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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 SIX MONTHS ENDED 31 MAY 2013

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 MAY 2013

AIA DELIVERS ANOTHER RECORD SET OF RESULTS

The Board of Directors of AIA Group Limited (stock code: 1299) is pleased to announce the Group's unaudited consolidated results for the six months ended 31 May 2013.

The main highlights are:

Record value of new business (VONB) – our key performance measure

- 26 per cent growth in VONB to US\$645 million
- 29 per cent increase in annualised new premium (ANP) to US\$1,527 million
- VONB margin of 41.6 per cent

Sustained focus on value creation

- 15 per cent growth in embedded value (EV) operating profit to US\$1,907 million
- EV Equity up 5 per cent to US\$33.3 billion, including goodwill and other intangibles
- EV up 3 per cent to US\$32.2 billion after the effect of the acquisitions in Malaysia and Sri Lanka that completed during the first half of the year

Strong IFRS operating profit, cash flow and capital position

- IFRS operating profit after tax (OPAT) up 17 per cent to US\$1,268 million
- Net profit up 34 per cent to US\$1,934 million
- Net funds remitted to Group Corporate Centre up 15 per cent to US\$972 million
- Solvency ratio of 427 per cent on the Hong Kong Insurance Companies Ordinance basis

Increase in interim dividend

- Interim dividend of 13.93 Hong Kong cents per share, representing an increase of 13 per cent

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

"AIA has delivered another excellent set of results over the first half of the year with a 26 per cent increase in value of new business – our key performance measure. The strong financial performance reflects our continuing growth momentum and demonstrates AIA's consistency in our ability to deliver outstanding results through the relentless execution of our proven growth strategy.

"We are pleased to declare an interim dividend of 13.93 Hong Kong cents per share, representing an increase of 13 per cent over the previous year and reflecting our prudent, sustainable and progressive dividend policy.

"AIA operates from an advantaged position through our long-standing scale and exclusive focus on the dynamic Asia-Pacific region. We continue to see the power of our Premier Agency strategy improving both the recruitment and productivity of our high-quality agents. At the same time, our partnership and group insurance businesses made a strong contribution to the Group's profitability. During the first half, we also launched a range of exciting new products across our markets designed to help our customers address their regular savings and protection needs.

"We remain confident in AIA's significant future growth opportunities. We will continue to capitalise on our competitive advantages, including our distribution franchise, product innovation and trusted brand position as well as the strength of our balance sheet, to meet customers' needs throughout the Asia-Pacific region and to generate sustainable value for our shareholders."

About AIA

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

The business that is now AIA was first established in Shanghai over 90 years ago. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$147 billion as of 31 May 2013.

AIA meets the savings and protection needs of individuals by offering a range of products and services including retirement savings plans, life insurance and accident and health insurance. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents and employees across Asia-Pacific, AIA serves the holders of more than 27 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 31 May 2013	Six months ended 31 May 2012	YoY
New Business Value			
Value of new business (VONB)	645	512	26%
VONB margin	41.6%	42.6%	(1.0) pps
Annualised new premium (ANP)	1,527	1,187	29%
Embedded Value			
Embedded value (EV) operating profit	1,907	1,655	15%
Value of in-force business (VIF) ⁽¹⁾	18,981	18,238	4%
Adjusted net worth (ANW) ⁽¹⁾	13,261	13,170	1%
Embedded value ⁽¹⁾	32,242	31,408	3%
EV Equity ⁽¹⁾⁽²⁾	33,296	31,657	5%
EV operating earnings per share (US cents)	15.92	13.79	15%
EV Equity per share (US cents) ⁽¹⁾⁽²⁾	276	263	5%
IFRS			
Total weighted premium income (TWPI)	8,495	7,305	16%
Operating profit after tax (OPAT)	1,268	1,080	17%
Net profit	1,934	1,444	34%
Operating earnings per share (US cents)			
– Basic	10.59	9.00	18%
– Diluted	10.57	9.00	17%
Capital and Dividends			
HKICO Solvency Ratio ⁽¹⁾	427%	353%	74 pps
Dividend per share (HK cents)	13.93	12.33	13%

(1) Comparatives for balance sheet items are shown at 30 November 2012.

(2) Includes goodwill and other intangibles.

New Business Performance by Segment

US\$ millions, unless otherwise stated	Six months ended 31 May 2013			Six months ended 31 May 2012 ⁽³⁾			VONB Change
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	
Hong Kong	168	48.7%	326	140	55.1%	243	20%
Thailand	146	55.1%	265	131	53.6%	244	11%
Singapore	110	74.8%	147	97	63.5%	152	13%
Malaysia	54	35.3%	152	32	42.3%	76	69%
China	76	63.7%	120	60	55.9%	108	27%
Korea	45	24.9%	182	33	32.0%	104	36%
Other Markets	112	33.3%	335	67	25.9%	260	67%
Subtotal	711	46.0%	1,527	560	46.7%	1,187	27%
Adjustment to reflect additional Hong Kong reserving and capital requirements	(30)	n/m	n/m	(16)	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(36)	n/m	n/m	(32)	n/m	n/m	n/m
Total	645	41.6%	1,527	512	42.6%	1,187	26%

(3) Certain segmental reclassifications have been made in the prior period VONB and VONB margin results to conform to current period presentation. The reclassification has no impact on the total VONB and VONB margin of the Group for the six months ended 31 May 2012.

Notes:

- (1) A presentation for analysts and investors, hosted by Mark Tucker, 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://investors.aia.com/phoenix.zhtml?c=238804&p=irol-presentations>
- (2) 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.
- (3) AIA's previously-announced acquisitions of ING Management Holdings (Malaysia) Sdn. Bhd. (ING Malaysia) and Aviva NDB Insurance (ANI) completed in December 2012. The financial results of the two newly-acquired businesses are accounted for in the Group's 2013 interim results from the respective dates of completion.
- (4) TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums.
- (5) ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded and excluding pension business.
- (6) ANP and VONB margin exclude pension business.
- (7) VONB includes pension business.
- (8) All figures are presented in actual reported currency (US dollar) unless otherwise stated.
- (9) Change is shown on a year-on-year basis unless otherwise stated.
- (10) Hong Kong refers to operations in Hong Kong and Macau; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan, New Zealand and Sri Lanka.
- (11) VONB is calculated based on assumptions applicable at the point of sale and before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests in the first half of 2013 and the first half of 2012 were US\$6 million and US\$5 million respectively.
- (12) Economic assumptions are the same as those shown as at 30 November 2012 in our 2012 annual results preliminary announcement published on 27 February 2013. Non-economic assumptions used are based on those at 30 November 2012 updated to reflect the latest experience observed.

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FINANCIAL AND OPERATING REVIEW

FINANCIAL REVIEW

AIA has achieved another excellent performance in the first half of 2013, maintaining the momentum established in prior years. Our profitable growth strategy has delivered strong results across all of our key metrics including record VONB up 26 per cent, excellent growth in IFRS operating profit after tax of 17 per cent and robust progress in EV Equity during the first half. At the same time, we have further strengthened our solvency position, increased our free surplus generation and declared an interim dividend up 13 per cent on the prior year.

Summary

VALUE CREATION

VONB grew by 26 per cent compared with the first half of 2012 to US\$645 million net of tax, which represents another record level of VONB. We continued to focus on optimising our volume and margin mix to deliver sustainable VONB growth with ANP up by 29 per cent to US\$1,527 million and a VONB margin of 41.6 per cent compared with 42.6 per cent for the first half of 2012. All of our market segments contributed positively to the excellent VONB growth rate achieved.

EV Equity is the total of embedded value (EV), goodwill and other intangible assets. EV Equity grew by US\$1,639 million to US\$33,296 million at 31 May 2013, an increase of 5 per cent over the first half from US\$31,657 million at 30 November 2012, mainly as a result of strong EV operating profit. EV Equity included goodwill and other intangible assets of US\$1,054 million at 31 May 2013 compared with US\$249 million at 30 November 2012, with the increase arising principally from acquisitions.

EV grew to US\$32,242 million at 31 May 2013, an increase of 3 per cent over the first half from US\$31,408 million at 30 November 2012. The growth in EV of US\$834 million is shown after a deduction of US\$810 million for the effect of acquisitions.

EV operating profit grew by 15 per cent to US\$1,907 million compared with the first half of 2012. The growth reflected a higher VONB of US\$645 million, an increased expected return on EV of US\$1,198 million and overall positive operating experience variances and operating assumption changes which totalled US\$76 million, less interest costs of US\$12 million on medium term notes and an acquisition credit facility.

Non-operating EV movements included positive investment return variances and negative other non-operating variances which together totalled US\$343 million, offset by the payment of the 2012 final dividend of US\$380 million, negative other capital movements of US\$58 million and negative foreign exchange movements of US\$168 million.

IFRS PROFIT

Operating profit after tax attributable to shareholders of AIA Group Limited (OPAT) increased by 17 per cent compared with the first half of 2012 to US\$1,268 million. The increase was a result of growth from all of our market segments and a positive contribution from acquisitions.

Net profit attributable to shareholders of AIA Group Limited increased by 34 per cent compared with the first half of 2012 to US\$1,934 million. AIA's IFRS net profit definition includes the mark-to-market movements from equity investments that contributed US\$659 million to net profit in the first half to 31 May 2013.

Total equity attributable to shareholders of AIA Group Limited increased by 2 per cent to US\$27,172 million at 31 May 2013 from US\$26,697 million at 30 November 2012.

CAPITAL AND DIVIDENDS

At 31 May 2013, the total available regulatory capital for AIA Co., our main regulated entity, was US\$6,120 million, resulting in a solvency ratio of 427 per cent under the HKICO basis. This compares with 353 per cent reported at the end of November 2012. The increase in the solvency ratio over the first half of 2013 was a result of positive retained earnings generated during the period and equity market gains. Our local businesses remitted US\$972 million to the Group Corporate Centre in the first half of 2013, which is an increase of 15 per cent on the first half of 2012.

The Board of Directors has declared an interim dividend of 13.93 Hong Kong cents per share. If trading conditions continue in line with present expectations, the 2013 interim dividend will represent approximately one-third of the 2013 full-year dividend. Any final dividend remains subject to Board recommendation and shareholder approval at the Annual General Meeting.

Outlook

Major equity markets have performed well in the first half of the year, albeit with some recent volatility arising from concerns as regards the timing of withdrawal of liquidity support in the U.S. and the impact of the determined effort by Chinese policymakers to temper domestic credit growth. Recovery in the U.S., nevertheless, continued to move forward at a slow, steady pace and monetary policy is likely to remain accommodative in the near term. However, the early signs of recovery in the U.S. have yet to be replicated consistently across other Western economies, particularly in parts of Europe. Asia continues to enjoy better economic fundamentals and is expected to benefit from the improved outlook in the U.S. as well as from any resumption of underlying growth in Japan. Moreover, we believe that Asian policymakers have the ability to provide monetary and fiscal stimulus to promote domestic sources of growth in the event of a further deterioration in the global economic environment.

The substantial growth rates we achieved in the first half of 2013 were built on a 2012 base that was itself a record year. AIA's ability to achieve growth of this magnitude against a challenging global macro-economic background demonstrates the resilience of our strategy and AIA's advantaged position as the world's leading independent pan-Asian life insurer. The significant potential from rapid urbanisation, increasing household incomes and the high levels of underinsurance provide substantial growth opportunities for AIA. Our local expertise provides us with a deep understanding of the rapidly-growing regular savings and protection needs of our customers across the region. We are well-positioned to benefit from the expanding demand for our products and services to create sustainable value for our shareholders.

Acquisitions

AIA's previously-announced acquisitions of ING Management Holdings (Malaysia) Sdn. Bhd. (ING Malaysia) and Aviva NDB Insurance (ANI) completed in December 2012. The financial results of the two newly-acquired businesses are accounted for in the Group's 2013 interim results from the respective dates of completion. Further details are disclosed in note 4 to the interim financial statements.

New Business Growth

VALUE OF NEW BUSINESS (VONB) BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2013 ⁽¹⁾			Six months ended 31 May 2012 ^{(1) (3)}			VONB Change	ANP Change
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP		
Hong Kong	168	48.7%	326	140	55.1%	243	20%	34%
Thailand	146	55.1%	265	131	53.6%	244	11%	9%
Singapore	110	74.8%	147	97	63.5%	152	13%	(3)%
Malaysia	54	35.3%	152	32	42.3%	76	69%	100%
China	76	63.7%	120	60	55.9%	108	27%	11%
Korea	45	24.9%	182	33	32.0%	104	36%	75%
Other Markets	112	33.3%	335	67	25.9%	260	67%	29%
Subtotal	711	46.0%	1,527	560	46.7%	1,187	27%	29%
Adjustment to reflect additional Hong Kong reserving and capital requirements ⁽²⁾	(30)	n/m	n/m	(16)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(36)	n/m	n/m	(32)	n/m	n/m	n/m	n/m
Total	645	41.6%	1,527	512	42.6%	1,187	26%	29%

Notes:

(1) ANP and VONB margin exclude pension business.

(2) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.

(3) Certain segmental reclassifications have been made in the prior period VONB and VONB margin results to conform to current period presentation. The reclassification has no impact on the total VONB and VONB margin of the Group for the six months ended 31 May 2012.

VONB grew by 26 per cent to US\$645 million, an increase of US\$133 million compared with the first half of 2012. All of our market segments delivered double-digit growth in VONB, building on the record results reported in 2012.

Hong Kong continued its positive momentum with VONB up 20 per cent and the ongoing structural changes we have made to our Korean operation delivered a solid performance with VONB growth of 36 per cent compared with the first half of 2012. Our Malaysian business reported a 69 per cent uplift in VONB to US\$54 million following the consolidation of ING Malaysia's results. Finally, our Other Markets reported excellent growth of 67 per cent driven by strong performances across our businesses.

VONB margin was 41.6 per cent compared with 42.6 per cent for the first half of 2012. The change in margin was mainly due to positive product mix improvements of 1.2 pps offset by a reduction of 2.0 pps following a shift in geographical mix resulting from the strong volume growth achieved in our operations in Korea and our Other Markets and the consolidation of our acquisition of ING Malaysia. Assumption changes and other items reduced margin by a net figure of 0.2 pps. Economic assumptions are unchanged since 30 November 2012.

ANP grew by 29 per cent to US\$1,527 million compared with US\$1,187 million in the first half of 2012. The strong growth rates in Hong Kong of 34 per cent and Korea of 75 per cent were a direct result of improvements in both productivity and activity of our agents following the ongoing implementation of our Premier Agency strategy and the launch of new products. Malaysia's ANP increased to US\$152 million including the consolidation of ING Malaysia's results. Other Markets grew strongly by 29 per cent.

VONB is reported after a deduction of US\$66 million of which US\$30 million is for additional HKICO reserving and capital requirements and US\$36 million is for unallocated Group Office expenses.

Embedded Value (EV)

EV EQUITY

US\$ millions, unless otherwise stated	As at 31 May 2013	As at 30 November 2012	Change
EV	32,242	31,408	3%
Goodwill and other intangible assets ⁽¹⁾	1,054	249	323%
EV Equity	33,296	31,657	5%

Note:

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

EV Equity grew by US\$1,639 million to US\$33,296 million at 31 May 2013, an increase of 5 per cent over the first half from US\$31,657 million at 30 November 2012, mainly as a result of strong EV operating profit.

EV Equity included goodwill and other intangible assets of US\$1,054 million at 31 May 2013 compared with US\$249 million at 30 November 2012, with the increase arising principally from acquisitions.

ANALYSIS OF EV MOVEMENT

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

US\$ millions, unless otherwise stated	Six months ended 31 May 2013		
	ANW	VIF	EV
Opening EV	13,170	18,238	31,408
Purchase price	(1,865)	–	(1,865)
Acquired EV	681	374	1,055
Effect of acquisitions	(1,184)	374	(810)
EV post acquisitions	11,986	18,612	30,598
Value of new business	(445)	1,090	645
Expected return on EV	1,514	(316)	1,198
Operating experience variances	(96)	173	77
Operating assumption changes	–	(1)	(1)
Interest costs on medium term notes and acquisition credit facility	(12)	–	(12)
EV operating profit	961	946	1,907
Investment return variances	307	158	465
Other non-operating variances	483	(605)	(122)
Total EV profit	1,751	499	2,250
Dividends	(380)	–	(380)
Other capital movements	(58)	–	(58)
Effect of changes in exchange rates	(38)	(130)	(168)
Closing EV	13,261	18,981	32,242

US\$ millions, unless otherwise stated	Six months ended 31 May 2012		
	ANW	VIF	EV
Opening EV	10,906	16,333	27,239
Value of new business	(413)	925	512
Expected return on EV	1,362	(288)	1,074
Operating experience variances	9	73	82
Operating assumption changes	–	(13)	(13)
EV operating profit	958	697	1,655
Investment return variances	(133)	630	497
Other non-operating variances	543	(529)	14
Total EV profit	1,368	798	2,166
Dividends	(339)	–	(339)
Other capital movements	(65)	–	(65)
Effect of changes in exchange rates	1	(162)	(161)
Closing EV	11,871	16,969	28,840

EV grew to US\$32,242 million at 31 May 2013, an increase of 3 per cent over the first half from US\$31,408 million at 30 November 2012. The growth in EV of US\$834 million is shown after a deduction of US\$810 million for the effect of acquisitions.

EV operating profit grew by 15 per cent to US\$1,907 million compared with the first half of 2012. The growth reflected a higher VONB of US\$645 million, an increased expected return of US\$1,198 million and overall positive operating experience variances and operating assumption changes which totalled US\$76 million, less interest costs of US\$12 million on medium term notes and an acquisition credit facility.

Non-operating EV movements included positive investment return variances of US\$465 million and negative other non-operating variances of US\$122 million, offset by the payment of the 2012 final dividend of US\$380 million, negative other capital movements of US\$58 million and negative foreign exchange movements of US\$168 million.

EV includes the adjusted net worth (ANW) and value of in-force business (VIF). The ANW increased by 1 per cent to US\$13,261 million at 31 May 2013 from US\$13,170 million at 30 November 2012 with an increase of US\$1,275 million offset by the deduction of US\$1,184 million for the effect of acquisitions.

After deducting the cost of holding required capital, VIF increased by 4 per cent to US\$18,981 million at 31 May 2013, compared with US\$18,238 million at 30 November 2012.

Total undiscounted after-tax distributable earnings of US\$11,816 million are expected to emerge from the VIF from the second half of 2013 through to 2017.

EV AND VONB SENSITIVITIES

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

US\$ millions, unless otherwise stated	As at 31 May 2013 EV	Six months ended 31 May 2013 VONB	As at 30 November 2012 EV	Six months ended 31 May 2012 VONB
Central value	32,242	645	31,408	512
Equity market risk				
10 per cent increase in equity prices	32,945	n/a	31,961	n/a
10 per cent decrease in equity prices	31,526	n/a	30,846	n/a
Interest rate risk				
50 basis points increase in interest rates	32,360	675	31,605	538
50 basis points decrease in interest rates	31,882	603	31,007	479

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

IFRS Profit

IFRS OPERATING PROFIT BEFORE TAX (OPBT) BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽¹⁾	YoY
Hong Kong	430	386	11%
Thailand	340	308	10%
Singapore	215	201	7%
Malaysia	163	93	75%
China	117	88	33%
Korea	101	87	16%
Other Markets	192	132	45%
Group Corporate Centre	6	14	(57)%
Total	1,564	1,309	19%

Note:

- (1) Certain segmental reclassifications have been made in the prior period OPBT result to conform to current period presentation. The reclassification has no impact on the total OPBT of the Group for the six months ended 31 May 2012. Further details are disclosed in note 7 to the interim financial statements.

OPBT increased by 19 per cent to US\$1,564 million compared with the first half of 2012 as a result of growth in all of our market segments and a positive contribution from acquisitions.

