable to shareholders of AIA Group Limited</b>	<b>38,506</b>	<b>41,994</b>	<b>(8)%</b>
Shareholders' allocated equity	36,328	35,658	2%

## MOVEMENT IN SHAREHOLDERS' EQUITY

US\$ millions, unless otherwise stated	Seven months ended 30 June 2018	Year ended 30 November 2017	Six months ended 31 May 2017
<b>Opening shareholders' equity</b>	<b>41,994</b>	34,984	34,984
Net profit	<b>2,228</b>	6,120	2,925
Fair value (losses)/gains on assets	<b>(4,158)</b>	984	766
Purchase of shares held by employee share-based trusts	<b>(7)</b>	(10)	(5)
Dividends	<b>(1,140)</b>	(1,376)	(983)
Revaluation (losses)/gains on property held for own use	<b>(6)</b>	78	32
Foreign currency translation adjustments	<b>(462)</b>	1,061	502
Other capital movements	<b>57</b>	153	93
<b>Total movement in shareholders' equity</b>	<b>(3,488)</b>	7,010	3,330
<b>Closing shareholders' equity</b>	<b>38,506</b>	41,994	38,314

## TOTAL INVESTMENTS

US\$ millions, unless otherwise stated	As at 30 June 2018	Percentage of total	As at 30 November 2017	Percentage of total
Total policyholder and shareholder	<b>163,993</b>	<b>87%</b>	160,327	87%
Total unit-linked contracts and consolidated investment funds	<b>23,732</b>	<b>13%</b>	24,231	13%
<b>Total investments</b>	<b>187,725</b>	<b>100%</b>	184,558	100%

The investment mix remained stable for the seven months ended 30 June 2018 as set out below:

## UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS

US\$ millions, unless otherwise stated	As at 30 June 2018	Percentage of total	As at 30 November 2017	Percentage of total
<b>Unit-linked contracts and consolidated investment funds</b>				
Debt securities	<b>4,601</b>	<b>19%</b>	4,704	19%
Loans and deposits	<b>100</b>	–	107	1%
Equities	<b>18,473</b>	<b>78%</b>	18,953	78%
Cash and cash equivalents	<b>556</b>	<b>3%</b>	456	2%
Derivatives	<b>2</b>	–	11	–
<b>Total unit-linked contracts and consolidated investment funds</b>	<b>23,732</b>	<b>100%</b>	24,231	100%

## POLICYHOLDER AND SHAREHOLDER INVESTMENTS

US\$ millions, unless otherwise stated	As at 30 June 2018	Percentage of total	As at 30 November 2017	Percentage of total
<b>Participating funds</b>				
Government and government agency bonds	10,750	7%	9,585	6%
Corporate bonds and structured securities	10,574	7%	11,089	7%
Loans and deposits	2,090	1%	2,037	1%
<b>Subtotal – Fixed income investments</b>	<b>23,414</b>	<b>15%</b>	22,711	14%
Equities	6,766	4%	6,822	4%
Investment property and property held for own use	472	–	468	1%
Cash and cash equivalents	188	–	249	–
Derivatives	46	–	73	–
<b>Subtotal participating funds</b>	<b>30,886</b>	<b>19%</b>	30,323	19%
<b>Other policyholder and shareholder</b>				
Government and government agency bonds	46,928	29%	46,447	29%
Corporate bonds and structured securities	59,631	36%	59,343	37%
Loans and deposits	5,421	3%	5,829	4%
<b>Subtotal – Fixed income investments</b>	<b>111,980</b>	<b>68%</b>	111,619	70%
Equities	12,418	8%	10,941	7%
Investment property and property held for own use	6,105	4%	5,581	3%
Cash and cash equivalents	2,269	1%	1,584	1%
Derivatives	335	–	279	–
<b>Subtotal other policyholder and shareholder</b>	<b>133,107</b>	<b>81%</b>	130,004	81%
<b>Total policyholder and shareholder</b>	<b>163,993</b>	<b>100%</b>	160,327	100%

## ASSETS

Total assets increased by US\$5,029 million to US\$220,720 million at 30 June 2018, compared with US\$215,691 million at 30 November 2017.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US\$3,167 million to US\$187,725 million at 30 June 2018, compared with US\$184,558 million at 30 November 2017.



Of the total US\$187,725 million investments at 30 June 2018, US\$163,993 million were held in respect of policyholders and shareholders and the remaining US\$23,732 million were backing unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US\$135,394 million at 30 June 2018 compared with US\$134,330 million at 30 November 2017. The average credit rating of the fixed income portfolio of A remained consistent with the position at 30 November 2017.

Government and government agency bonds represented 43 per cent of fixed income investments at 30 June 2018, compared with 42 per cent at 30 November 2017. Corporate bonds and structured securities accounted for 52 per cent of fixed income investments at 30 June 2018 and 30 November 2017.

Equity securities held in respect of policyholders and shareholders totalled US\$19,184 million at 30 June 2018, compared with US\$17,763 million at 30 November 2017. The US\$1,421 million increase in carrying value was mainly attributable to new purchases offset by negative mark-to-market movements. Within this figure, equity securities of US\$6,766 million were held in participating funds.

Cash and cash equivalents increased by US\$724 million to US\$3,013 million at 30 June 2018 compared with US\$2,289 million at 30 November 2017. The increase largely reflected positive net cash inflows from our operating business, net proceeds of the issuance of medium-term notes in April 2018 of US\$991 million and the short-term bank loans of US\$970 million, partly offset by the redemption of medium-term notes of US\$500 million upon maturity and the payment of shareholder dividends of US\$1,140 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US\$6,577 million at 30 June 2018 compared with US\$6,049 million at 30 November 2017.

Deferred acquisition and origination costs increased to US\$23,473 million at 30 June 2018 compared with US\$21,847 million at 30 November 2017, largely reflecting new business growth.

Other assets increased to US\$11,379 million at 30 June 2018 compared with US\$10,970 million at 30 November 2017, reflecting an increase in reinsurance recoveries, accrued interest and prepayments.

## **LIABILITIES**

Total liabilities increased to US\$181,829 million at 30 June 2018 from US\$173,319 million at 30 November 2017.

Insurance and investment contract liabilities grew to US\$164,285 million at 30 June 2018 compared with US\$156,979 million at 30 November 2017, reflecting the underlying growth of the in-force portfolio offset by negative mark-to-market movements on equities backing unit-linked and participating policies and negative foreign exchange translation.

Borrowings increased to US\$5,421 million at 30 June 2018, due to the net proceeds of the issuance of medium-term notes in April 2018 of US\$991 million and the short-term bank loans of US\$970 million, partly offset by the redemption of medium-term notes of US\$500 million upon maturity. Medium-term notes issued in 2014 will mature in March 2019 as disclosed in note 18 to the interim financial statements.

Other liabilities were US\$12,123 million at 30 June 2018, compared with US\$12,382 million at 30 November 2017.

## **INFORMATION FOR SHAREHOLDERS**

### **REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee of the Company has reviewed the Group's unaudited interim condensed consolidated financial statements for the seven months ended 30 June 2018.

### **INTERIM DIVIDEND**

The Board has declared an interim dividend of 29.20 Hong Kong cents per share for the seven months ended 30 June 2018 (six months ended 31 May 2017: 25.62 Hong Kong cents per share).

The interim dividend will be payable on Friday, 28 September 2018 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 11 September 2018.

### **Relevant Dates for the 2018 Interim Dividend Payment**

Ex-dividend date	10 September 2018
Record date	11 September 2018
Payment date	28 September 2018

### **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. on Tuesday, 11 September 2018.

### **SHARE REGISTRAR**

If you have any enquiries relating to your shareholding, please contact the Company's share registrar with the contact details set out 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 (for general enquiries)  
aia.ecom@computershare.com.hk (for printed copies of the Company's corporate communications)  
Website: www.computershare.com

### **ELECTRONIC COMMUNICATIONS**

For environmental and cost reasons, shareholders are encouraged to elect to receive the Company's corporate communications (as defined in the Listing Rules) electronically. You may at any time send written notice to the Company c/o the Company's share registrar or via email at aia.ecom@computershare.com.hk specifying your name, address and request to change your choice of language or means of receipt of all corporate communications.

The Company makes every effort to ensure consistency between the Chinese and English versions of this interim results announcement. In the event of any inconsistency, however, the English version shall prevail.

## FORWARD-LOOKING STATEMENTS

This document may contain 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, 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 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.