OPBT for Malaysia reported an uplift of 75 per cent to US\$163 million including the acquisition of ING Malaysia. Other Markets' OPBT increased by 45 per cent from strong business growth and improved margins in the Philippines and Indonesia. China's OPBT increased by 33 per cent mainly as a result of healthy growth in the underlying business, increased investment income and effective expense management. OPBT for the Group Corporate Centre was US\$6 million compared with US\$14 million in the first half of 2012 with higher investment income offset by increased expenses including interest costs.

IFRS OPERATING PROFIT AFTER TAX (OPAT)⁽¹⁾ BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽²⁾	YoY
Hong Kong	398	358	11%
Thailand	259	237	9%
Singapore	183	174	5%
Malaysia	128	73	75%
China	104	72	44%
Korea	78	66	18%
Other Markets	133	98	36%
Group Corporate Centre	(15)	2	n/m
Total	1,268	1,080	17%

Notes:

- (1) Attributable to shareholders of AIA Group Limited.

- (2) Certain segmental reclassifications have been made in the prior period OPAT result to conform to current period presentation. The reclassification has no impact on the total OPAT of the Group for the six months ended 31 May 2012. Further details are disclosed in note 7 to the interim financial statements.

OPAT increased by 17 per cent to US\$1,268 million compared with the first half of 2012, largely attributable to the growth in OPBT as discussed above. OPAT growth for Other Markets was lower than the pre-tax figure mainly due to an increased tax rate on investment income in the Philippines.

TOTAL WEIGHTED PREMIUM INCOME (TWPI) BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012	YoY
Hong Kong	1,703	1,552	10%
Thailand	1,616	1,460	11%
Singapore	1,044	998	5%
Malaysia	1,002	486	106%
China	745	683	9%
Korea	1,027	967	6%
Other Markets	1,358	1,159	17%
Total	8,495	7,305	16%

TWPI increased by 16 per cent to US\$8,495 million, reflecting growth in all of our market segments and the acquisitions. Persistency remained strong and stable at 94.1 per cent in the first half of 2013.

INVESTMENT INCOME⁽¹⁾

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012	YoY
Interest income	2,196	1,883	17%
Dividend income	210	160	31%
Rental income	59	46	28%
Total	2,465	2,089	18%

Note:

(1) Excluding unit-linked contracts.

Investment income increased by 18 per cent to US\$2,465 million compared with the first half of 2012, reflecting the higher level of invested assets at the start of 2013 and higher rental yields achieved over the first half.

OPERATING EXPENSES

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012	YoY
Operating expenses	758	634	20%

Operating expenses increased by 20 per cent to US\$758 million compared with the first half of 2012 mainly as a result of acquisitions. The expense ratio increased slightly to 8.9 per cent in the first half of 2013 from 8.7 per cent in the first half of 2012.

NET PROFIT⁽¹⁾

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012	YoY
OPAT	1,268	1,080	17%
Net gains from equities, net of tax	659	329	100%
Other non-operating investment experience and other items, net of tax	7	35	(80)%
Total	1,934	1,444	34%

Note:

(1) Attributable to shareholders of AIA Group Limited.

Net profit attributable to shareholders of AIA Group Limited increased by 34 per cent to US\$1,934 million compared with the first half of 2012, reflecting the growth in OPAT described above and gains from positive mark-to-market movements in equity investments of US\$659 million to 31 May 2013.

Earnings Per Share (EPS)

EPS based on net profit attributable to shareholders of AIA Group Limited increased to 16.1 US cents in the first half of 2013 from 12.0 US cents in the first half of 2012.

OPAT EPS increased to 10.6 US cents in the first half of 2013 from 9.0 US cents in the first half of 2012.

EARNINGS PER SHARE – BASIC

	Net Profit⁽¹⁾		OPAT⁽¹⁾	
	Six months ended 31 May 2013	Six months ended 31 May 2012	Six months ended 31 May 2013	Six months ended 31 May 2012
Profit (US\$m)	1,934	1,444	1,268	1,080
Weighted average number of ordinary shares (millions) ⁽²⁾	11,979	12,003	11,979	12,003
Basic earnings per share (US cents)	16.1	12.0	10.6	9.0

Notes:

(1) Attributable to shareholders of AIA Group Limited.

(2) The decrease in weighted average number of ordinary shares outstanding compared with the first half of 2012 was primarily a result of the purchase of shares held by employee share-based trusts.

EARNINGS PER SHARE – DILUTED

	Net Profit ⁽¹⁾		OPAT ⁽¹⁾	
	Six months ended 31 May 2013	Six months ended 31 May 2012	Six months ended 31 May 2013	Six months ended 31 May 2012
Profit (US\$m)	1,934	1,444	1,268	1,080
Weighted average number of ordinary shares (millions) ⁽²⁾⁽³⁾	11,996	12,010	11,996	12,010
Diluted earnings per share (US cents)⁽³⁾	16.1	12.0	10.6	9.0

Notes:

(1) Attributable to shareholders of AIA Group Limited.

(2) The decrease in weighted average number of ordinary shares outstanding compared with the first half of 2012 was primarily a result of the purchase of shares held by employee share-based trusts.

(3) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under the share-based compensation plans as described in note 23 to the interim financial statements.

Balance Sheet

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$ millions, unless otherwise stated	As at 31 May 2013	As at 30 November 2012	Change
Assets			
Financial investments	122,233	111,581	10%
Investment property	1,152	1,035	11%
Cash and cash equivalents	2,036	2,948	(31)%
Invested assets	125,421	115,564	9%
Deferred acquisition and origination costs	15,079	14,161	6%
Other assets	6,426	4,714	36%
Total assets	146,926	134,439	9%
Liabilities			
Insurance and investment contract liabilities	109,030	99,439	10%
Borrowings	2,199	766	187%
Other liabilities	8,376	7,406	13%
Less: total liabilities	119,605	107,611	11%
Equity			
Total equity	27,321	26,828	2%
Less: non-controlling interests	149	131	14%
Total equity attributable to shareholders of AIA Group Limited	27,172	26,697	2%

ASSETS

Total assets grew by 9 per cent to US\$146,926 million at 31 May 2013 compared with US\$134,439 million at 30 November 2012, reflecting the growth in the overall business and from acquisitions.

Cash and cash equivalents decreased to US\$2,036 million at 31 May 2013 compared with US\$2,948 million at 30 November 2012, reflecting increased investments in financial assets and the payment of the 2012 final dividend of US\$380 million.

Deferred acquisition and origination costs increased to US\$15,079 million at 31 May 2013 compared with US\$14,161 million at 30 November 2012, reflecting growth in the business.

Other assets increased to US\$6,426 million mainly due to other assets of US\$329 million, and goodwill of US\$995 million from acquisitions, as well as US\$295 million associated with the acquisition of a property in Hong Kong during December 2012.

LIABILITIES

Total liabilities increased by 11 per cent to US\$119,605 million at 31 May 2013 compared with US\$107,611 million at 30 November 2012. Insurance and investment contract liabilities increased to US\$109,030 million at 31 May 2013 compared with US\$99,439 million at 30 November 2012, reflecting the growth of the in-force portfolio and from acquisitions.

Borrowings increased by 187 per cent to US\$2,199 million at 31 May 2013 mainly due to the issue in March 2013 of two medium term notes of a combined nominal amount of US\$1 billion as previously disclosed in our Annual Report 2012 and the drawdown of credit facilities relating to the acquisition and to the financing of a property acquisition in Hong Kong.

Other liabilities increased by 13 per cent to US\$8,376 million at 31 May 2013 mainly from the US\$542 million increase in obligations under repurchase agreements and the US\$463 million increase in tax liabilities primarily related to business growth and from acquisitions.

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

EQUITY – MOVEMENT IN SHAREHOLDERS' EQUITY OF AIA GROUP LIMITED

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Twelve months ended 30 November 2012	Six months ended 31 May 2012
Opening shareholders' equity	26,697	21,313	21,313
Net profit	1,934	3,019	1,444
Fair value (losses)/gains on assets	(865)	2,565	814
Foreign currency translation adjustments	(156)	372	(155)
Purchase of shares held by employee share-based trusts	(85)	(84)	(82)
Dividends	(380)	(530)	(339)
Other capital movements	27	42	17
Total movement in shareholders' equity	475	5,384	1,699
Closing shareholders' equity	27,172	26,697	23,012

Shareholders' equity excluding non-controlling interests increased by 2 per cent over the first half to US\$27,172 million at 31 May 2013 compared with US\$26,697 million at 30 November 2012. This increase was mainly from net profit of US\$1,934 million, fair value losses on assets of US\$865 million primarily reflecting reduced fixed income asset values, a decrease in foreign currency translation reserves of US\$156 million less the payment of the 2012 final dividend of US\$380 million.

Sensitivities to IFRS profit before tax and net assets arising from foreign exchange rate, interest rate and equity market risk are included in note 22 to the interim financial statements.

Invested Assets

The carrying value of our invested assets, including financial investments, investment property and cash and cash equivalents, increased by 9 per cent to US\$125,421 million at 31 May 2013 compared with US\$115,564 million at 30 November 2012. Invested assets include total assets held in respect of shareholders and policyholders, and unit-linked contracts.

TOTAL INVESTED ASSETS

US\$ millions, unless otherwise stated	As at 31 May 2013	Percentage of total	As at 30 November 2012	Percentage of total
Total policyholder and shareholder	106,703	85%	98,240	85%
Total unit-linked contracts	18,718	15%	17,324	15%
Total invested assets	125,421	100%	115,564	100%

Details of the investment mix are as follows:

POLICYHOLDER AND SHAREHOLDER INVESTED ASSETS

US\$ millions, unless otherwise stated	As at 31 May 2013	Percentage of total	As at 30 November 2012	Percentage of total
Participating funds				
Government and government agency bonds	7,320	7%	6,011	6%
Corporate bonds and structured securities	11,264	11%	9,842	10%
Loans and deposits	1,843	2%	1,303	2%
Subtotal – Fixed income investments	20,427	20%	17,156	18%
Equities	4,830	5%	3,534	4%
Cash and cash equivalents	296	–	316	–
Derivatives	262	–	317	–
Investment property	99	–	15	–
Subtotal participating funds	25,914	25%	21,338	22%
Other policyholder and shareholder				
Government and government agency bonds	33,595	31%	32,072	33%
Corporate bonds and structured securities	32,062	30%	30,893	31%
Loans and deposits	5,380	5%	5,047	5%
Subtotal – Fixed income investments	71,037	66%	68,012	69%
Equities	7,068	7%	5,656	6%
Cash and cash equivalents	1,323	1%	1,897	2%
Derivatives	308	–	317	–
Investment property	1,053	1%	1,020	1%
Subtotal other policyholder and shareholder	80,789	75%	76,902	78%
Total policyholder and shareholder	106,703	100%	98,240	100%

UNIT-LINKED CONTRACTS

US\$ millions, unless otherwise stated	As at 31 May 2013	Percentage of total	As at 30 November 2012	Percentage of total
Unit-linked contracts				
Debt securities	2,251	12%	2,044	12%
Loans and deposits	192	1%	75	—
Equities ⁽¹⁾	15,856	85%	14,466	84%
Cash and cash equivalents	417	2%	735	4%
Derivatives	2	—	4	—
Total unit-linked contracts	18,718	100%	17,324	100%

Note:

(1) Including third-party interests in equities.

Invested assets held in respect of policyholders and shareholders increased to US\$106,703 million at 31 May 2013 compared with US\$98,240 million at 30 November 2012 mainly as a result of an overall positive movement in the market value of the portfolio, the investment of operating cash flows arising from the business over the first half of 2013 and acquisitions.

Fixed income investments, including debt securities, loans, and term deposits, held in respect of policyholders and shareholders, totalled US\$91,464 million at 31 May 2013 compared with US\$85,168 million at 30 November 2012.

Government and government agency bonds represented 45 per cent of our fixed income investments at 31 May 2013 which is unchanged from the position at 30 November 2012. Corporate bonds and structured securities accounted for 47 per cent of fixed income investments at 31 May 2013 compared with 48 per cent at 30 November 2012.

Total equity securities held in respect of policyholders and shareholders totalled US\$11,898 million at 31 May 2013, compared with US\$9,190 million at 30 November 2012. The increase in carrying value was attributable to new purchases as well as an increase in market value. Equity securities totalling US\$4,830 million were held in participating funds.

Cash and cash equivalents held in respect of policyholders and shareholders totalled US\$1,619 million at 31 May 2013 compared with US\$2,213 million at 30 November 2012.

Invested assets held in respect of unit-linked contracts totalled US\$18,718 million at 31 May 2013 compared with US\$17,324 million at 30 November 2012.

Capital

FREE SURPLUS GENERATION

The Group's free surplus at 31 May 2013 represented the excess of adjusted net worth over required capital. Free surplus generated increased to US\$1,939 million from strong growth in our in-force business and market gains. This was offset by investment in new business of US\$684 million, unallocated Group Office expenses including interest costs of US\$72 million, the payment of the 2012 final dividend of US\$380 million and negative other capital movements of US\$58 million. Overall, free surplus excluding the effect of acquisitions and others increased by US\$745 million over the first half. Total free surplus reduced by US\$689 million to US\$5,954 million at 31 May 2013 as the increase was offset mainly by the effect of acquisitions.

The following table shows the change in free surplus:

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012
Opening free surplus	6,643	5,930
Effect of acquisitions and others	(1,434)	–
Free surplus post acquisitions and others	5,209	5,930
Free surplus generated	1,939	1,200
Free surplus used to fund new business	(684)	(614)
Unallocated Group Office expenses ⁽¹⁾	(72)	(54)
Dividends	(380)	(339)
Other capital movements	(58)	(65)
Closing free surplus	5,954	6,058

Note:

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

NET FUNDS TO GROUP CORPORATE CENTRE

Working capital comprises debt and equity securities, deposits and cash and cash equivalents held by Group Corporate Centre. Working capital, after payment of the 2012 final dividend, was US\$5,383 million at 31 May 2013 compared with US\$5,185 million at 30 November 2012. Business units remitted US\$972 million to the Group Corporate Centre. The movements over the first half of 2013 also included a reduction in working capital from the payments made for acquisitions partially offset by an increase in borrowings mainly due to the issue of two medium term notes in March 2013, as previously disclosed in our Annual Report 2012, and the drawdown of an acquisition credit facility.

The movements in working capital are summarised as follows:

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽¹⁾
Opening working capital	5,185	3,912
Group Corporate Centre net profit/(loss)	8	(27)
Capital flows from business units		
Hong Kong	616	572
Thailand	282	181
Singapore	25	7
Malaysia	112	98
Other Markets	(63)	(14)
Net funds remitted to Group Corporate Centre	972	844
Payment for acquisitions	(1,865)	–
Increase in borrowings	1,726	–
Payment of dividend	(380)	(339)
Purchase of shares held by the employee share-based trusts	(85)	(82)
Other changes in working capital	(178)	(18)
Closing working capital	5,383	4,290

Note:

- (1) Certain segmental reclassifications have been made in the prior period to conform to current period presentation. The reclassification has no impact on the closing working capital for the six months ended 31 May 2012. Details are disclosed in note 7 to the interim financial statements.

Regulatory Capital

The Group's lead insurance regulator is the Hong Kong Office of the Commissioner of Insurance (HKOCI). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer. At 31 May 2013, the total available regulatory capital for AIA Co. amounted to US\$6,120 million as measured under the HKICO basis. AIA Co. has a solvency ratio of 427 per cent of the minimum regulatory capital requirement. This compares with 353 per cent reported at the end of November 2012. The increase in the solvency ratio over the first half of 2013 was a result of positive retained earnings generated during the period and equity market gains.

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

US\$ millions, unless otherwise stated	As at 31 May 2013	As at 30 November 2012
Total Available Regulatory Capital	6,120	4,811
Regulatory Minimum Required Capital (100%)	1,434	1,362
Solvency ratio (%)	427%	353%

AIA has given an undertaking to the HKOCI that it will maintain a solvency ratio of not less than 150 per cent in each of AIA Co. and AIA International (formerly American International Assurance Company (Bermuda) Limited). The Group's individual branches and subsidiaries are also subject to supervision in the jurisdictions in which they operate. This means that local operating units, including branches and subsidiaries, must meet the regulatory capital requirements of their local prudential regulators. The various regulators overseeing the Group's branches and subsidiaries actively monitor their capital position. The local operating units were in compliance with the capital requirements of their respective local regulators in each of our geographical markets at 31 May 2013.

Establishment of a Medium Term Note Programme

AIA established a US\$2 billion Medium Term Note (MTN) programme on 27 February 2013 and successfully completed an inaugural offering of two senior unsecured fixed rate notes in March 2013 for terms of 5 years and 10 years at nominal amounts of US\$500 million each. These notes bear annual interest of 1.75 per cent and 3.125 per cent respectively.

Credit Ratings

At 31 May 2013, AIA Co. has published financial strength ratings of AA- (Very Strong) from Standard & Poor's with a stable outlook and the AIA Group Limited rating is A (Strong) with stable outlook.

Dividends

The Board of Directors has declared an interim dividend of 13.93 Hong Kong cents per share, an increase of 13 per cent compared with the interim dividend in 2012.

BUSINESS REVIEW

Distribution

AGENCY

Agency remains our core distribution channel and generated VONB of US\$490 million in the first half of 2013, contributing 70 per cent of the Group's total. The 20 per cent growth in VONB compared with the first half of 2012 was the result of a 26 per cent uplift in agency ANP from further improvements in productivity, a continued increase in the number of active agents and a positive contribution from our newly-acquired businesses in Malaysia and Sri Lanka.

VONB margin was 49.9 per cent compared with 52.1 per cent for the first half of 2012. The slight reduction was mainly due to changes in the geographical mix arising from the strong volume growth achieved in Korea and our Other Markets, as well as the consolidation of the newly-acquired business from ING Malaysia.

Our sustained ability to operate to the highest standards in the agency channel provides both the foundation for our existing business success and an exciting platform for our continuing future growth. We believe that a proprietary tied agency model, executed to the highest standards, has inherent competitive advantages resulting from the close ties between our agents and our customers.

These long-term personal relationships, built up over decades of operating in the region, empower our agents to provide service and support that is closely aligned with customers' changing lifetime needs. In turn, our depth of understanding of the rapidly-changing requirements of our customers enables us to develop new products and services that meet their substantial and growing regular savings and protection needs. We view the ongoing commitment to achieving the highest standards in the quality and professionalism of our agents, through the successful implementation of our Premier Agency strategy, as essential to the strength of our customer relationships and to sustaining and building upon AIA's outstanding franchise in the region.

An important focus for AIA is high-quality agent recruitment and the development of strong agency leaders to grow our next generation of Premier Agents. A strategic partnership with LIMRA, including the implementation of new candidate profiling tools, has continued to support our recruitment initiatives across Asia in conjunction with the AIA Premier Academy. The profiling tools are now being actively used in 11 of our markets and, together with our market-leading induction programmes, are delivering strong initial results.

The number of Million Dollar Round Table (MDRT) qualifiers remains an important external benchmark for our Premier Agency strategy. AIA is the number one Asian-based insurer for MDRT members as of July 2013. We are on track to deliver the planned growth of potential MDRT qualifiers for the full year with a number of markets showing a strong performance including Hong Kong, the Philippines, Thailand and Korea.

In addition to the development of agents through our AIA Premier Academy and bespoke tools developed in co-operation with LIMRA, we recognise that strong agency leadership will continue to be critical to sustained growth. We established a strategic partnership in April 2013 with GAMA International, a worldwide association dedicated to supporting the professional development of agency leaders in the insurance industry. Our new partnership enables the AIA Premier Academy to incorporate the proven training modules from GAMA International into our established curriculum. The enhanced training programme for agency leaders and our joint efforts in segmentation, professional development and recognition benchmarking will be instrumental in continuing to develop AIA's Premier Agency Leaders.