By Order of the Board  
**Ng Keng Hooi**  
*Executive Director*  
*Group Chief Executive and President*

Hong Kong, 24 August 2018

As at the date of this announcement, the Board comprises:

*Independent Non-executive Chairman and Independent Non-executive Director:*

Mr. Edmund Sze-Wing Tse

*Executive Director, Group Chief Executive and President:*

Mr. Ng Keng Hooi

*Independent Non-executive Directors:*

Mr. Jack Chak-Kwong So, Mr. Chung-Kong Chow, Mr. John Barrie Harrison, Mr. George Yong-Boon Yeo, Mr. Mohamed Azman Yahya, Professor Lawrence Juen-Yee Lau, Ms. Swee-Lian Teo, Dr. Narongchai Akrasanee and Mr. Cesar Velasquez Purisima

## GLOSSARY

active agent	An agent who sells at least one policy per month.
active market	<p>A market in which all the following conditions exist:</p> <ul style="list-style-type: none"><li>• the items traded within the market are homogeneous;</li><li>• willing buyers and sellers can normally be found at any time; and</li><li>• prices are available to the public.</li></ul> <p>A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.</p>
adjusted net worth or 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 of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis.
AER	Actual exchange rates.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company.
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 partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.

ALC	The AIA Leadership Centre located in Bangkok, Thailand.
amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.
annualised new premiums or 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. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums.
ASPP	Agency Share Purchase Plan, adopted by the Company on 23 February 2012, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents.
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.
Board	The board of Directors.
CER	Constant exchange rates. Change on constant exchange rates is calculated using constant average exchange rates for the current period and for the prior period other than for balance sheet items that use constant exchange rates as at the end of the current period and as at the end of the prior year.
Company	AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299).

consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
cost of capital or 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 participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.
Dealing Policy	Directors' and Chief Executives' Dealing Policy of the Company.
deferred acquisition costs or DAC	Acquisition costs 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. Such assets are tested for recoverability at least annually.
deferred origination costs or 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.
Director(s)	The director(s) of the Company.
embedded value or 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. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.

EPS	Earnings per share.
equity attributable to shareholders of the Company on the embedded value basis or 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, adopted by the Company on 25 July 2011 (as amended), a share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees.
ExCo	The Executive Committee of the Group.
fair value through profit or loss or 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 January to 30 June.
first quarter	The three months from 1 January to 31 March.
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.
free surplus	ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements.
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.
HKFRS	Hong Kong Financial Reporting Standards.

HKIA	Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance.
HKICPA	Hong Kong Institute of Certified Public Accountants.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Ordinance or HKIO	Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the IASB comprising: <ul style="list-style-type: none"> <li>• International Financial Reporting Standards;</li> <li>• IAS; and</li> <li>• Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).</li> </ul>



interactive Mobile Office or iMO	iMO is a mobile office platform with a comprehensive suite of applications that allow agents and agency leaders to manage their daily activities from lead generation, sales productivity and recruitment activity through to development training and customer analytics.
interactive Point of Sale or 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. It is part of iMO.
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 return	Investment return consists of investment income plus investment experience.
IPO	Initial Public Offering.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Mandatory Provident Fund or MPF	MPF is a compulsory savings scheme (pension fund) for the retirement of residents in Hong Kong. Most employees and their employers are required to contribute monthly to Mandatory Provident Fund Schemes provided by approved private organisations, according to their salaries and the period of employment.
Million Dollar Round Table or 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 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 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.

n/a	Not available.
n/m	Not meaningful.
operating profit after tax or OPAT	Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or operating ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or operating ROE	Operating return on shareholders' 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 shareholders' allocated equity.
OTC	Over-the-counter.
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 (PHILAM LIFE) Company, a subsidiary of AIA Co.; in the context of the Supplementary Embedded Value Information, Philam Life includes BPI-Philam Life Assurance Corporation.
policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
pps	Percentage points.

PRC	The People's Republic of China.
PVNB margin	VONB excluding pension business, expressed as a percentage of present value of new business premiums (PVNB). PVNB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
Risk-Based Capital or 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.
RSPUs	Restricted stock purchase units.
RSSUs	Restricted stock subscription units.
RSU Scheme	Restricted Share Unit Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may award restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.
second half	The six months from 1 July to 31 December.
second quarter	The three months from 1 April to 30 June.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time.
share(s)	For the Company, shall mean ordinary share(s) in the capital of the Company.

shareholders' allocated equity	Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve.
Singapore	The Republic of Singapore; in the context of our reportable segments, Singapore includes Brunei.
single premium	A single payment that covers the entire cost of an insurance policy.
SO Scheme	Share Option Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may award share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA	Tata AIA Life Insurance Company Limited.
total weighted premium income or 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.
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 in-force business or 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. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
value of new business or VONB	VONB is the present value, measured at the 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 the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated 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 consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated 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.