AIA continued to roll out iPoS, our industry-leading interactive point-of-sale technology, and it is currently operational in Taiwan, Singapore, Malaysia, Indonesia, Thailand and the Philippines. Using iPad mobile devices, our agents can provide a comprehensive financial advisory service to customers; from the completion of a customer's financial-needs analysis to proposal generation and secure electronic submission of life insurance applications. iPoS offers a range of benefits to AIA. Most notably it enhances the sales experience and improves the interaction between our customers and agents. It also creates greater efficiency in the administration of applications while providing our agents with tools to help better manage relationships and respond to customer needs.

PARTNERSHIPS

AIA's partnership team, "AIA Partners", is responsible for working with our local business units to expand our bancassurance, direct marketing and other intermediated distribution channels to provide an important source of additional profitable growth for the Group.

Building on the excellent performance in the previous year, our focus has been on further developing the potential of our relationships with existing partners, pursuing new growth opportunities that meet our profitability targets and broadening our distribution reach. As a result, AIA's partnership business delivered another excellent performance with VONB growth of 44 per cent to US\$212 million compared with the first half of 2012. The growth was driven by an increase in ANP of 35 per cent and further VONB margin expansion of 2.6 pps to 38.9 per cent as we improved our channel productivity, launched new products and enhanced our business mix by increasing the proportion of protection product sales.

Bancassurance

Bancassurance is the main component in our partnership development strategy and our focus on collaborative partnerships with both local and regional partners has continued to drive strong momentum in AIA's bancassurance channel. Our businesses in Indonesia and the Philippines delivered outstanding VONB growth through working closely with our bank partners to enhance product mix, expand branch network coverage and increase productivity with revamped training programmes and sales activity management.

Following the completion of our acquisition of ING Malaysia, our new bancassurance relationship with Public Bank is now live. Public Bank is one of Malaysia's largest banking groups with over five million customers and will feature prominently in our partnership distribution efforts in Malaysia. In the first half of 2013, our local Malaysian partnership and Public Bank teams worked closely together to support the introduction of a new range of unit-linked products for distribution through the bank's network of more than 250 branches.

Our financially-disciplined approach and strong relationships with our new and existing bank partners have delivered VONB of twice the amount reported in the first half of 2012.

Other Partnership Channels

Other partnership channels, including direct marketing, private banks, IFAs, brokers and specialist advisers, generated strong VONB growth in the first half of 2013.

We continued to reposition our direct marketing channel in Korea. As part of this effort, we increased distribution capacity following new recruitment campaigns to attract quality telesales representatives (TSRs) and launched a new simplified product specifically targeted at the direct channel.

The strong performance in Australia is of particular note in the IFA channel. We have invested in developing our "Premier IFA" model, which has delivered strong sales growth combined with attractive margins in the individual protection market to supplement our established and widely-recognised group insurance business.

GROUP INSURANCE

AIA is a leading provider of group insurance across the Asia-Pacific region, with 120,000 corporate clients and more than 16 million group insurance scheme members. AIA's expertise in the group insurance market, gained over six decades, has enabled us to build long-standing relationships with employers and their advisers through the provision of extensive support and advice to companies ranging from domestic businesses to multinational corporations.

AIA generates group insurance business through two distinct channels. Our Regional Employee Benefits Partnership Platform has enabled us to expand our strategic partnerships with key global brokers. At the local business level, we continued to increase the penetration of group insurance sales amongst AIA's Premier Agency force in the small-and-medium sized enterprises (SME) segment. We have successfully reinforced our market-leading positions in Australia, Singapore and Malaysia while strengthening capabilities in other key growth markets including Hong Kong, China, Indonesia, the Philippines and Thailand. The VONB of our group insurance business increased by 32 per cent compared with the first half of 2012.

Notwithstanding the excellent progress we have made in group insurance, we see the potential for growth in this segment far exceeding the levels of penetration yet achieved. Rapid progress in Asian labour markets from ongoing economic development, positive demographic trends and competition for high-quality employees has continued to generate double-digit growth rates in the group insurance sector. Furthermore, overall coverage remains low compared with that in more developed markets, leaving significant potential for additional growth. AIA's existing core competencies combined with the market's considerable scale and capacity for further expansion provide us with a clear opportunity for profitable growth.

Marketing

AIA promotes the financial security of our customers by raising awareness of their regular savings and protection needs and by delivering product and marketing plans supported by a thorough understanding of our customers' requirements. AIA is one of the most trusted insurance brands in Asia. We understand the unique potential of our brand to help us strengthen our engagement with our large base of existing customers and to attract new ones. Our brand is also a unique differentiator in helping us build relationships with agents and distribution partners throughout the region. In order to maximise this competitive advantage, we have recently finalised plans for communicating more clearly what our brand stands for. This programme has been the subject of a significant amount of planning in the first half of 2013 and is based on extensive research amongst customers, agents and employees from across the region. Our updated brand programme will be launched region-wide using locally-tailored programmes in the second half of 2013.

IMPROVING CUSTOMER EXPERIENCE

Since launching our customer experience programme in 2011, we have developed a deeper understanding of the areas that we need to focus on to further improve our levels of customer engagement and to drive still higher levels of profitable growth. Our programmes have been introduced alongside the establishment of a highly professional commercial marketing function across our business, aligned to AIA's strategy and with a strong focus on our customers.

In the first half of 2013, we launched AIA's "Voice of the Customer" initiative, reflecting our commitment to listen to our customers and gain a clearer understanding of what matters most to them and where we should focus our efforts to help them. The foundation for this initiative was an extensive research programme encompassing more than 120 customer focus groups as well as a number of other customer feedback initiatives.

An important driver of the success of these programmes is our consistent focus on the behaviour and service attitudes of our people. At the start of the year, we developed a customer service toolkit which includes case studies and interactive training to inspire our people to bring the AIA customer experience to life. This enabled individual AIA business units to design localised, customer-focused programmes for their operations as an important part of our wider programme of continuous improvement. For example, each business unit has a Customer Ambassador who is charged with the responsibility of encouraging teams to consider the impact on our customers of everything that we do and to identify actions within their functions to ensure greater service excellence.

DRIVING PRODUCT INNOVATION

AIA's core business as a life insurer is to promote the well-being of customers and communities in the markets we serve. We adopt a proactive approach to product innovation which focuses on providing life and health insurance protection cover as a more effective alternative than reliance on self-funding to Asian consumers. Our product developments in this area include a new early-pay critical illness rider in Singapore, a broader range of coverage as part of our market-leading comprehensive protection plan in China, a new and more accessible direct marketing hospital cash plan in Korea and a critical illness plan that pays on early diagnosis in Hong Kong.

We also provide savings products that enable customers to grow their wealth while providing protection coverage. Our new unit-linked products are central to this proposition, allowing customers to grow the real value of their savings while addressing their protection needs within a comprehensive, single product. Other important developments in this area include our recent launch of AIA's unit-linked products with Public Bank in Malaysia and the introduction of the first-of-its-kind unit-linked product in Thailand.

CONNECTING WITH OUR CUSTOMERS

AIA's scale places it in a uniquely advantaged position to cross-sell and up-sell new products to our customers to meet their evolving insurance needs. Our existing base of over 27 million individual policies and over 16 million group insurance scheme members is a key competitive advantage and source of future value for AIA. In the first half of 2013, our existing customer marketing initiatives have resulted in additional sales of around 350,000 policies, leading to a 33 per cent growth in VONB generated from our existing customer base compared with the first half of 2012.

The advent of social media provides new ways of educating consumers on the need for regular savings and protection insurance, promoting our products and services and deepening our engagement with our target audience. It is also becoming a way of attracting new applicants for our agency distribution channel. AIA uses social media platforms to increase our brand presence online and to achieve a greater level of interaction with our customers, in particular the younger segment. The work in this area has continued into 2013 as we expanded the roll-out of our social media presence and we have over 200,000 Facebook fans across the region.

Employee and Community Engagement

EMPLOYEE ENGAGEMENT

The quality and professionalism of our 20,000 employees is critical to realising our vision of being the pre-eminent life insurer in the Asia-Pacific region. Accordingly, a group-wide Organisation and People Review was launched in the early part of 2013 to ensure that we have the right people, capabilities and structure in place to deliver on our promise to customers. We have introduced a new range of e-learning programmes to supplement our existing development initiatives. These include on-the-job training, coaching and mentoring and classroom learning. They are designed to ensure that our learning architecture meets the requirements to achieve our vision and strategic priorities.

Our annual employee engagement survey helped us identify actions that we can take to support a more engaging working environment. Over the course of the first half of the year, we have promoted more frequent and in-depth discussions on performance and expectations between employees and managers, expanded the communications from our leadership team and facilitated greater mobility for employees interested in broader opportunities across the Group.

CORPORATE SOCIAL RESPONSIBILITY

The main focus of AIA's Corporate Social Responsibility (CSR) strategy was on Healthy Living; encouraging and enabling people across the region to lead healthier lives. Our initiatives focused on providing opportunities for people to participate in health-enhancing activities such as adopting healthier eating habits, managing stress and achieving work-life balance in addition to promoting sensible levels of physical activity.

In Hong Kong, AIA supported the Médecins Sans Frontières Orienteering Competition for the 12th consecutive year. More than 700 employees and agents, their family members and friends as well as our customers participated in this important event. AIA in Hong Kong also launched a campaign to raise awareness of heart and coronary problems among the general public. With volunteers comprising AIA's employees and agents, the four-month campaign also raised donations for "Care for Your Heart", a non-profit organisation.

Our CSR strategy also incorporated long-standing local initiatives. In Thailand, AIA donated a library to the Ban Tha Kam School in a remote area of the Chiang Mai Province. This is the 25th AIA library our Thailand operation has donated.

With our deep roots in the Asia-Pacific region, we feel very much a part of the communities in which we operate. AIA therefore maintains a strong commitment to providing emergency aid in times of crises or disasters. In April 2013, AIA in China donated approximately US\$324,000 to Ya'an in Sichuan Province to help its earthquake relief efforts. We also provided free insurance coverage to doctors, volunteers and journalists participating in the disaster relief efforts.

Doing the right thing and caring for our customers, our colleagues and the communities we serve are at the core of AIA's Operating Philosophy. Over time, our CSR strategy, with a focus on Healthy Living, will help AIA build a legacy as a caring company that consistently does the right thing for the communities in which we operate.

Geographical Markets

HONG KONG

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽³⁾	YoY
VONB ⁽¹⁾	168	140	20%
VONB margin ⁽²⁾	48.7%	55.1%	(6.4) pps
ANP	326	243	34%
TWPI	1,703	1,552	10%
Operating profit after tax	398	358	11%

AIA's Hong Kong operation delivered an excellent performance in the first half of 2013. The consistent growth rates were again supported by improvements in the recruitment, activity and productivity levels of our market-leading agency force and the expansion of our profitable partnership model. Since its launch in 2011, our Premier Agency distribution strategy has been fully integrated with our product and marketing programmes to deliver new products designed to support the growing regular savings and protection needs of our customers in Hong Kong. These results make our Hong Kong business the largest contributor to the Group's VONB and IFRS profits, accounting for 24 per cent of overall VONB and 31 per cent of IFRS operating profit after tax.

VONB

VONB grew by 20 per cent compared with the first half of 2012 to US\$168 million. The strong growth was a result of higher new business sales with a 34 per cent increase in ANP from improved agency productivity, the launch of new participating products and increased sales of accident and health benefit riders. This was partially offset by a reduction in margin from increased demand for savings products in the first half of the year.

Distribution

The ongoing roll-out of our Premier Agency strategy continued to drive improvements in our market-leading agency distribution channel. The number of active agents in Hong Kong is up by more than 30 per cent since the launch of our Premier Agency strategy in 2011.

The training and development programmes provided in conjunction with the AIA Premier Academy have improved agency productivity, with an increase of over 25 per cent in the first half of 2013. Our Hong Kong operation is once again on track to exceed our record number of annual MDRT qualifiers, underscoring both the quality and sustainability of our growth.

Our market-leading "Road to MDRT" training and mentoring programme is aimed at high-potential recruits new to the insurance industry. It has helped produce the next generation of Premier Agents with over 550 candidates graduating since its launch in the second half of 2011. We have built on this success with the roll-out of our "Executive Development Programme" in January 2013 for agency leaders. This new programme targets young professionals with a strong track record of sales management experience. Candidates who qualify for the programme are given leadership training through the AIA Premier Academy and a clearly-defined agency leader career path.

Although agency remains our major distribution channel in Hong Kong, partnership distribution is an important source of incremental growth. The main drivers of the growth in the first half of 2013 were our continued investments in service and infrastructure combined with improvements in product mix to incorporate more protection business.

Our group insurance business continued to gain momentum with growth coming from both our agency and broker channels. VONB grew by 50 per cent compared with the first half of 2012 through our active relationship management with our broker partnerships and a sustained focus on increasing group insurance sales through our experienced agency force.

Products and Customers

We have continued to improve the analysis of our large in-force customer base in Hong Kong, which is a clear competitive advantage and strong additional source of profitable new business generation. The results have been used in conjunction with promotional campaigns and training programmes to support our agents in helping define and meet the evolving needs of our customers. While our focus on delivering protection solutions remains at the forefront of our strategy, we continued to extend our product range with the launch, in the first half of 2013, of regular savings participating products tailored to the needs of the young family and pre-retiree customer segments.

Operating Profit after Tax

Operating profit after tax increased by 11 per cent to US\$398 million compared with the first half of 2012. The increase was due to strong underlying business growth, partly offset by lower investment income following dividends remitted to the Group Corporate Centre.

THAILAND

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012⁽³⁾	YoY
VONB ⁽¹⁾	146	131	11%
VONB margin ⁽²⁾	55.1%	53.6%	1.5 pps
ANP	265	244	9%
TWPI	1,616	1,460	11%
Operating profit after tax	259	237	9%

AIA has operated in Thailand for 75 years and has developed a distinct business built around our nationwide agency network to become the leading life insurance company in the country. Our priority is to strengthen this competitive advantage through the execution of our Premier Agency strategy including a renewed focus on high-quality recruitment and enhanced training. Our recruitment programmes are focused on bringing the right people into the industry while our training programmes are aimed at supporting our agents as they seek to offer high-quality advice to our customers together with the right mix of products to meet their needs. The execution of our strategy has delivered solid growth in VONB in the first half of 2013.

VONB

VONB increased by 11 per cent compared with the first half of 2012 to US\$146 million. VONB margin increased by 1.5 pps to 55.1 per cent from proactive management of the business mix. We also modified our agency compensation and incentives in the first half of 2013 to align more closely with our emphasis on productivity, quality recruitment and sales. We believe this change will be positive for the business longer term although it has affected sales for the first six months as the agency force adjusts to the change.

Distribution

We have transformed our approach to agency recruitment in Thailand by enhancing the quality and activity levels of our new recruits and improving new applicant selection at the outset. We have developed candidate profiling tools in conjunction with our LIMRA partnership, to target those who have the aptitude to succeed in a full-time career as a professional life insurance agent. This approach has improved the success rate of our recruitment campaigns and the efficiency of our agency leaders.

Our enhanced training programmes delivered through the AIA Premier Academy are focused on providing our new recruits with a clear career path and upgraded skills. The goal is to develop newly-qualified Premier Agents, who are better able to develop their businesses, better assess customers' needs and provide the most appropriate product solutions. Our progress so far has seen the number of active new agents increase by more than 20 per cent compared with the first half of 2012. We are also on track to deliver a significant increase in the number of potential MDRT qualifiers this year with the goal of retaining our number one MDRT ranking in Thailand.

While our agency force is a clear competitive advantage for AIA and remains our major distribution channel, our partnership and group insurance businesses have demonstrated good progress. Group insurance remains an important emerging growth opportunity for AIA in Thailand, particularly from potential sales within the SME segment through our agency force.

Products and Customers

We continued to design products to help our customers address their regular savings and protection goals. AIA Health Lifetime, our industry-leading whole-of-life participating critical illness product, has been well received. In April 2013, we launched our next generation unit-linked product, reinforcing our leadership role in the development of the life insurance market in Thailand. This product, the first of its kind in Thailand, offers higher protection levels and provides the flexibility to meet both protection and regular savings needs. The launch is an important step for AIA as we aim to provide products that attract new customers and enhance the existing coverage of our seven million in-force policyholders.

Our Thai business benefited from the roll-out in May 2013 of our new point-of-sale technology, iPoS. The system, which enables our agents to generate proposals at the point of sale and submit applications electronically while on the move, is another differentiator in our ongoing efforts to upgrade our agency capability.

Operating Profit after Tax

Operating profit after tax grew by 9 per cent to US\$259 million compared with the first half of 2012, in line with the underlying business growth.

As stated in our Annual Report 2012, the corporate tax rate in Thailand is assumed to be 20 per cent for assessment years 2013 and 2014. We have assumed a return to 30 per cent from assessment year 2015 onward.

SINGAPORE

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽³⁾	YoY
VONB ⁽¹⁾	110	97	13%
VONB margin ⁽²⁾	74.8%	63.5%	11.3 pps
ANP	147	152	(3)%
TWPI	1,044	998	5%
Operating profit after tax	183	174	5%

Singapore sustained its growth momentum with a solid performance in the first half of 2013 including VONB growth of 13 per cent over an outstanding prior year base. Our success in Singapore is underpinned by our Premier Agency strategy. We have continued to deliver growth based on first-class recruitment and professional training to enable our agents to offer advice and products that help Singaporean families meet their regular savings and protection goals. As well as the broader implementation of our Premier Agency strategy, we have continued to develop our profitable partnership distribution channel and build on our market-leading position in group insurance.

VONB

VONB grew by 13 per cent compared with the first half of 2012 to US\$110 million, driven by agency distribution. VONB margin grew by 11.3 pps to 74.8 per cent as a result of growth in sales of new health protection products and reduced sales of lower-margin savings business within the product mix.

Distribution

The recruitment of high-quality Premier Agents remained our priority and we continued to implement a new agency leadership structure, first introduced in the second half of 2012, with the roll-out of additional agency referral and recruitment programmes. Together, these programmes delivered a 22 per cent increase in the number of active new agents compared with the first half of 2012.

We improved agency activity levels through training from our AIA Premier Academy and the launch of our point-of-sale technology, iPoS. Since its introduction in Singapore late last year, our iPoS system has quickly become an important new way for our agents to interact with customers and its use has grown steadily with around half of all active agents in Singapore now using iPoS.

At the same time as strengthening our Premier Agency distribution, we have focused our partnership business on expanding relationships with local and regional banking partners and the IFA community. We have also maintained our leadership position in the group insurance market, as a result of our strategic focus on sales from IFAs through our regional platform and targeting the SME segment via our agency force.

Products and Customers

AIA has established itself as a leader in the protection insurance market in Singapore. We have launched a range of new products in the first half of 2013 including enhanced versions of our critical illness products and new unit-linked rider benefits that offer protection for expectant mothers and newborns, as well as education benefits for children.

We also aligned our HealthShield products with the Singapore government's latest upgrade of its hospitalisation insurance scheme. The redesigned products have been well received by the market, adding over 25,000 new customers with many of our existing customers also choosing to upgrade their levels of cover with AIA.

Operating Profit after Tax

Operating profit after tax increased by 5 per cent to US\$183 million compared with the first half of 2012 in line with the underlying business growth.

MALAYSIA

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽³⁾	YoY
VONB ⁽¹⁾	54	32	69%
VONB margin ⁽²⁾	35.3%	42.3%	(7.0) pps
ANP	152	76	100%
TWPI	1,002	486	106%
Operating profit after tax	128	73	75%

Our principal focus in Malaysia over the first half of 2013 has been the integration of our newly-acquired business, ING Malaysia, following the close of the transaction on 18 December 2012. Our new executive team, drawn from the leadership of both AIA and ING Malaysia, has made significant progress in combining the two businesses on schedule and with realised synergies in line with our expectations. Throughout the process, we have actively engaged and communicated with all of our stakeholders to ensure a smooth transition. We reached an important milestone on 17 June 2013 with the adoption of the AIA brand across the combined operation and the consolidation of the business under a single licence. Our unified company has consolidated our leadership position in the dynamic Malaysian market as we continue to fully implement our integration plans and build a business that will deliver further opportunities for profitable growth.

VONB

Our Malaysian business reported a 69 per cent uplift in VONB to US\$54 million following the consolidation of ING Malaysia's results with effect from the close of the transaction. ANP was US\$152 million, while the combined VONB margin reduced to 35.3 per cent reflecting the mix of lower-margin products from ING Malaysia, as mentioned in our first quarter 2013 new business highlights announcement.

Distribution

The acquisition of ING Malaysia has materially strengthened our distribution capabilities and channel mix in the Malaysian market. The agency forces of AIA and ING Malaysia are highly complementary in terms of geographical spread and the transaction has doubled the size of our agency force. Throughout the integration process, we maintained our Premier Agency initiatives designed to drive quality recruitment, sales activity and productivity. For example, we launched a new recruitment scheme in April 2013, in conjunction with a nationwide marketing campaign targeting the younger generation of agents.

We have also made a strong start to our new bancassurance partnership with Public Bank, one of the leading retail banking groups in Malaysia with over five million customers and more than 250 branches.

Products and Customers

Following the approval of our new single licence in June 2013, we withdrew existing products and launched an enhanced, single range of products under the AIA brand for distribution via our agency channel. This new product suite is managed from a single administration platform and includes a full range of protection and unit-linked products. These products will enable our agents to address consistently the wide-ranging protection and regular savings needs of the holders of our more than 3.5 million individual policies. The new product range is supported by our state-of-the-art point-of-sale iPoS technology which is currently being rolled out to our agents.

We also introduced a new "Empower" series of unit-linked products in the first half of the year through our bancassurance relationship with Public Bank. The products were designed with flexibility in mind and offer a combination of higher protection content and regular savings. The launch was supported by the close working relationship between the AIA and Public Bank teams and the product has been well received.

Operating Profit after Tax

Operating profit after tax reported an uplift of 75 per cent to US\$128 million following the consolidation of our newly-acquired business.

CHINA

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽³⁾	YoY
VONB ⁽¹⁾	76	60	27%
VONB margin ⁽²⁾	63.7%	55.9%	7.8 pps
ANP	120	108	11%
TWPI	745	683	9%
Operating profit after tax	104	72	44%

The consistent execution of our Premier Agency strategy in China has produced excellent financial results in the first half of 2013 with a combination of profitable new business growth and a substantial increase in IFRS operating profit. The professional standards of advice and the high-quality products offered to our Chinese customers enable them to put in place the life insurance cover and regular savings they need to protect themselves and their families, and this makes AIA well-placed to deliver sustained profitable growth in this significant market.

VONB

VONB grew by 27 per cent compared with the first half of 2012 to US\$76 million. VONB margin increased by 7.8 pps to 63.7 per cent as we continued to improve the quality of our product mix and ANP grew by 11 per cent principally as a result of a higher number of active agents compared with the first half of 2012.

Distribution

Our Premier Agency strategy in China is built on our relentless focus on quality and professionalism. In the first half of 2013, we continued to implement our training and development programmes for agency leaders to drive recruitment of our next generation of Premier Agents. As a result, the number of active new agents grew by over 30 per cent compared with the first half of 2012.

New agents are managed proactively towards either building a business as an agency leader or becoming a Premier Agent. We provide our agents with the skills to enable them to offer professional advice to our customers and grow their incomes aligned with the interests of our customers and AIA. As a result of our initiatives, the quality growth in our agency force continued with strong increase in the number of active agents, an improved product mix and higher productivity levels compared with the first half of 2012.

While agency remained our major distribution channel in China, our bancassurance business has also made good progress as we concentrated on the sales of long-term, regular premium products through our foreign and domestic bank partners. Profitability has improved as a result of an improved mix of higher sales of regular premium business and lower volumes of less profitable single premium products.

Products and Customers

AIA has successfully positioned itself as a leader in the provision of comprehensive protection insurance products in China. Through a series of new product campaigns and effective sales promotions, we have increased ANP from protection products by more than 20 per cent compared with the first half of 2012.

Our increased use of customer segmentation data has enabled us to offer a wider range of protection and regular savings products and broaden our market coverage while meeting customers' need for protection cover. In the first half of 2013, we improved the features of our flagship protection products by launching an enhanced version of our All-in-One product and introducing an advanced version of Double Protection Plan, a regular premium unit-linked product with high protection content.

Operating Profit after Tax

Operating profit after tax increased by 44 per cent to US\$104 million. The strong increase compared with the first half of 2012 was mainly a result of healthy growth in the underlying business, increased investment income and effective expense management.

KOREA

US\$ millions, unless otherwise stated	Six months ended	Six months ended	YoY
	31 May 2013	31 May 2012 ⁽³⁾	
VONB ⁽¹⁾	45	33	36%
VONB margin ⁽²⁾	24.9%	32.0%	(7.1) pps
ANP	182	104	75%
TWPI	1,027	967	6%
Operating profit after tax	78	66	18%

The ongoing structural changes we are making to our Korean operation have delivered solid results in the first half of 2013 and we are committed to delivering quality growth in this market. The repositioning of our agency channel, which began in 2011, was the first step in establishing our Premier Agency growth platform in Korea and we have made good progress. The transformation of our direct marketing channel has also begun to show positive early signs.

VONB

VONB increased by 36 per cent compared with the first half of 2012 to US\$45 million. ANP grew by 75 per cent as a direct result of substantial improvements in agency productivity and strong growth in the number of active agents. This was accompanied by a solid performance in our direct marketing channel with the launch of a new simplified protection product range and targeted sales through selective bancassurance partners preceding a change in Korean tax law. The change in VONB margin was mainly caused by a shift in distribution mix due to higher sales from our agency channel compared with our higher-margin direct marketing business that is more heavily weighted towards protection product sales.

Distribution

We have made meaningful progress in the roll-out of our Premier Agency strategy in Korea, building on the solid foundations put in place over the previous two years. Our focus on targeted recruitment and enhanced training to produce quality agents that fit with AIA's Premier Agency culture has driven an increase in the number of active agents of over 30 per cent compared with the first half of 2012. In addition, we have also taken steps to improve the infrastructure supporting our agents through improved training and stricter discipline around contract maintenance. This led to an increase in agency productivity of over 30 per cent demonstrating our focus on improving the quality and sustainability of our agency growth.

The results in the first half of 2013 have provided early validation that the right steps are being taken to build an improved direct marketing channel capable of delivering sustainable growth. Those steps included new recruitment campaigns to attract quality telesales representatives (TSRs) and the opening of four new call centres in 2012. We have increased the number of TSRs by 30 per cent compared with the first half of 2012 and continued to make further changes to our training and development programmes to bring newly-recruited TSRs up to the required levels of productivity and improve retention levels. The ongoing restructuring of our direct marketing channel in Korea, including upgrading systems and processes in order to develop a best-in-class sales distribution platform, remains a priority.

Products and Customers

AIA launched a new simplified protection product range in our direct marketing channel in the first half of 2013, aligned with our aim of expanding the breadth of protection solutions available for Korean customers. Our distribution and product transformation has been strongly supported by marketing campaigns aimed at increasing awareness of the protection needs in the market, including our highly successful digital campaign "Irreplaceable" which illustrates what it would be like for a boy to have to fill his father's shoes and take on the responsibility for providing for his family.

Operating Profit after Tax

Operating profit after tax increased by 18 per cent to US\$78 million compared with the first half of 2012 mainly from positive business growth and the release of a provision that was no longer required.

OTHER MARKETS

US\$ millions, unless otherwise stated	Six months ended 31 May 2013	Six months ended 31 May 2012 ⁽³⁾	YoY
VONB ⁽¹⁾	112	67	67%
VONB margin ⁽²⁾	33.3%	25.9%	7.4 pps
ANP	335	260	29%
TWPI	1,358	1,159	17%
Operating profit after tax	133	98	36%

Other Markets refers to AIA's operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan, New Zealand and Sri Lanka. Our 26 per cent share of the financial results from our joint venture in India is included in operating profit on an equity accounted basis.

VONB

Our Other Markets delivered excellent results with VONB growth of 67 per cent to US\$112 million compared with the first half of 2012. ANP grew by 29 per cent to US\$335 million and the strong increase in new business sales was accompanied by further VONB margin expansion of 7.4 pps to 33.3 per cent. The results were driven by strong performances across our businesses.

Business Unit Performance

Australia: AIA's Australian business produced excellent results once again as our retail IFA operation built on the strong momentum achieved in 2012. Our Premier IFA model has been a key driver of our new business growth by providing best-in-class service to advisers while launching competitive retail products that strengthen our position as an independent risk specialist. Our successful targeting of the individual protection market to help address the significant protection gap in Australia, together with the strong adviser relationships we have developed, resulted in positive improvements in product mix, which in turn improved VONB margin and helped AIA achieve a top three position in the retail IFA market.

Indonesia: Our multi-channel distribution strategy in Indonesia has delivered excellent growth in VONB compared with the first half of 2012. Agency VONB growth benefited from higher margins and an ongoing positive shift in product mix as a result of the successful launch of our next generation unit-linked product last year. We also focused on increasing customer awareness of the need for protection coverage with the launch of additional health rider benefits. Our bancassurance channel recorded excellent VONB growth from an improved product mix and strong new business sales through an increased number of active in-branch insurance specialists of 30 per cent.

Philippines: AIA is the market leader in the Philippines. We have delivered VONB of more than twice the amount reported in the first half of 2012 in each of our agency and bancassurance channels. AIA's Premier Agency strategy has made great progress with the introduction of new recruitment processes and a substantial improvement in agency productivity compared with the first half of 2012. We launched a new activity management system in our bancassurance joint venture with the Bank of the Philippine Islands (BPI) to guide and monitor daily sales activities and provide more frequent reporting on leads and conversion rates. We also revamped our training programme for bank staff to improve the rate of lead generation and referrals. The improvements in agency and bancassurance productivity and activity levels, combined with the roll-out of our next generation unit-linked products generated strong ANP growth and healthy margin expansion.

New Zealand: AIA's New Zealand business has benefited from its strategy of building stronger relationships with IFAs leading to good growth in VONB compared with the first half of 2012. The delivery of a targeted service model based on adviser segmentation to lower expenses and improve productivity and a revamped core product portfolio to significantly improve margins have led to solid VONB growth through the IFA channel.

Sri Lanka: AIA entered its 16th market with the acquisition of a 92 per cent stake (further increased to 97 per cent in April 2013) in Aviva NDB Insurance (ANI). The acquisition completed in December 2012 and the re-branding to AIA was finalised in March 2013. The acquisition made AIA the second largest insurance company in Sri Lanka, a country with an attractive combination of low insurance penetration levels and a strong economic growth outlook. Our high-quality agency force is our main distribution channel and we have grown the number of active agents with 17 new branch locations added and a 48 per cent increase in the number of active new agents recruited compared with the first half of 2012. We launched a range of new products in May 2013 with built-in protection benefits and we continued to build out our bancassurance model with our exclusive partner National Development Bank (NDB), one of Sri Lanka's largest financial conglomerates.

Taiwan: Our Taiwanese operation continued the development of its Premier Agency operating model in the first half of 2013 with the aim of producing a highly profitable modern agency channel that uses technology, through our state-of-the-art iPoS system, to boost productivity and improve the customer experience. We have grown the number of active agents in the first half of 2013 as we focused on targeted recruitment and increased the activity and productivity levels of our existing agents. We launched an enhanced version of our next generation unit-linked products in Taiwan in May 2013.

Vietnam: Our Vietnamese business produced strong VONB growth compared with the first half of 2012. New training courses designed to shorten the length of time to Premier Agent status and the introduction of LIMRA profiling to improve the effectiveness of our recruitment practices have produced substantial improvements in productivity and driven higher ANP. We expanded our product range by launching a new hospital benefit rider plan and a regular savings participating product to meet the rapidly-growing regular savings and protection needs of our customers in Vietnam, while continuing to reprice lower-margin business.

Operating Profit after Tax

Operating profit after tax increased significantly by 36 per cent to US\$133 million mainly due to strong business growth and improved margins in the Philippines and Indonesia.

Notes:

Throughout the Distribution section:

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

Throughout the Geographical Markets section:

- (1) VONB figures shown in the tables are based on local statutory reserving and capital requirements and include pension business.
- (2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.
- (3) Certain segmental reclassifications have been made in the prior period VONB, VONB margin and operating profit after tax results to conform to current period presentation. The reclassification has no impact on the total VONB, VONB margin and operating profit after tax of the Group for the six months ended 31 May 2012.

RISK MANAGEMENT

There have been no material changes during the six months ended 31 May 2013 in the way that risk is managed and governed within the Group.

For further information on Risk Management, please refer to pages 54 to 61 and notes 35 and 36 to the financial statements on pages 184 to 195 of our Annual Report 2012.

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 31 May 2013, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code except for the Code Provision F.1.3. Code Provision F.1.3 provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Group Company Secretary reports to the Group General Counsel who is ultimately accountable for the Company Secretarial function and who in turn reports directly to the Group Chief Executive.

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All of the Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and the Directors' and Chief Executives' Dealing Policy throughout the six months ended 31 May 2013.

UPDATED INFORMATION OF DIRECTORS

Changes in the Directors' information since 30 November 2012 are set out below:

Name of Director	Change
Mr. Edmund Sze-Wing Tse <i>Non-executive Chairman and Non-executive Director</i>	Appointed as a member of the Audit Committee with effect from 25 February 2013. Pursuant to the service contract in place for all directors, as determined by the Remuneration Committee, each director who serves on the Audit Committee receives an additional fee of US\$25,000.
Dr. Qin Xiao <i>Independent Non-executive Director</i>	Ceased to be a member of the Audit Committee with effect from 25 February 2013, with annual director's fee revised to US\$185,000.
Mr. Barry Chun-Yuen Cheung <i>Independent Non-executive Director</i>	Resigned as Independent Non-executive Director of the Company with effect from 25 May 2013 and ceased to be a member of the Audit Committee, Remuneration Committee and Nomination Committee upon his resignation.

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

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

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 31 May 2013, the following are the persons, other than the Directors or Chief Executive of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of Shareholder	Number of shares or underlying shares (Note 5)	Class	Percentage of the total number of shares in issue	Capacity
	Long Position (L) Short Position (S) Lending Pool (P)		Long Position (L) Short Position (S) Lending Pool (P)	
JPMorgan Chase & Co.	1,298,956,453(L) 19,322,919(S) 794,001,037(P)	Ordinary	10.79(L) 0.16(S) 6.59(P)	Note 1
Citigroup Inc.	1,083,128,432(L) 6,083,940(S) 3,703,592(P)	Ordinary	8.99(L) 0.05(S) 0.03(P)	Note 2
Citigroup Financial Products Inc.	1,074,197,000(L) 856,100(S)	Ordinary	8.92(L) 0.01(S)	Note 3
Citigroup Global Markets Holdings Inc.	1,074,197,000(L) 856,100(S)	Ordinary	8.92(L) 0.01(S)	Note 3
Citigroup Global Markets (International) Finance AG	1,074,077,000(L) 856,100(S)	Ordinary	8.92(L) 0.01(S)	Note 4
Citigroup Global Markets Asia Limited	1,054,334,400(L)	Ordinary	8.75(L)	Interest of controlled corporation
Citigroup Global Markets Hong Kong Holdings Limited	1,054,334,400(L)	Ordinary	8.75(L)	Interest of controlled corporation
Citigroup Global Markets Overseas Finance Limited	1,054,334,400(L)	Ordinary	8.75(L)	Interest of controlled corporation
The Capital Group Companies, Inc.	842,652,017(L)	Ordinary	6.99(L)	Interest of controlled corporation
BlackRock, Inc.	727,156,770(L) 4,177,000(S)	Ordinary	6.03(L) 0.03(S)	Interest of controlled corporation
Aberdeen Asset Management Plc	602,437,100(L)	Ordinary	5.00(L)	Investment manager

Notes:

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

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

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

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

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

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

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

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

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

Name of Shareholder	Long position				Short position			
	Physically settled equity listed derivatives	Cash settled equity listed derivatives	Physically settled equity unlisted derivatives	Cash settled equity unlisted derivatives	Physically settled equity listed derivatives	Cash settled equity listed derivatives	Physically settled equity unlisted derivatives	Cash settled equity unlisted derivatives
JPMorgan Chase & Co.	3,694,000	–	8,923,628	390,000	2,925,000	2,765,600	8,986,719	2,000,000
Citigroup Inc.	–	–	1,059,562,240	–	–	–	5,227,840	–
Citigroup Financial Products Inc.	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Holdings Inc.	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets (International) Finance AG	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Asia Limited	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Hong Kong Holdings Limited	–	–	1,054,334,400	–	–	–	–	–
Citigroup Global Markets Overseas Finance Limited	–	–	1,054,334,400	–	–	–	–	–
The Capital Group Companies, Inc.	27,096	–	–	–	–	–	–	–
BlackRock, Inc.	–	2,481,000	–	–	3,676,000	–	–	–

Save as disclosed above, as at 31 May 2013, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section “Directors’ and Chief Executive’s Interests and Short Positions in Shares and Underlying Shares” below, holds any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

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

As of 31 May 2013, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO, or as otherwise notified to the Company pursuant to the Model Code, are as follows:

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

Name of Director	Number of shares or underlying shares	Class	Percentage of the total number of shares in issue	Capacity
Mr. Mark Edward Tucker	15,338,938(L) ⁽¹⁾	Ordinary	0.13	Beneficial owner
Mr. Edmund Sze-Wing Tse	3,560,400(L) ⁽²⁾	Ordinary	0.03	Interest of controlled corporation
Mr. Chung-Kong Chow	86,000(L) ⁽²⁾	Ordinary	< 0.01	Beneficial owner

Notes:

(1) The interests include 704,814 shares of the Company, 8,903,570 share options under the Share Option Scheme, 5,727,077 restricted share units under the Restricted Share Unit Scheme and 3,477 matching restricted stock purchase units under the Employee Share Purchase Plan.

(2) The interests are ordinary shares of the Company.

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

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

Save as disclosed above, as at 31 May 2013, none of the Directors or Chief Executive of the Company holds any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO, or as otherwise notified to the Company pursuant to the Model Code.

PURCHASE, SALE AND REDEMPTION OF THE SECURITIES OF THE COMPANY

Save for the purchase of 20,850,243 shares of the Company under the Restricted Share Unit Scheme and the Employee Share Purchase Plan at a total consideration of approximately US\$85 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 May 2013. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

SHARE-BASED COMPENSATION

Long-term Incentive (LTI) Plans

APPROVED AIA LTI PLANS

The Company adopted the Restricted Share Unit Scheme and the Share Option Scheme on 28 September 2010. For further information on these schemes, please refer to pages 96 to 99 of the Company's Annual Report 2012.

Under these schemes, which have a life of 10 years from the date of adoption, the Company may award restricted share units and/or share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.

RESTRICTED SHARE UNIT SCHEME

During the six months ended 31 May 2013, 20,304,675 restricted share units were awarded by the Company under the Restricted Share Unit Scheme.

Movements in restricted share unit awards are summarised below:

Executive Director, Key Management Personnel, and other eligible employees	Date of grant (day/month/year) ⁽¹⁾	Vesting date(s) (day/month/year)	Restricted share units outstanding as at 1 December 2012	Restricted share units awarded during the six months ended 31 May 2013	Restricted share units vested during the six months ended 31 May 2013	Restricted share units cancelled/lapsed during the six months ended 31 May 2013 ⁽⁷⁾	Restricted share units outstanding as at 31 May 2013
Executive Director	1/6/2011	See note ⁽²⁾	738,066	–	–	–	738,066
Mr. Mark Edward Tucker	1/6/2011	1/4/2014 ⁽³⁾	1,433,149	–	–	–	1,433,149
	1/6/2011	See note ⁽⁴⁾	806,147	–	–	–	806,147
	15/3/2012	15/3/2015 ⁽³⁾	1,434,842	–	–	–	1,434,842
	11/3/2013	11/3/2016 ⁽³⁾	–	1,314,873	–	–	1,314,873
Key Management Personnel (excluding Executive Director)	1/6/2011	1/4/2014 ⁽³⁾	2,958,575	–	–	391,672	2,566,903
	1/6/2011	See note ⁽⁴⁾	5,246,778	–	–	809,315	4,437,463
	15/3/2012	15/3/2015 ⁽³⁾	2,645,704	–	–	386,654	2,259,050
	11/3/2013	11/3/2016 ⁽³⁾	–	2,399,244	–	344,004	2,055,240
Other eligible employees	1/6/2011	See note ⁽⁴⁾	1,989,145	–	–	71,214	1,917,931
	1/6/2011	See note ⁽⁵⁾	31,079	–	31,079	–	–
	1/6/2011	1/4/2014 ⁽³⁾	14,371,638	–	10,126	1,331,780	13,029,732
	18/10/2011	1/8/2014 ⁽³⁾	146,193	–	–	–	146,193
	18/10/2011	18/10/2014 ⁽³⁾	1,031,469	–	–	–	1,031,469
	18/10/2011	18/10/2014 ⁽⁶⁾	59,581	–	–	–	59,581
	15/3/2012	15/3/2015 ⁽³⁾	17,257,770	–	6,456	1,206,315	16,044,999
	15/3/2012	15/3/2015 ⁽⁶⁾	81,831	–	–	–	81,831
	6/9/2012	6/9/2015 ⁽³⁾	218,664	–	–	–	218,664
	11/3/2013	11/3/2016 ⁽³⁾	–	16,590,558	–	207,076	16,383,482

Notes:

- (1) The measurement dates for awards made in 2011 were determined to be 15 June 2011 and 2 November 2011. The measurement dates for awards made in 2012 were determined to be 15 March 2012 and 6 September 2012. The measurement date for awards made in the first half of 2013 was determined to be 11 March 2013. The measurement dates were determined in accordance with IFRS 2.
- (2) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). 25 per cent of the restricted share units (246,021 restricted share units) vested on 1 June 2012; 25 per cent (246,021 restricted share units) vested on 1 June 2013; and 50 per cent vest on 1 June 2014.
- (3) The vesting of these restricted share units is subject to the achievement of performance conditions shown on page 98 of the Company's Annual Report 2012.
- (4) The vesting of these restricted share units is service-based only. One-third of restricted share units vest on 1 April 2014; one-third vest on 1 April 2015; and one-third vest on 1 April 2016.
- (5) The vesting of these restricted share units is service-based only. 48,812 restricted share units vested on 1 April 2012; 71,847 restricted share units vested on 1 August 2012; and the remaining 31,079 restricted share units vested on 1 April 2013.
- (6) The vesting of these restricted share units is service-based only.
- (7) These restricted share units lapsed during the six months ended 31 May 2013. There are no cancelled restricted share units during this period.

SHARE OPTION SCHEME

During the six months ended 31 May 2013, 7,490,459 share options were awarded by the Company under the Share Option Scheme. No share options have been awarded to substantial shareholders, or in excess of the individual limit. Details of the valuation of the share options are set out in note 23 to the interim financial statements.

Movements in share option awards are summarised below:

Executive Director, Key Management Personnel, and other eligible employees	Date of grant (day/ month/ year) ⁽¹⁾	Period during which share options exercisable (day/month/year)	Share options outstanding as at 1 December 2012	Share options awarded during the six months ended 31 May 2013	Share options vested during the six months ended 31 May 2013	Share options cancelled/ lapsed during the six months ended 31 May 2013 ⁽⁶⁾	Share options exercised during the six months ended 31 May 2013	Exercise price (HK\$)	Share options outstanding as at 31 May 2013	Closing price of shares immediately before the date on which share options were awarded (HK\$)
Executive Director Mr. Mark Edward Tucker	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	2,149,724	–	–	–	–	27.35	2,149,724	27.45
	1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	2,418,439	–	–	–	–	27.35	2,418,439	27.45
	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	2,152,263	–	–	–	–	28.40	2,152,263	27.95
	11/3/2013	11/3/2016 – 10/3/2023 ⁽⁵⁾	–	2,183,144	–	–	–	34.35	2,183,144	33.80
Key Management Personnel (excluding Executive Director)	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	4,437,861	–	–	587,508	–	27.35	3,850,353	27.45
	1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	6,831,120	–	–	1,057,515	–	27.35	5,773,605	27.45
	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	3,968,554	–	–	579,981	–	28.40	3,388,573	27.95
	11/3/2013	11/3/2016 – 10/3/2023 ⁽⁵⁾	–	3,983,573	–	571,165	–	34.35	3,412,408	33.80
Other eligible employees	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	1,462,698	–	–	163,851	–	27.35	1,298,847	27.45
	1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	3,055,048	–	–	213,640	–	27.35	2,841,408	27.45
	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	1,695,550	–	–	143,558	–	28.40	1,551,992	27.95
	11/3/2013	11/3/2016 – 10/3/2023 ⁽⁵⁾	–	1,323,742	–	–	–	34.35	1,323,742	33.80

Notes:

- (1) The measurement date for awards made in 2011 was determined to be 15 June 2011. The measurement date for awards made in 2012 was determined to be 15 March 2012. The measurement date for awards made in the first half of 2013 was determined to be 11 March 2013. The measurement dates were determined in accordance with IFRS 2.
- (2) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 1 April 2014.
- (3) The vesting of share options is service-based only and has no further performance conditions. One-third of share options vest on 1 April 2014; one-third vest on 1 April 2015; and one-third vest on 1 April 2016.
- (4) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 15 March 2015.
- (5) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 11 March 2016.
- (6) These options lapsed during the six months ended 31 May 2013. There are no cancelled options during this period.

Employee Share Purchase Plan

For information on Employee Share Purchase Plan, please refer to page 101 of the Company's Annual Report 2012.

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 41 to 85, which comprises the interim consolidated statement of financial position of AIA Group Limited (the Company) and its subsidiaries (together, “the Group”) as at 31 May 2013 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (HKAS 34) issued by the Hong Kong Institute of Certified Public Accountants or International Accounting Standard 34 “Interim Financial Reporting” (IAS 34) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34 and IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
26 July 2013

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INTERIM CONSOLIDATED INCOME STATEMENT

US\$m	Notes	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Revenue			
<i>Turnover</i>			
Premiums and fee income		7,764	6,543
Premiums ceded to reinsurers		(461)	(364)
Net premiums and fee income		7,303	6,179
Investment return	8	4,650	2,711
Other operating revenue		73	63
Total revenue		12,026	8,953
Expenses			
Insurance and investment contract benefits		8,042	5,953
Insurance and investment contract benefits ceded		(377)	(322)
Net insurance and investment contract benefits		7,665	5,631
Commission and other acquisition expenses		934	808
Operating expenses		758	634
Restructuring and other non-operating costs		27	9
Investment management expenses		130	120
Finance costs		35	5
Change in third-party interests in consolidated investment funds		14	(23)
Total expenses	9	9,563	7,184
Profit before share of profit from associates		2,463	1,769
Share of profit from associates		8	11
Profit before tax		2,471	1,780
Income tax expense attributable to policyholders' returns		(48)	(62)
Profit before tax attributable to shareholders' profits		2,423	1,718
Tax expense	10	(528)	(332)
Tax attributable to policyholders' returns		48	62
Tax expense attributable to shareholders' profits		(480)	(270)
Net profit		1,943	1,448
<i>Net profit attributable to:</i>			
Shareholders of AIA Group Limited		1,934	1,444
Non-controlling interests		9	4
Earnings per share (US\$)			
Basic	11	0.16	0.12
Diluted	11	0.16	0.12
Dividends payable to shareholders of the Company attributable to the interim period:			
US\$m			
Interim dividend declared after the reporting period of 13.93 Hong Kong cents per share (six months ended 31 May 2012: 12.33 Hong Kong cents per share)			
	12	215	190

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
US\$m		
Net profit	1,943	1,448
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on available for sale financial assets (net of tax of: six months ended 31 May 2013: US\$20m; six months ended 31 May 2012: US\$9m)	(838)	844
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: six months ended 31 May 2013: US\$2m; six months ended 31 May 2012: US\$2m)	(26)	(25)
Foreign currency translation adjustments	(156)	(151)
Share of other comprehensive income/(expense) from associates	7	(3)
Subtotal	(1,013)	665
Total comprehensive income	930	2,113
<i>Total comprehensive income attributable to:</i>		
Shareholders of AIA Group Limited	910	2,103
Non-controlling interests	20	10

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	Notes	As at 31 May 2013 (Unaudited)	As at 30 November 2012
Assets			
Intangible assets	13	1,309	272
Investments in associates		109	91
Property, plant and equipment		457	412
Investment property		1,152	1,035
Reinsurance assets		1,272	1,153
Deferred acquisition and origination costs		15,079	14,161
Financial investments:	14, 16		
Loans and deposits		7,415	6,425
Available for sale			
Debt securities		65,023	62,268
At fair value through profit or loss			
Debt securities		21,469	18,594
Equity securities		27,754	23,656
Derivative financial instruments	15	572	638
		<u>122,233</u>	<u>111,581</u>
Deferred tax assets		7	5
Current tax recoverable		77	46
Other assets		3,195	2,735
Cash and cash equivalents	17	2,036	2,948
Total assets		<u>146,926</u>	<u>134,439</u>
Liabilities			
Insurance contract liabilities		100,185	90,574
Investment contract liabilities		8,845	8,865
Borrowings	18	2,199	766
Obligations under securities lending and repurchase agreements	19	2,334	1,792
Derivative financial instruments	15	60	41
Provisions		161	204
Deferred tax liabilities		2,699	2,229
Current tax liabilities		321	328
Other liabilities		2,801	2,812
Total liabilities		<u>119,605</u>	<u>107,611</u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	Notes	As at 31 May 2013 (Unaudited)	As at 30 November 2012
Equity			
Issued share capital	20	12,044	12,044
Share premium	20	1,914	1,914
Employee share-based trusts	20	(273)	(188)
Other reserves	20	(12,033)	(12,060)
Retained earnings		19,397	17,843
Fair value reserve	20	5,114	5,979
Foreign currency translation reserve	20	1,009	1,165
Amounts reflected in other comprehensive income		6,123	7,144
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited		27,172	26,697
Non-controlling interests		149	131
Total equity		27,321	26,828
Total liabilities and equity		146,926	134,439

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Notes	Issued share capital and share premium	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Non-controlling interests	Total equity
Balance at 1 December 2011		13,958	(105)	(12,101)	15,354	3,414	793	102	21,415
Net profit		-	-	-	1,444	-	-	4	1,448
Fair value gains on available for sale financial assets		-	-	-	-	838	-	6	844
Fair value gains on available for sale financial assets transferred to income on disposal		-	-	-	-	(25)	-	-	(25)
Foreign currency translation adjustments		-	-	-	-	-	(151)	-	(151)
Share of other comprehensive income/(expense) from associates		-	-	-	-	1	(4)	-	(3)
Total comprehensive income/(expense) for the period		-	-	-	1,444	814	(155)	10	2,113
Dividends	12	-	-	-	(339)	-	-	(1)	(340)
Share-based compensation		-	-	17	-	-	-	-	17
Purchase of shares held by employee share-based trusts		-	(82)	-	-	-	-	-	(82)
Balance at 31 May 2012									
– Unaudited		<u>13,958</u>	<u>(187)</u>	<u>(12,084)</u>	<u>16,459</u>	<u>4,228</u>	<u>638</u>	<u>111</u>	<u>23,123</u>
Balance at 1 December 2012		13,958	(188)	(12,060)	17,843	5,979	1,165	131	26,828
Net profit		-	-	-	1,934	-	-	9	1,943
Fair value (losses)/gains on available for sale financial assets		-	-	-	-	(852)	-	14	(838)
Fair value gains on available for sale financial assets transferred to income on disposal		-	-	-	-	(26)	-	-	(26)
Foreign currency translation adjustments		-	-	-	-	-	(153)	(3)	(156)
Share of other comprehensive income/(expense) from associates		-	-	-	-	10	(3)	-	7
Total comprehensive income/(expense) for the period		-	-	-	1,934	(868)	(156)	20	930
Dividends	12	-	-	-	(380)	-	-	(2)	(382)
Acquisition of subsidiaries		-	-	-	-	-	-	16	16
Acquisition of non-controlling interests		-	-	(8)	-	3	-	(16)	(21)
Share-based compensation		-	-	37	-	-	-	-	37
Purchase of shares held by employee share-based trusts		-	(85)	-	-	-	-	-	(85)
Others		-	-	(2)	-	-	-	-	(2)
Balance at 31 May 2013									
– Unaudited		<u>13,958</u>	<u>(273)</u>	<u>(12,033)</u>	<u>19,397</u>	<u>5,114</u>	<u>1,009</u>	<u>149</u>	<u>27,321</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flows presented in this statement cover all the Group's activities and include flows from unit-linked contracts, participating funds, and other policyholder and shareholder activities.

US\$m	Notes	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Cash flows from operating activities			
Profit before tax		2,471	1,780
Adjustments for:			
Financial instruments		(7,173)	(5,355)
Insurance and investment contract liabilities		4,698	3,191
Obligations under securities lending and repurchase agreements		545	(38)
Other operating items		(108)	70
Tax paid		(160)	(218)
Net cash provided by/(used in) operating activities		273	(570)
Cash flows from investing activities			
Payments for intangible assets		(24)	(35)
Payments for investment property and property, plant and equipment		(61)	(189)
Payments for leasehold land		(289)	–
Acquisition of subsidiaries, net of cash acquired	4	(1,802)	–
Net cash used in investing activities		(2,176)	(224)
Cash flows from financing activities			
Dividends paid during the period		(382)	(340)
Purchase of shares held by employee share-based trusts		(85)	(82)
Issuance of medium term notes and drawdown of acquisition credit facility		2,719	–
Repayment of acquisition credit facility		(1,490)	–
Interest paid on medium term notes and acquisition credit facility		(10)	–
Proceeds from other borrowings		324	77
Repayment of other borrowings		(8)	(38)
Interest paid on other borrowings		(22)	–
Acquisition of non-controlling interests		(21)	–
Net cash provided by/(used in) financing activities		1,025	(383)
Net decrease in cash and cash equivalents		(878)	(1,177)
Cash and cash equivalents at beginning of the financial period		2,948	4,303
Effect of exchange rate changes on cash and cash equivalents		(34)	(16)
Cash and cash equivalents at end of the financial period	17	2,036	3,110

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

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

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

2. Basis of preparation and statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting. Hong Kong Financial Reporting Standards (HKFRS) is substantially consistent with International Financial Reporting Standards (IFRS) and the accounting policy selections that the Group has made in preparing these interim condensed consolidated financial statements are such that the Group is able to comply with both IFRS and HKFRS. References to IFRS, IAS and Interpretation developed by the IFRS Interpretations Committee (IFRIC) in these interim condensed consolidated financial statements should be read as referring to the equivalent HKFRS, HKAS and Hong Kong (IFRIC) Interpretations (HK (IFRIC) – Int) as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting these interim condensed consolidated financial statements. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 November 2012.

The accounting policies adopted are consistent with those of the previous financial year, except as described below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

- (a) The following amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 December 2012 and have no material impact for the Group:
- Amendment to IAS 1, Presentation of Items of Other Comprehensive Income; and
 - Amendments to IAS 12, Income Taxes, Recovery of underlying assets.

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

(b) The following new standards, interpretation and amendments to standards have been issued but are not effective for the financial year ending 30 November 2013 and have not been early adopted (the financial years for which the adoption is planned and required are stated in parenthesis). The Group is yet to assess the full impact of these new standards on its financial position and results of operations; however, 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:

- IFRS 11, Joint Arrangements (2014);
- IFRS 12, Disclosure of Interests in Other Entities (2014);
- IAS 27, Separate Financial Statements (as revised in 2011) (2014);
- IAS 28, Investments in Associates and Joint Ventures (as revised in 2011) (2014);
- IFRIC 21, Levies (2015);
- Amendments to IAS 1, Presentation of Financial Statements, Clarification of the requirements for comparative information (2014);
- Amendments to IAS 32, Financial Instruments: Presentation on offsetting financial assets and financial liabilities (2015);
- Amendments to IAS 32, Financial Instruments: Presentation, Tax effect of distributions to holders of equity instruments (2014);
- Amendments to IAS 34, Interim Financial Reporting, Interim financial reporting and segment information for total assets and liabilities (2014);
- Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets (2015);
- Amendments to IFRS 7, Financial Instruments: Disclosures on offsetting financial assets and financial liabilities (2014);
- Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (2014); and
- Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities (2015).

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

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year ending 30 November 2013 and have not been early adopted (the financial years for which the adoption is planned and required are stated in parenthesis). The Group is yet to assess the full impact of these new standards on its financial position and results of operations; however, they may have a material impact on the financial position or results of operations of the Group and require additional disclosures:

- IFRS 9, Financial Instruments (2016);
- IFRS 10, Consolidated Financial Statements (2014);
- IFRS 13, Fair Value Measurement (2014); and
- IAS 19, Employee Benefits (as revised in 2011) (2014).

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 2012 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with IFRS and HKFRS.

The interim condensed consolidated financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 40. 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 2012 that is included in the interim condensed consolidated financial statements as being previously reported information does not constitute the Group's statutory financial statements for this financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 February 2013.

The interim condensed consolidated financial statements have been approved for issue by the Board of Directors on 26 July 2013.

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

3. Exchange rates

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

	US dollar exchange rates		
	Six months ended	Year ended	Six months ended
	31 May 2013	30 November 2012	31 May 2012
	(Unaudited)		(Unaudited)
Hong Kong	7.76	7.76	7.76
Thailand	29.81	31.12	31.05
Singapore	1.24	1.26	1.27
Malaysia	3.06	3.10	3.08
China	6.20	6.32	6.32
Korea	1,094.09	1,132.50	1,139.11

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

	US dollar exchange rates		
	As at	As at	As at
	31 May 2013	30 November 2012	31 May 2012
	(Unaudited)		(Unaudited)
Hong Kong	7.76	7.75	7.76
Thailand	30.20	30.68	31.89
Singapore	1.26	1.22	1.29
Malaysia	3.08	3.04	3.18
China	6.13	6.23	6.37
Korea	1,129.40	1,082.25	1,180.64

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

4. Changes in Group Composition

This note provides details of the acquisitions of subsidiaries that the Group has made during the six months ended 31 May 2013.

ACQUISITIONS

On 5 December 2012, the Group completed the acquisition of 92.3 per cent of the issued share capital in Sri Lankan insurer Aviva NDB Insurance (ANI). In addition, ANI has entered into an exclusive 20-year bancassurance agreement with the National Development Bank in Sri Lanka. The acquisition positions the Group to develop a significant operation in the expanding Sri Lankan market. The price, including purchase price adjustment, with respect to the transaction of US\$111 million was paid from existing cash resources.

In April 2013, the Group acquired a further 4.9 per cent of the share capital of ANI from the remaining shareholders by way of a voluntary offering for an aggregate price of US\$4 million.

On 18 December 2012, the Group acquired 100 per cent of share capital of ING Management Holdings (Malaysia) Sdn. Bhd. (ING Malaysia). ING Malaysia was the third largest life insurer in Malaysia based upon gross premiums earned for the year ended 31 December 2011. The acquisition presents the Group with a high calibre distribution force of over 9,000 agents and a long-term bancassurance partnership with a leading Malaysian banking group, Public Bank. The price with respect to this transaction was EUR1,332 million or US\$1,754 million at exchange rates on the date of the transaction, and was paid from cash financed initially through an acquisition credit facility which was subsequently largely repaid with a combination of internal cash resources and medium term notes. The Group utilised a foreign currency forward contract to economically hedge the purchase price.

4. Changes in Group Composition (continued)

The Group has the ability to exercise control over ANI and ING Malaysia through control of their voting rights. The Group incurred US\$17 million of acquisition-related costs which were recognised as “other non-operating costs” in the Group’s consolidated income statement for the six months ended 31 May 2013.

The fair values of the assets and liabilities acquired are provisional and not yet finalised as of 31 May 2013. The finalisation of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisitions. Details of the provisional fair value of the assets and liabilities acquired and the goodwill arising from the acquisition of ANI and ING Malaysia are set out as follows:

US\$m	Provisional fair values as at the date of acquisition
Intangible assets	51
Deferred acquisition costs (value of business acquired)	318
Property, plant and equipment	38
Investment property	115
Loans and deposits ⁽¹⁾	900
Investment securities	4,876
Other assets	245
Cash and cash equivalents	63
Insurance and investment contract liabilities	(5,371)
Deferred tax liabilities	(125)
Other liabilities	(224)
Total net assets acquired	886
Less: non-controlling interests	(16)
Net assets acquired	870
Total purchase price	
Goodwill arising on acquisition	995
Fair value of purchase price	1,865
Less: cash and cash equivalents in acquired subsidiaries	(63)
Net cash outflow	1,802

Note:

(1) Fair value approximates the gross contractual amount.

In March 2013, the Group acquired the remaining 30 per cent of the share capital of AIA AFG Takaful Bhd. from the remaining shareholder for an aggregate price of US\$14 million.

During the six months ended 31 May 2013, the Group acquired 0.22 per cent of the share capital of Philam Life from the remaining shareholders for an aggregate price of US\$3 million.

GOODWILL

The goodwill recognised is mainly attributable to the distribution strength and synergies and other benefits from combining ING Malaysia with the Group’s Malaysian business. The goodwill is not expected to be deductible for tax purposes.

IMPACT OF ACQUISITIONS ON THE RESULTS OF THE GROUP

As the acquired ING Malaysian business is in the process of being integrated into the Group’s Malaysian business, the post-acquisition stand-alone results of the acquired ING Malaysian business are not available.

The acquired ANI contributed revenue of US\$59 million and profit before tax of US\$3 million to the Group’s consolidated income statement for the six months ended 31 May 2013; the impact of the acquisition would not be materially different had the acquisitions been completed at the beginning of the reporting period.

5. Operating profit before tax

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

US\$m	Notes	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Operating profit before tax	7	1,564	1,309
Non-operating investment return:			
Investment experience		2,077	529
Investment income related to unit-linked contracts		108	93
Investment management expenses related to unit-linked contracts		(47)	(43)
Other investment management expenses		(8)	(15)
Corresponding changes in insurance and investment contract liabilities for unit-linked contracts		(966)	36
Corresponding changes in insurance contract liabilities for participating funds		(254)	(173)
Corresponding changes in third-party interests in consolidated investment funds		(14)	23
Non-operating investment return		896	450
Other non-operating items:			
Changes in insurance and investment contract liabilities for policyholders' tax on operating profit before tax		38	30
Restructuring and other non-operating costs ⁽¹⁾	9	(27)	(9)
Non-operating items		907	471
Profit before tax		2,471	1,780
Tax on operating profit before tax		(290)	(222)
Non-operating tax expense		(200)	(80)
Policyholders' tax on operating profit before tax		(38)	(30)
Tax expense		(528)	(332)
Net profit		1,943	1,448
<i>Net profit attributable to:</i>			
Shareholders of AIA Group Limited		1,934	1,444
Non-controlling interests		9	4
Operating profit before tax		1,564	1,309
Tax on operating profit before tax		(290)	(222)
Operating profit after tax		1,274	1,087
<i>Operating profit after tax attributable to:</i>			
Shareholders of AIA Group Limited		1,268	1,080
Non-controlling interests		6	7

Note:

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

6. Total weighted premium income and annualised new premium

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

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

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

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

	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
TWPI		
US\$m		
TWPI by geography		
Hong Kong	1,703	1,552
Thailand	1,616	1,460
Singapore	1,044	998
Malaysia	1,002	486
China	745	683
Korea	1,027	967
Other Markets	1,358	1,159
Total	8,495	7,305
First year premiums by geography		
Hong Kong	271	213
Thailand	238	218
Singapore	109	93
Malaysia	117	63
China	110	106
Korea	123	102
Other Markets	305	290
Total	1,273	1,085
Single premiums by geography		
Hong Kong	322	213
Thailand	157	79
Singapore	297	359
Malaysia	116	36
China	19	20
Korea	162	19
Other Markets	391	201
Total	1,464	927

6. Total weighted premium income and annualised new premium (continued)

	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
TWPI		
US\$m		
Renewal premiums by geography		
Hong Kong	1,400	1,317
Thailand	1,362	1,234
Singapore	905	869
Malaysia	873	420
China	633	575
Korea	888	863
Other Markets	1,014	849
Total	7,075	6,127
	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
ANP		
US\$m		
ANP by geography		
Hong Kong	326	243
Thailand	265	244
Singapore	147	152
Malaysia	152	76
China	120	108
Korea	182	104
Other Markets	335	260
Total	1,527	1,187

7. 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, pension and accident and health products to customers in its local market, and distributes related investment and other financial services products. The reportable segments, as required to be disclosed separately under IFRS 8, are Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, China, Korea, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan, New Zealand, Sri Lanka and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

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

- ANP;
- TWPI;
- investment income (excluding investment income in respect of unit-linked contracts);
- operating expenses;
- operating profit after tax attributable to shareholders of AIA Group Limited (see note 5);
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit before tax (see above) expressed as a percentage of TWPI; and
- operating return on allocated equity, measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests, fair value and foreign currency translation reserves, and adjusted for intercompany debt).

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.

7. Segment information (continued)

	Key markets							Group	
	Hong						Other	Corporate	
US\$m	Kong	Thailand	Singapore	Malaysia	China	Korea	Markets	Centre	Total
Six months ended 31 May 2013 – Unaudited									
ANP	326	265	147	152	120	182	335	–	1,527
TWPI	1,703	1,616	1,044	1,002	745	1,027	1,358	–	8,495
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	1,476	1,687	1,033	898	691	752	838	1	7,376
Investment income ⁽¹⁾	548	485	385	262	213	194	289	89	2,465
Total revenue	2,024	2,172	1,418	1,160	904	946	1,127	90	9,841
Net insurance and investment contract benefits ⁽²⁾	1,294	1,431	1,039	830	620	667	603	(1)	6,483
Commission and other acquisition expenses	167	284	85	73	67	105	153	–	934
Operating expenses	106	95	72	85	90	71	171	68	758
Investment management expenses and finance costs ⁽³⁾	27	22	7	9	10	2	16	17	110
Total expenses	1,594	1,832	1,203	997	787	845	943	84	8,285
Share of profit from associates	–	–	–	–	–	–	8	–	8
Operating profit before tax	430	340	215	163	117	101	192	6	1,564
Tax on operating profit before tax	(30)	(81)	(32)	(36)	(13)	(23)	(54)	(21)	(290)
Operating profit/(loss) after tax	400	259	183	127	104	78	138	(15)	1,274
Operating profit/(loss) after tax attributable to:									
Shareholders of AIA Group Limited	398	259	183	128	104	78	133	(15)	1,268
Non-controlling interests	2	–	–	(1)	–	–	5	–	6
Key operating ratios:									
Expense ratio	6.2%	5.9%	6.9%	8.5%	12.1%	6.9%	12.6%	–	8.9%
Operating margin	25.2%	21.0%	20.6%	16.3%	15.7%	9.8%	14.1%	–	18.4%
Operating return on allocated equity ⁽⁴⁾	21.2%	12.1%	20.8%	17.0%	19.0%	9.4%	13.2%	–	12.5%
Operating profit before tax includes:									
Finance costs	8	5	1	2	7	–	1	11	35
Depreciation and amortisation	5	6	6	8	4	3	14	8	54

Notes:

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

7. Segment information (continued)

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

	Key markets							Group	
US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate Centre	Total
Six months ended 31 May 2013 – Unaudited									
Operating profit before tax	430	340	215	163	117	101	192	6	1,564
Non-operating items	143	446	50	32	107	25	74	30	907
Profit before tax	573	786	265	195	224	126	266	36	2,471
Tax on operating profit before tax	(30)	(81)	(32)	(36)	(13)	(23)	(54)	(21)	(290)
Policyholders' tax on operating profit before tax	–	–	(24)	(12)	–	–	(2)	–	(38)
Non-operating tax expense	(7)	(133)	(4)	(3)	(27)	(7)	(12)	(7)	(200)
Tax expense	(37)	(214)	(60)	(51)	(40)	(30)	(68)	(28)	(528)
Net profit	536	572	205	144	184	96	198	8	1,943
Net profit attributable to:									
Shareholders of AIA Group Limited	534	572	205	145	184	96	190	8	1,934
Non-controlling interests	2	–	–	(1)	–	–	8	–	9

Allocated equity may be analysed as follows:

	Key markets							Group Corporate Centre ⁽⁵⁾	
US\$m	Hong Kong	Thailand ⁽⁵⁾	Singapore	Malaysia	China	Korea	Other Markets ⁽⁵⁾		Total
31 May 2013 – Unaudited									
Assets before investments in associates	33,423	25,616	27,495	16,206	11,388	11,649	15,198	5,842	146,817
Investments in associates	–	–	1	8	–	–	100	–	109
Total assets	33,423	25,616	27,496	16,214	11,388	11,649	15,298	5,842	146,926
Total liabilities⁽⁵⁾	27,584	19,898	25,023	13,686	10,046	9,636	11,322	2,410	119,605
Total equity	5,839	5,718	2,473	2,528	1,342	2,013	3,976	3,432	27,321
Non-controlling interests	13	–	–	10	–	–	126	–	149
Amounts reflected in other comprehensive income:									
Fair value reserve	2,108	773	309	40	5	434	1,590	(145)	5,114
Foreign currency translation reserve	(1)	534	312	77	150	(134)	57	14	1,009
Allocated equity	3,719	4,411	1,852	2,401	1,187	1,713	2,203	3,563	21,049
Net capital (out)/in flows	(616)	(282)	(25)	1,642	–	–	174	(1,331)	(438)

Note:

- (5) Group Corporate Centre segment, Thailand segment and Other Markets segment adjusted for intercompany debt provided to Thailand segment and Other Markets segment of US\$13m and US\$27m, respectively.

7. Segment information (continued)

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

US\$m	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Related changes in insurance and investment contract benefits		Third-party interests in consolidated investment funds	Other non-operating items	Interim consolidated income statement	
					Unit-linked contracts	Participating funds				
Six months ended 31 May 2013 – Unaudited										
Total revenue	9,841	2,077	108	-	-	-	-	-	12,026	Total revenue
Of which:										
Net premiums, fee income and other operating revenue	7,376	-	-	-	-	-	-	-	7,376	Net premiums, fee income and other operating revenue
Investment return	2,465	2,077	108	-	-	-	-	-	4,650	Investment return
Total expenses	8,285	-	-	47	966	254	14	(3)	9,563	Total expenses
Of which:										
Net insurance and investment contract benefits	6,483	-	-	-	966	254	-	(38)	7,665	Net insurance and investment contract benefits
Restructuring and other non-operating costs	-	-	-	-	-	-	-	27	27	Restructuring and other non-operating costs
Investment management expenses and finance costs	110	-	-	47	-	-	-	8	165	Investment management expenses and finance costs
Change in third-party interests in consolidated investment funds	-	-	-	-	-	-	14	-	14	Change in third-party interests in consolidated investment funds
Share of profit from associates	8	-	-	-	-	-	-	-	8	Share of profit from associates
Operating profit before tax	1,564	2,077	108	(47)	(966)	(254)	(14)	3	2,471	Profit before tax

Other non-operating items in 2013 consist of restructuring and other non-operating costs of US\$27m (see note 5).

7. Segment information (continued)

US\$m	Key markets						Other Markets	Group Corporate Centre	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
Six months ended 31 May 2012 – Unaudited									
ANP	243	244	152	76	108	104	260	–	1,187
TWPI	1,552	1,460	998	486	683	967	1,159	–	7,305
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	1,276	1,491	978	425	629	715	726	2	6,242
Investment income ⁽¹⁾	483	445	354	142	171	173	256	65	2,089
Total revenue	1,759	1,936	1,332	567	800	888	982	67	8,331
Net insurance and investment contract benefits ⁽²⁾	1,120	1,312	936	383	562	648	563	–	5,524
Commission and other acquisition expenses	137	216	114	47	56	96	142	–	808
Operating expenses	102	83	71	42	89	55	142	50	634
Investment management expenses and finance costs ⁽³⁾	14	17	10	2	5	2	14	3	67
Total expenses	1,373	1,628	1,131	474	712	801	861	53	7,033
Share of profit from associates	–	–	–	–	–	–	11	–	11
Operating profit before tax⁽⁴⁾	386	308	201	93	88	87	132	14	1,309
Tax on operating profit before tax	(26)	(71)	(27)	(20)	(16)	(21)	(29)	(12)	(222)
Operating profit after tax⁽⁴⁾	360	237	174	73	72	66	103	2	1,087
<i>Operating profit after tax attributable to:</i>									
Shareholders of AIA Group Limited	358	237	174	73	72	66	98	2	1,080
Non-controlling interests	2	–	–	–	–	–	5	–	7
Key operating ratios:									
Expense ratio	6.6%	5.7%	7.1%	8.6%	13.0%	5.7%	12.3%	–	8.7%
Operating margin	24.9%	21.1%	20.1%	19.1%	12.9%	9.0%	11.4%	–	17.9%
Operating return on allocated equity ⁽⁵⁾	18.6%	12.5%	25.6%	26.0%	17.1%	8.7%	12.2%	–	12.3%
Operating profit before tax includes:									
Finance costs	2	–	1	–	2	–	1	(1)	5
Depreciation and amortisation	4	5	5	4	5	3	10	7	43

Notes:

- (1) Excludes investment income related to unit-linked contracts.
- (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for unit-linked contracts and participating funds and investment income and investment management expenses related to unit-linked contracts. It also excludes policyholders' share of tax relating to the change in insurance and investment contract liabilities.
- (3) Excludes investment management expenses related to unit-linked contracts.
- (4) Certain segmental reclassifications have been made from Group Corporate Centre segment to key segments to conform to current period presentation. For the six months ended 31 May 2012, operating profit before and after tax of Thailand segment have been increased by US\$10m, Singapore segment have been increased by US\$6m, Malaysia segment have been increased by US\$5m and Group Corporate Centre segment have been decreased by US\$21m. The reclassification has no impact to the operating profit before and after tax, allocated equity and net capital outflow of the Group as of 31 May 2012.
- (5) Operating return on allocated equity has been annualised to facilitate comparison with prior periods.

7. Segment information (continued)

Operating profit before tax may be reconciled to net profit/(loss) as follows:

	Key markets						Group		
US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate Centre	Total
Six months ended 31 May 2012 – Unaudited									
Operating profit before tax	386	308	201	93	88	87	132	14	1,309
Non-operating items	(3)	359	97	24	(1)	(14)	35	(26)	471
Profit/(loss) before tax	383	667	298	117	87	73	167	(12)	1,780
Tax on operating profit before tax	(26)	(71)	(27)	(20)	(16)	(21)	(29)	(12)	(222)
Policyholders' tax on operating profit before tax	–	–	(21)	(7)	–	–	(2)	–	(30)
Non-operating tax expense	–	(22)	(18)	(9)	–	(12)	(16)	(3)	(80)
Tax expense	(26)	(93)	(66)	(36)	(16)	(33)	(47)	(15)	(332)
Net profit/(loss)	357	574	232	81	71	40	120	(27)	1,448
Net profit/(loss) attributable to:									
Shareholders of AIA Group Limited	355	574	232	81	71	40	118	(27)	1,444
Non-controlling interests	2	–	–	–	–	–	2	–	4

Allocated equity may be analysed as follows:

	Key markets						Other	Group	
US\$m	Hong Kong	Thailand ⁽⁶⁾	Singapore	Malaysia	China	Korea	Markets ⁽⁶⁾	Corporate Centre ⁽⁶⁾	Total
30 November 2012									
Assets before investments in associates	32,869	24,216	27,247	8,597	10,587	11,615	13,598	5,619	134,348
Investments in associates	–	–	1	8	–	–	82	–	91
Total assets	32,869	24,216	27,248	8,605	10,587	11,615	13,680	5,619	134,439
Total liabilities⁽⁶⁾	26,121	18,834	24,724	7,844	9,511	9,539	10,315	723	107,611
Total equity⁽⁷⁾	6,748	5,382	2,524	761	1,076	2,076	3,365	4,896	26,828
Non-controlling interests	11	–	–	9	–	–	107	4	131
Amounts reflected in other comprehensive income:									
Fair value reserve	2,936	798	463	42	(59)	524	1,274	1	5,979
Foreign currency translation reserve	–	463	389	96	132	(65)	145	5	1,165
Allocated equity	3,801	4,121	1,672	614	1,003	1,617	1,839	4,886	19,553
Net capital (out)/in flows	(1,104)	(503)	(23)	(98)	100	–	45	1,011	(572)

Notes:

- (6) Group Corporate Centre segment, Thailand segment and Other Markets segment adjusted for intercompany debt provided to Thailand segment and Other Markets segment of US\$13m and US\$29m, respectively.
- (7) Certain segmental reclassifications have been made from Group Corporate Centre segment to key segments to conform to current period presentation. As at 30 November 2012, total equity of Thailand segment has been increased by US\$19m, Singapore segment has been increased by US\$13m, Malaysia segment has been increased by US\$8m, and Group Corporate Centre segment has been decreased by US\$40m. The reclassification has no impact to the total equity, allocated equity and net capital outflow of the Group as of 30 November 2012.

7. Segment information (continued)

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

US\$m	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Related changes in insurance and investment contract benefits		Third-party interests in consolidated investment funds	Other non-operating items	Interim consolidated income statement	
					Unit-linked contracts	Participating funds				
Six months ended 31 May 2012 – Unaudited										
Total revenue	8,331	529	93	–	–	–	–	–	8,953	Total revenue
Of which:										Of which:
Net premiums, fee income and other operating revenue	6,242	–	–	–	–	–	–	–	6,242	Net premiums, fee income and other operating revenue
Investment return	2,089	529	93	–	–	–	–	–	2,711	Investment return
Total expenses	7,033	–	–	43	(36)	173	(23)	(6)	7,184	Total expenses
Of which:										Of which:
Net insurance and investment contract benefits	5,524	–	–	–	(36)	173	–	(30)	5,631	Net insurance and investment contract benefits
Restructuring and other non-operating costs	–	–	–	–	–	–	–	9	9	Restructuring and other non-operating costs
Investment management expenses and finance costs	67	–	–	43	–	–	–	15	125	Investment management expenses and finance costs
Change in third-party interests in consolidated investment funds	–	–	–	–	–	–	(23)	–	(23)	Change in third-party interests in consolidated investment funds
Share of profit from associates	11	–	–	–	–	–	–	–	11	Share of profit from associates
Operating profit before tax	1,309	529	93	(43)	36	(173)	23	6	1,780	Profit before tax

Other non-operating items in 2012 consist of restructuring and other non-operating costs of US\$9m (see note 5).

8. Investment return

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Interest income	2,241	1,930
Dividend income	273	206
Rental income	59	46
Investment income	2,573	2,182
Available for sale		
Net realised gains from debt securities	28	27
Net gains of available for sale financial assets reflected in the consolidated income statement	28	27
At fair value through profit or loss		
Net gains/(losses) of financial assets designated at fair value through profit or loss		
Net (losses)/gains of debt securities	(95)	197
Net gains of equity securities	2,094	430
Net losses of financial instruments held for trading		
Net losses of debt investments	(1)	—
Net fair value movement on derivatives	(50)	(34)
Net gains in respect of financial instruments at fair value through profit or loss	1,948	593
Net foreign exchange gains/(losses)	104	(84)
Other net realised losses	(3)	(7)
Investment experience	2,077	529
Investment return	4,650	2,711

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

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Foreign exchange losses	(2)	(9)

9. Expenses

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Insurance contract benefits	4,321	3,565
Change in insurance contract liabilities	3,510	2,448
Investment contract benefits	211	(60)
Insurance and investment contract benefits	8,042	5,953
Insurance and investment contract benefits ceded	(377)	(322)
Insurance and investment contract benefits, net of reinsurance ceded	7,665	5,631
Commission and other acquisition expenses incurred	1,565	1,283
Deferral and amortisation of acquisition costs	(631)	(475)
Commission and other acquisition expenses	934	808
Employee benefit expenses	502	411
Depreciation	35	31
Amortisation	19	12
Operating lease rentals	53	49
Other operating expenses	149	131
Operating expenses	758	634
Restructuring and other non-operating costs	27	9
Investment management expenses	130	120
Finance costs	35	5
Change in third-party interests in consolidated investment funds	14	(23)
Total	9,563	7,184

9. Expenses (continued)

Investment management expenses may be analysed as:

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Investment management expenses	123	116
Depreciation on investment property	7	4
Total	130	120

Finance costs may be analysed as:

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Securities lending and repurchase agreements (see note 19 for details)	16	3
Bank and other loans	19	2
Total	35	5

Finance costs include interest expense of US\$15m (six months ended 31 May 2012: US\$2m) on bank loans, overdrafts and other loans wholly repayable within five years.

Employee benefit expenses consist of:

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Wages and salaries	400	331
Share-based compensation	37	17
Pension costs – defined contribution plans	26	21
Pension costs – defined benefit plans	9	8
Other employee benefit expenses	30	34
Total	502	411

10. Income tax

	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
US\$m		
Tax charged in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	32	23
Current income tax – overseas	95	235
Deferred income tax on temporary differences	401	74
Total	528	332

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

The tax benefit or expense attributable to Singapore, Brunei, Malaysia, Indonesia, Australia, Sri Lanka and the Philippines life insurance policyholder returns is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax attributable to policyholders' returns included above is US\$48m (six months ended 31 May 2012: US\$62m).

11. 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.

	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	1,934	1,444
Weighted average number of ordinary shares in issue (million)	11,979	12,003
Basic earnings per share (US cents per share)	16.1	12.0

11. Earnings per share (continued)

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 May 2013 and 2012, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under various share-based compensation plans as described in note 23.

	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	1,934	1,444
Weighted average number of ordinary shares in issue (million)	11,979	12,003
Adjustment for restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans	17	7
Weighted average number of ordinary shares for diluted earnings per share (million)	11,996	12,010
Diluted earnings per share (US cents per share)	16.1	12.0

At 31 May 2013, 14,012,122 share options (31 May 2012: 28,201,532) 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 5) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. As of 31 May 2013 and 2012, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under various share-based compensation plans as described in note 23.

	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Basic (US cents per share)	10.6	9.0
Diluted (US cents per share)	10.6	9.0

12. Dividends

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

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Interim dividend declared after the reporting date of 13.93 Hong Kong cents per share (six months ended 31 May 2012: 12.33 Hong Kong cents per share) ⁽¹⁾	215	190

Note:

(1) Based upon shares outstanding at 31 May 2013 and 2012 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 liabilities at the reporting date.

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

US\$m	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of 24.67 Hong Kong cents per share (six months ended 31 May 2012: 22.00 Hong Kong cents per share)	380	339

13. Intangible assets

US\$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 December 2012	126	263	66	455
Additions	—	16	—	16
Acquisition of subsidiaries	995	3	48	1,046
Disposals	—	(1)	—	(1)
Foreign exchange movements	—	(7)	(2)	(9)
At 31 May 2013	1,121	274	112	1,507
Accumulated amortisation				
At 1 December 2012	(6)	(163)	(14)	(183)
Amortisation charge for the period	—	(13)	(6)	(19)
Foreign exchange movements	—	4	—	4
At 31 May 2013	(6)	(172)	(20)	(198)
Net book value				
At 30 November 2012	120	100	52	272
At 31 May 2013 – Unaudited	1,115	102	92	1,309

Of the above, US\$1,271m (30 November 2012: US\$248m) is expected to be recovered more than 12 months after the end of the reporting period.

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

14. Financial investments

DEBT SECURITIES

Debt securities by type comprise the following:

US\$m	Policyholder and shareholder			Subtotal	Unit-linked	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS			
31 May 2013 – Unaudited						
Government bonds	4,837	195	24,743	29,775	697	30,472
Government agency bonds ⁽¹⁾	2,483	–	8,657	11,140	204	11,344
Corporate bonds	10,774	284	30,805	41,863	1,345	43,208
Structured securities ⁽²⁾	490	155	818	1,463	5	1,468
Total⁽³⁾	18,584	634	65,023	84,241	2,251	86,492

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS			
30 November 2012						
Government bonds	3,871	201	23,593	27,665	671	28,336
Government agency bonds ⁽¹⁾	2,140	–	8,278	10,418	190	10,608
Corporate bonds	9,440	380	29,591	39,411	1,178	40,589
Structured securities ⁽²⁾	402	116	806	1,324	5	1,329
Total⁽³⁾	15,853	697	62,268	78,818	2,044	80,862

Notes:

- (1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (2) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (3) Debt securities of US\$2,068m (30 November 2012: US\$1,967m) are restricted due to local regulatory requirements or other pledge restrictions.

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

US\$m	As at 31 May 2013 (Unaudited)	As at 30 November 2012
Debt securities – FVTPL		
Designated at fair value through profit or loss	21,469	18,545
Held for trading	–	49
Total	21,469	18,594

14. Financial investments (continued)

EQUITY SECURITIES

Equity securities by type comprise the following:

	Policyholder and shareholder					
	Participating funds	Other policyholder and shareholder		Unit-linked	Third-party interest	
US\$m	FVTPL	FVTPL	Subtotal	FVTPL	FVTPL	Total
31 May 2013 – Unaudited						
Ordinary shares	3,217	5,807	9,024	3,640	–	12,664
Interests in investment funds	1,613	1,261	2,874	11,963	253	15,090
Total	4,830	7,068	11,898	15,603	253	27,754
	Policyholder and shareholder					
	Participating funds	Other policyholder and shareholder		Unit-linked	Third-party interest	
US\$m	FVTPL	FVTPL	Subtotal	FVTPL	FVTPL	Total
30 November 2012						
Ordinary shares	2,246	4,708	6,954	3,077	–	10,031
Interests in investment funds	1,288	948	2,236	11,157	232	13,625
Total	3,534	5,656	9,190	14,234	232	23,656

14. Financial investments (continued)

DEBT AND EQUITY SECURITIES

US\$m	As at 31 May 2013 (Unaudited)	As at 30 November 2012
Debt securities		
Listed		
Hong Kong	4,073	3,345
Overseas	56,084	55,051
	60,157	58,396
Unlisted	26,335	22,466
Total	86,492	80,862
Equity securities		
Listed		
Hong Kong	1,153	815
Overseas	13,494	10,749
	14,647	11,564
Unlisted	13,107	12,092
Total	27,754	23,656

LOANS AND DEPOSITS

US\$m	As at 31 May 2013 (Unaudited)	As at 30 November 2012
Policy loans	2,356	1,998
Mortgage loans on residential real estate	684	433
Mortgage loans on commercial real estate	17	16
Other loans	835	674
Allowance for loan losses	(6)	(7)
Loans	3,886	3,114
Term deposits	1,810	1,632
Promissory notes ⁽¹⁾	1,719	1,679
Total	7,415	6,425

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\$1,920m (30 November 2012: US\$1,073m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 31 May 2013, the carrying value of such receivables is US\$95m.

15. Derivative financial instruments

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

US\$m	Notional amount	Fair value	
		Assets	Liabilities
31 May 2013 – Unaudited			
Foreign exchange contracts			
Forwards	1,154	–	(8)
Cross-currency swaps	9,448	552	(52)
Currency options	42	–	–
Total foreign exchange contracts	10,644	552	(60)
Interest rate contracts			
Interest rate swaps	664	13	–
Other			
Warrants and options	475	7	–
Equity index futures	6	–	–
Netting	(6)	–	–
Total	11,783	572	(60)
30 November 2012			
Foreign exchange contracts			
Forwards	5,038	15	–
Cross-currency swaps	8,371	596	(41)
Currency options	26	–	–
Total foreign exchange contracts	13,435	611	(41)
Interest rate contracts			
Interest rate swaps	666	18	–
Other			
Warrants and options	125	9	–
Equity index futures	183	–	–
Netting	(183)	–	–
Total	14,226	638	(41)

Both pay and receive legs of the transaction have been disclosed in the column “notional amount”.

Of the total derivatives, US\$3m (30 November 2012: US\$3m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group does not employ hedge accounting, although most of its derivative holdings may have the effect of an economic hedge of other exposures. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

15. Derivative financial instruments (continued)

FOREIGN EXCHANGE CONTRACTS

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

INTEREST RATE SWAPS

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

OTHER DERIVATIVES

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Credit default swaps (CDS) represent agreements that allow the transfer of third-party credit risk from the protection buyer to the seller. The Group purchased the CDS as a protection on the specific corporate debt portfolio by making a series of payments to the seller of the CDS. The Group will be compensated if the reference corporate debt defaults during the CDS contract period. Equity index futures contracts are exchange-traded cash-settled contracts on the value of particular stock market index. The Group entered into equity index futures contracts to manage its equity market exposure. The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the IFRS netting criteria.

COLLATERAL AND PLEDGES UNDER DERIVATIVE TRANSACTIONS

At 31 May 2013, the Group had pledged debt securities with carrying value of US\$24m (30 November 2012: US\$12m) for liabilities and held cash collateral of US\$355m (30 November 2012: US\$321m) and debt securities collateral with carrying value of US\$13m (30 November 2012: nil) for assets in respect of over-the-counter derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

16. Fair value of financial instruments

The table below sets out a summary of changes in the Group's Level 3 financial assets and liabilities for the six months ended 31 May 2013. The table reflects gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 31 May 2013.

LEVEL 3 FINANCIAL ASSETS AND LIABILITIES

US\$m	Debt securities	Equity securities	Derivative financial assets	Derivative financial liabilities	Investment contracts
At 1 December 2012	1,337	406	4	–	(7,533)
Realised gains	1	4	–	–	–
Net movement on investment contract liabilities	–	–	–	–	8
Total gains/(losses) relating to instruments still held at the reporting date					
Reported in the consolidated income statement	108	16	(1)	–	–
Reported in the consolidated statement of comprehensive income	(3)	(5)	–	–	–
Acquisition of subsidiaries	12	48	–	–	–
Purchases	166	21	4	–	–
Sales	(19)	(18)	–	–	–
Settlements	(22)	–	(4)	–	–
Transfer into Level 3	10	7	–	–	–
At 31 May 2013 – Unaudited	1,590	479	3	–	(7,525)

Realised gains and losses arising from the disposal of the Group's Level 3 financial assets and liabilities are presented in the consolidated income statement.

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

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

During the period, there were no material transfers between Level 1 and Level 2 fair value measurements.

17. Cash and cash equivalents

	As at 31 May 2013 (Unaudited)	As at 30 November 2012
US\$m		
Cash	1,401	1,581
Cash equivalents	635	1,367
Total⁽¹⁾	2,036	2,948

Note:

(1) Of cash and cash equivalents, US\$417m (30 November 2012: US\$735m) are held to back unit-linked contracts.

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 reporting period.

18. Borrowings

	As at 31 May 2013 (Unaudited)	As at 30 November 2012
US\$m		
Bank loans and bank credit facilities	806	493
Bank overdrafts	167	273
Medium term notes and acquisition credit facility	1,226	–
Total	2,199	766

Properties with a book value of US\$884m at 31 May 2013 (30 November 2012: US\$893m) and a fair value of US\$2,005m at 31 May 2013 (30 November 2012: US\$2,008m) and cash and cash equivalents with a book value of US\$20m (30 November 2012: US\$2m) are pledged as security with respect to amounts disclosed as bank loans and bank credit facilities above. Interest on loans reflects market rates of interest. Interest expense on borrowings is shown in note 9.

On 30 November 2012, the Group obtained a 12-month bank loan of HK\$2,507m (approximately US\$323m). The loan bears interest based upon HIBOR.

On 10 December 2012, the Group obtained another 18-month acquisition credit facility of US\$1,725m. The loan bears interest based upon LIBOR.

On 13 March 2013, the Group issued a 5-year and a 10-year fixed rate medium term notes at nominal amount of US\$500m each; these notes bear annual interest of 1.75 per cent and 3.125 per cent respectively. These medium term notes are listed on The Stock Exchange of Hong Kong Limited.

19. Obligations under securities lending and repurchase agreements

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

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

	As at 31 May 2013 (Unaudited)	As at 30 November 2012
US\$m		
Debt securities – AFS		
Repurchase agreements	1,971	1,799
Debt securities – FVTPL		
Securities lending	347	–
Repurchase agreements	371	47
Total	<u>2,689</u>	<u>1,846</u>

COLLATERAL

The securities lending transactions outstanding as at 31 May 2013 are conducted with a national monetary authority on securities denominated in local currency issued by the same authority.

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

	As at 31 May 2013 (Unaudited)	As at 30 November 2012
US\$m		
Repurchase agreements	2,334	1,792
Total	<u>2,334</u>	<u>1,792</u>

20. Share capital and reserves

SHARE CAPITAL

	As at 31 May 2013		As at 30 November 2012	
	Million shares (Unaudited)	US\$m (Unaudited)	Million shares	US\$m
Authorised				
Ordinary shares of US\$1 each	20,000	20,000	20,000	20,000
Issued and fully paid				
At beginning and end of the financial period	<u>12,044</u>	<u>12,044</u>	<u>12,044</u>	<u>12,044</u>
Share premium		<u>1,914</u>		<u>1,914</u>

There were no shares issued under share option schemes during the period ended 31 May 2013 (30 November 2012: nil).

Except for 74,468,738 shares (30 November 2012: 53,653,843 shares) of the Company held by the employee share-based trusts, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 May 2013. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

Share premium of US\$1,914m represents the difference between the net book value of the Group on acquisition by the Company of US\$13,958m and the nominal value of the share capital issued of US\$12,044m.

RESERVES

Fair value reserve

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

Foreign currency translation reserve

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

Employee share-based trusts

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

Other reserves

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

21. Group capital position

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

The capital positions of the Group's two principal operating companies as of 31 May 2013 and 30 November 2012 are as follows:

US\$m	31 May 2013 (Unaudited)			30 November 2012		
	Total available capital	Required capital	Solvency ratio	Total available capital	Required capital	Solvency ratio
AIA Co.	6,120	1,434	427%	4,811	1,362	353%
AIA International	3,899	1,386	281%	3,108	1,415	220%

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

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

22. Risk management

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

CREDIT RISK

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

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

22. Risk management (continued)

FOREIGN EXCHANGE RATE RISK

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

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

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

Net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
31 May 2013 – Unaudited							
Equity analysed by original currency	14,524	451	3,925	(1,873)	1,578	1,730	2,383
Net notional amounts of currency derivative positions	(4,833)	301	1,827	3,170	–	–	–
Currency exposure	9,691	752	5,752	1,297	1,578	1,730	2,383
5% strengthening of original currency							
Impact on profit before tax	99	(5)	6	31	4	22	26
5% strengthening of the US dollar							
Impact on shareholders' equity	(99)	10	(271)	(41)	(72)	(62)	(94)
30 November 2012							
Equity analysed by original currency	15,990	153	3,713	(1,963)	837	1,377	2,567
Net notional amounts of currency derivative positions	(6,177)	301	1,609	3,149	–	2	–
Currency exposure	9,813	454	5,322	1,186	837	1,379	2,567
5% strengthening of original currency							
Impact on profit before tax	107	(9)	4	29	5	20	29
5% strengthening of the US dollar							
Impact on shareholders' equity	(107)	11	(252)	(36)	(34)	(46)	(98)

22. Risk management (continued)

EQUITY MARKET AND INTEREST RATE RISK

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

Sensitivity analysis

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

For the purpose of illustrating the sensitivity of profit before tax and net assets before the effects of taxation to changes in interest rates and equity prices, the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress has been ignored, since default events reflect the characteristics of individual issuers. Because the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

US\$m	31 May 2013 (Unaudited)		30 November 2012	
	Impact on profit before tax	Impact on net assets (before the effects of taxation)	Impact on profit before tax	Impact on net assets (before the effects of taxation)
Equity market risk				
10 per cent increase in equity prices	791	791	630	630
10 per cent decrease in equity prices	(791)	(791)	(630)	(630)
Interest rate risk				
+ 50 basis points shift in yield curves	(99)	(2,820)	(92)	(2,770)
- 50 basis points shift in yield curves	99	2,820	92	2,770

LIQUIDITY RISK

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

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

22. Risk management (continued)

LIQUIDITY RISK (continued)

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

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

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
31 May 2013 – Unaudited						
Financial assets						
Loans and deposits	7,415	2,362	880	1,128	688	2,357
Other receivables	1,239	62	1,091	74	4	8
Debt securities	86,492	–	3,647	16,553	24,882	41,410
Equity securities	27,754	27,754	–	–	–	–
Reinsurance receivables	132	–	132	–	–	–
Accrued investment income	1,334	–	1,238	36	60	–
Cash and cash equivalents	2,036	–	2,036	–	–	–
Derivative financial instruments	572	–	168	366	41	(3)
Total	126,974	30,178	9,192	18,157	25,675	43,772
Financial and insurance contract liabilities						
Insurance and investment contract liabilities (net of reinsurance)	107,890	–	(705)	905	9,379	98,311
Borrowings	2,199	167	322	1,214 ⁽¹⁾	496	–
Obligations under securities lending and repurchase agreements	2,334	–	2,334	–	–	–
Other liabilities	2,801	266	2,535	–	–	–
Derivative financial instruments	60	–	13	10	36	1
Total	115,284	433	4,499	2,129	9,911	98,312

Note:

(1) Includes amounts of US\$979m falling due after 2 years through 5 years.

22. Risk management (continued)

LIQUIDITY RISK (continued)

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
30 November 2012						
Financial assets						
Loans and deposits	6,425	1,949	475	1,203	728	2,070
Other receivables	1,231	65	1,065	89	4	8
Debt securities	80,862	–	2,413	15,974	22,089	40,386
Equity securities	23,656	23,656	–	–	–	–
Reinsurance receivables	95	–	95	–	–	–
Accrued investment income	1,196	–	1,104	36	56	–
Cash and cash equivalents	2,948	–	2,948	–	–	–
Derivative financial instruments	638	–	146	415	79	(2)
Total	117,051	25,670	8,246	17,717	22,956	42,462
Financial and insurance contract liabilities						
Insurance and investment contract liabilities (net of reinsurance)	98,381	–	(871)	784	8,553	89,915
Borrowings	766	273	7	486 ⁽¹⁾	–	–
Obligations under securities lending and repurchase agreements	1,792	–	1,792	–	–	–
Other liabilities	2,812	232	2,580	–	–	–
Derivative financial instruments	41	–	4	16	21	–
Total	103,792	505	3,512	1,286	8,574	89,915

Note:

(1) Includes amounts of US\$486m falling due after 2 years through 5 years.

23. Share-based compensation

SHARE-BASED COMPENSATION PLANS

During the six months ended 31 May 2013, the Group made further grants of share options and restricted share units (RSUs) to certain employees, directors and officers of the Group under the Share Option Scheme (SO Scheme) and the Restricted Share Unit Scheme (RSU Scheme).

VALUATION METHODOLOGY

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

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

	Share option grants	
	Six months ended 31 May 2013 (Unaudited)	Year ended 30 November 2012
Assumptions		
Risk-free interest rate	1.26%	1.44%
Volatility	30%	30%
Dividend yield	1.1%	1.2%
Exercise price (HK\$)	34.35	28.40
Share option life (in years)	10	10
Expected life (in years)	7.4	7.4
Weighted average fair value per option at measurement date (HK\$)	10.54	8.71

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

The weighted average share price for share option valuation for grants made during the six months ended 31 May 2013 is HK\$34.35 (30 November 2012: HK\$28.40). The total fair value of share options granted during the six months ended 31 May 2013 is US\$10m (30 November 2012: US\$9m).

RECOGNISED COMPENSATION COST

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the six months ended 31 May 2013 is US\$38m (six months ended 31 May 2012: US\$20m).

24. Key management personnel remuneration

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

US\$	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
Key management compensation and other expenses		
Salaries and other short-term employee benefits	9,052,964	8,131,203
Post-employment benefits – defined contribution	204,233	193,921
Post-employment benefits – medical & life	7,090	45,024
Other long-term benefits	90,456	234,213
Share-based payment	13,572,044	8,325,698
Total	22,926,787	16,930,059

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

US\$	Six months ended 31 May 2013 (Unaudited)	Six months ended 31 May 2012 (Unaudited)
500,001 to 1,000,000	2	3
1,000,001 to 1,500,000	–	4
1,500,001 to 2,000,000	3	2
2,000,001 to 2,500,000	2	1
2,500,001 to 3,000,000	1	–
3,000,001 to 3,500,000	1	–
4,500,001 to 5,000,000	–	1
7,500,001 to 8,000,000	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	As at 31 May 2013 (Unaudited)	As at 30 November 2012
Properties and others expiring		
Not later than one year	89	79
Later than one and not later than five years	116	103
Later than five years	31	32
Total	236	214

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

INVESTMENT AND CAPITAL COMMITMENTS

US\$m	As at 31 May 2013 (Unaudited)	As at 30 November 2012
Not later than one year	474	641
Later than one and not later than five years	110	63
Later than five years	10	4
Total	594	708

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

25. Commitments and contingencies (continued)

CONTINGENCIES

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

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

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. Due to a change in law, further cessions under this contract ended in July 2008. This reinsurance was fully retroceded to a subsidiary of AIG and this retrocession was terminated in February 2012 on a run-off basis. The Group is exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its outstanding obligations which is mitigated by a trust agreement put in place after the aforesaid termination. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$1,377m at 31 May 2013 (30 November 2012: US\$1,877m). The liabilities and related reinsurance assets, which totalled US\$5m (30 November 2012: US\$11m), 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.

At 31 May 2013, the Group has issued capital guarantees and guarantees of indebtedness and minimum guaranteed rates of return ranging from 0 per cent to 5 per cent to holders of units of pension funds that have an accumulation value of approximately US\$1,603m (30 November 2012: US\$1,477m). The Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators.

26. Events after the reporting period

On 26 July 2013, the Board of Directors declared an interim dividend of 13.93 Hong Kong cents per share (six months ended 31 May 2012: 12.33 Hong Kong cents per share).

SUPPLEMENTARY EMBEDDED VALUE INFORMATION

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

AIA Group Limited (the Company) and its subsidiaries (together, “AIA” or “the Group”) have prepared supplementary embedded value results (EV Results) for the interim period ended 31 May 2013 (the Period). These EV Results, together with a description of the methodology and assumptions that have been used, are shown in the Supplementary Embedded Value Information section of this report.

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

Scope of Work

Our scope of work covered:

- A review of the methodology used to calculate the embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 31 May 2013, and the value of new business for the six-month period 1 December 2012 to 31 May 2013;
- A review of the economic and operating assumptions used to calculate the embedded value as at 31 May 2013 and the value of new business for the six-month period 1 December 2012 to 31 May 2013; and
- A review of the results of AIA’s calculation of the EV Results.

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

Opinion

Towers Watson has concluded that:

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

Towers Watson has performed a number of high-level checks on the models, processes and the results of the calculations, and has confirmed that no issues have been discovered that have a material impact on the disclosed embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 31 May 2013, the value of new business for the six-month period 1 December 2012 to 31 May 2013, the analysis of movement in embedded value for the six-month period ended 31 May 2013, and the sensitivity analysis.

Towers Watson
26 July 2013

Cautionary statements concerning Supplementary Embedded Value Information

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

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

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

1. Highlights

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

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

Table 1.1

Summary Key Metrics⁽¹⁾ (US\$ millions)

	As at 31 May 2013	As at 30 November 2012	Growth
Equity attributable to shareholders of the Company on the embedded value basis (EV equity)	33,296	31,657	5%
Embedded value (EV)	32,242	31,408	3%
Adjusted net worth (ANW)	13,261	13,170	1%
Value of in-force business (VIF)	18,981	18,238	4%
	Six months ended 31 May 2013	Six months ended 31 May 2012	YoY
Value of new business (VONB)	645	512	26%
Annualised new premium (ANP) ^{(2) (3)}	1,527	1,187	29%
VONB margin ⁽³⁾	41.6%	42.6%	(1.0) pps

Notes:

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

1. Highlights (continued)

VONB grew by 26 per cent compared with the first half of 2012 to US\$645 million net of tax. ANP increased by 29 per cent compared with the first half of 2012 to US\$1,527 million. VONB margin was 41.6 per cent compared with 42.6 per cent for the first half of 2012.

EV Equity grew by US\$1,639 million to US\$33,296 million at 31 May 2013, an increase of 5 per cent over the first half from US\$31,657 million at 30 November 2012. EV Equity included goodwill and other intangible assets of US\$1,054 million at 31 May 2013 compared with US\$249 million at 30 November 2012.

EV grew to US\$32,242 million at 31 May 2013, an increase of 3 per cent over the first half from US\$31,408 million at 30 November 2012. The growth in EV of US\$834 million is shown after a deduction of US\$810 million for the effect of acquisitions.

EV operating profit grew by 15 per cent compared with the first half of 2012 to US\$1,907 million. The growth reflected a higher VONB of US\$645 million, an increased expected return on EV of US\$1,198 million and overall positive operating experience variances and operating assumption changes which totalled US\$76 million, less interest costs of US\$12 million on medium term notes and an acquisition credit facility.

Non-operating EV movements included positive investment return variances and negative other non-operating variances which together totalled US\$343 million, offset by the payment of the 2012 final dividend of US\$380 million, negative other capital movements of US\$58 million and negative foreign exchange movements of US\$168 million.

EV as at 31 May 2013 includes ANW of US\$13,261 million and VIF of US\$18,981 million, up 1 per cent and 4 per cent respectively compared with 30 November 2012.

2. EV Results

2.1 EMBEDDED VALUE BY BUSINESS UNIT

The EV as at 31 May 2013 is detailed in Table 2.1 below. The presentation is consistent with the segment information in the IFRS financial statements and Section 4.1 of this report.

Table 2.1

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

Business Unit	As at 31 May 2013				EV	As at 30 Nov 2012
	ANW ⁽¹⁾	VIF before CoC ⁽²⁾	CoC ⁽²⁾	VIF after CoC ⁽²⁾		EV ⁽⁴⁾
AIA Hong Kong	3,766	6,760	445	6,315	10,081	10,059
AIA Thailand	5,988	2,147	686	1,461	7,449	6,750
AIA Singapore	1,703	2,563	614	1,949	3,652	3,746
AIA Malaysia	1,220	1,408	318	1,090	2,310	1,286
AIA China	786	1,901	174	1,727	2,513	2,192
AIA Korea	1,443	687	314	373	1,816	1,731
Other Markets	3,562	1,160	313	847	4,409	3,929
Group Corporate Centre	3,956	(56)	–	(56)	3,900	5,348
Subtotal	22,424	16,570	2,864	13,706	36,130	35,041
Adjustment to reflect additional Hong Kong reserving and capital requirements ⁽³⁾	(9,163)	6,045	166	5,879	(3,284)	(3,031)
After-tax value of unallocated Group Office expenses	–	(604)	–	(604)	(604)	(602)
Total	13,261	22,011	3,030	18,981	32,242	31,408

Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS financial statements.
- (2) CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.
- (3) Adjustment to EV for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.
- (4) Certain segmental reclassifications have been made in the prior year, mainly within VIF, to conform to current period presentation. The reclassification has no impact on the total EV of the Group as of 30 November 2012.

2. EV Results (continued)

2.2 RECONCILIATION OF ANW TO IFRS EQUITY

Table 2.2 sets out the derivation of ANW from IFRS equity as at 31 May 2013.

Table 2.2

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

	As at 31 May 2013	As at 30 November 2012
IFRS equity attributable to shareholders of the Company	27,172	26,697
Elimination of IFRS deferred acquisition and origination costs assets	(15,079)	(14,161)
Difference between IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	8,546	6,659
Difference between net IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	(6,533)	(7,502)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	2,185	2,163
Elimination of intangible assets	(1,309)	(292)
Recognition of deferred tax impacts of the above adjustments	1,056	795
Recognition of non-controlling interests impacts of the above adjustments	(147)	(113)
Group ANW (local statutory basis)	22,424	21,748
Adjustment to reflect additional Hong Kong reserving requirements, net of tax	(9,163)	(8,578)
Group ANW (after additional Hong Kong reserving requirements)	13,261	13,170

2. EV Results (continued)

2.3 BREAKDOWN OF ANW

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

Table 2.3

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

	As at 31 May 2013		As at 30 November 2012	
	Local statutory basis	Hong Kong basis for branches of AIA Co. and AIA International	Local statutory basis	Hong Kong basis for branches of AIA Co. and AIA International
Free surplus	15,944	5,954	16,082	6,643
Required capital	6,480	7,307	5,666	6,527
ANW	22,424	13,261	21,748	13,170

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

At 31 May 2013, the more onerous reserving basis for both AIA Co. and AIA International was the Hong Kong basis. Therefore, the Group's free surplus at 31 May 2013 reduced by US\$9,990 million (30 November 2012: US\$9,439 million) under the Hong Kong basis compared to the local statutory basis, reflecting US\$9,163 million (30 November 2012: US\$8,578 million) higher reserving requirements and US\$827 million (30 November 2012: US\$861 million) higher required capital under the Hong Kong basis for branches of AIA Co. and AIA International.

2. EV Results (continued)

2.4 EARNINGS PROFILE

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

Table 2.4

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

Financial year	As at 31 May 2013	
	Undiscounted	Discounted
2H13 – 2017	11,816	9,911
2018 – 2022	11,584	6,429
2023 – 2027	10,730	4,025
2028 – 2032	9,578	2,430
2032+	40,625	3,493
Total	84,333	26,288

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$26,288 million (30 November 2012: US\$24,765 million) plus the free surplus of US\$5,954 million (30 November 2012: US\$6,643 million) shown in Table 2.3 is equal to the EV of US\$32,242 million (30 November 2012: US\$31,408 million) shown in Table 2.1.

2. EV Results (continued)

2.5 VALUE OF NEW BUSINESS

The VONB for the Group for the six-month period from 1 December 2012 to 31 May 2013 is summarised in Table 2.5 below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. The presentation is consistent with the segment information in the IFRS financial statements and Section 4.1 of this report.

The Group VONB for the six months ended 31 May 2013 was US\$645 million, an increase of US\$133 million, or 26 per cent, from US\$512 million in the same period in 2012.

Table 2.5

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

Business Unit	Six months ended 31 May 2013			Six months ended 31 May 2012
	VONB before CoC ⁽¹⁾	CoC ⁽¹⁾	VONB after CoC ^{(1) (3)}	VONB after CoC ^{(1) (3) (4)}
AIA Hong Kong	198	30	168	140
AIA Thailand	176	30	146	131
AIA Singapore	121	11	110	97
AIA Malaysia	63	9	54	32
AIA China	87	11	76	60
AIA Korea	52	7	45	33
Other Markets	130	18	112	67
Total before unallocated Group Office expenses (local statutory basis)	827	116	711	560
Adjustment to reflect additional Hong Kong reserving and capital requirements ⁽²⁾	(35)	(5)	(30)	(16)
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	792	111	681	544
After-tax value of unallocated Group Office expenses	(36)	–	(36)	(32)
Total	756	111	645	512

Notes:

- (1) CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.
- (2) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.
- (3) VONB for the Group is calculated before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests for the six months ended 31 May 2013 and 31 May 2012 were US\$6 million and US\$5 million respectively.
- (4) Certain segmental reclassifications have been made in the prior period to conform to current period presentation. The reclassification has no impact on the total VONB and VONB margin of the Group for the six months ended 31 May 2012.

2. EV Results (continued)

2.5 VALUE OF NEW BUSINESS (continued)

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

The Group VONB margin for the six months ended 31 May 2013 was 41.6 per cent compared with 42.6 per cent for the same period in 2012.

Table 2.6

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

Business Unit	Six months ended 31 May 2013			Six months ended 31 May 2012
	VONB Excluding Pension	ANP ⁽¹⁾	VONB Margin ⁽¹⁾	VONB Margin ^{(1) (3)}
AIA Hong Kong	159	326	48.7%	55.1%
AIA Thailand	146	265	55.1%	53.6%
AIA Singapore	110	147	74.8%	63.5%
AIA Malaysia	54	152	35.3%	42.3%
AIA China	76	120	63.7%	55.9%
AIA Korea	45	182	24.9%	32.0%
Other Markets	112	335	33.3%	25.9%
Total before unallocated Group Office expenses (local statutory basis)	702	1,527	46.0%	46.7%
Adjustment to reflect additional Hong Kong reserving and capital requirements ⁽²⁾	(30)	–		
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	672	1,527	44.0%	45.3%
After-tax value of unallocated Group Office expenses	(36)	–		
Total	636	1,527	41.6%	42.6%

Notes:

- (1) ANP and VONB margin exclude pension business.
- (2) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.
- (3) Certain segmental reclassifications have been made in the prior period to conform to current period presentation. The reclassification has no impact on the total VONB and VONB margin of the Group for the six months ended 31 May 2012.

2. EV Results (continued)

2.5 VALUE OF NEW BUSINESS (continued)

Table 2.7 shows the breakdown of the VONB and the VONB margin for the Group by quarter for business written in the six months to 31 May 2013. For comparison purposes, the quarterly VONB and the VONB margin for business written in the six months to 31 May 2012 are also shown in the same table.

Table 2.7

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

Quarter	VONB after CoC ⁽¹⁾	ANP ⁽²⁾	VONB Margin ⁽²⁾
Values for 2013			
3 months ended 28 February 2013	291	745	38.4%
3 months ended 31 May 2013	354	782	44.7%
Values for 2012			
3 months ended 29 February 2012	232	543	42.1%
3 months ended 31 May 2012	280	644	43.1%

Notes:

(1) CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.

(2) ANP and VONB margin exclude pension business.

2. EV Results (continued)

2.6 ANALYSIS OF EV MOVEMENT

Table 2.8 shows the analysis of movement in the EV from 30 November 2012 to 31 May 2013.

Table 2.8

Analysis of movement in EV (US\$ millions)

	Six months ended 31 May 2013			Six months ended 31 May 2012	YoY
	ANW	VIF	EV	EV	EV
Opening EV	13,170	18,238	31,408	27,239	15%
Purchase price	(1,865)	–	(1,865)	–	n/m
Acquired EV	681	374	1,055	–	n/m
Effect of acquisitions	(1,184)	374	(810)	–	n/m
EV post acquisitions	11,986	18,612	30,598	27,239	12%
Value of new business	(445)	1,090	645	512	26%
Expected return on EV	1,514	(316)	1,198	1,074	12%
Operating experience variances	(96)	173	77	82	(6)%
Operating assumption changes	–	(1)	(1)	(13)	(92)%
Interest costs on medium term notes and acquisition credit facility	(12)	–	(12)	–	n/m
EV operating profit	961	946	1,907	1,655	15%
Investment return variances	307	158	465	497	(6)%
Effect of changes in economic assumptions	–	–	–	–	n/m
Other non-operating variances	483	(605)	(122)	14	n/m
Total EV profit	1,751	499	2,250	2,166	4%
Dividends	(380)	–	(380)	(339)	12%
Other capital movements	(58)	–	(58)	(65)	(11)%
Effect of changes in exchange rates	(38)	(130)	(168)	(161)	4%
Closing EV	13,261	18,981	32,242	28,840	12%

Embedded value (EV) grew to US\$32,242 million at 31 May 2013, an increase of 3 per cent over the first half from US\$31,408 million at 30 November 2012. The growth in EV of US\$834 million is shown after a deduction of US\$810 million for the effect of acquisitions.

The EV operating profit grew by 15 per cent to US\$1,907 million in the first half of 2013 (2012: US\$1,655 million). The increase reflected a higher VONB of US\$645 million (2012: US\$512 million), US\$1,198 million (2012: US\$1,074 million) from the expected return on the higher opening EV, positive operating experience variances of US\$77 million (2012: US\$82 million) offset by negative operating assumption changes of US\$1 million (2012: US\$13 million) and interest costs of US\$12 million (2012: nil) on medium term notes and an acquisition credit facility.

The VONB shown in Table 2.8 is measured at the point of sale for business written during the Period before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the Period plus the expected return on the VONB from the point of sale to 31 May 2013 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.

2. EV Results (continued)

2.6 ANALYSIS OF EV MOVEMENT (continued)

The main operating experience variances (net of tax) are:

- Expense variances of US\$5 million (2012: US\$(18) million) including non-recurring project expenses of US\$(10) million (2012: US\$(7) million);
- Mortality and morbidity claims variances of US\$79 million (2012: US\$83 million); and
- Persistency and other variances of US\$(7) million (2012: US\$17 million).

The overall effect of changes to operating assumptions during the Period was US\$(1) million (2012: US\$(13) million).

The EV profit of US\$2,250 million (2012: US\$2,166 million) is the total of EV operating profit plus investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances arise from the impact of differences between the actual investment returns in the Period and the expected investment returns. This includes the impact on the EV of the changes in the market values and market yields on existing fixed income assets, and the impact on the EV of changes in the economic assumptions used in the statutory reserving bases for the Group. The investment return variances of US\$465 million (2012: US\$497 million) were largely caused by positive market movements compared with the assumptions used in the EV calculation at the start of the Period.

There were no changes in economic assumptions during the Period (2012: nil).

Other non-operating variances amounted to US\$(122) million (2012: US\$14 million) and included:

- Tax adjustments resulting in a gain of US\$171 million (2012: US\$255 million);
- Restructuring and other non-operating costs of US\$23 million (2012: US\$8 million), plus the current Period effect of US\$(32) million (2012: US\$(14) million) for the Agency Incentive Plan which was a one-off initiative to improve agent activity and productivity prior to the IPO of the Company; and
- Modelling enhancements, accounting for the majority of the balance.

The Group paid the 2012 final dividend of US\$380 million (2012: US\$339 million). Other capital movements of US\$(58) million (2012: US\$(65) million) were mainly due to the purchase of shares held by employee share-based trusts.

The US\$(168) million (2012: US\$(161) million) effect of changes in exchange rates reflects the translation gains and losses in respect of exchange rate movements over the Period.

2. EV Results (continued)

2.7 EV EQUITY

The EV as at 31 May 2013 included an impact of US\$(810) million (2012: nil) for the effect of acquisitions. The EV Equity grew to US\$33,296 million at 31 May 2013, an increase of 5 per cent from US\$31,657 million at 30 November 2012. Table 2.9 sets out the derivation of EV Equity from EV as at 31 May 2013.

Table 2.9

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

	As at 31 May 2013	As at 30 November 2012
EV	32,242	31,408
Goodwill and other intangible assets ⁽¹⁾	1,054	249
EV Equity	33,296	31,657

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 31 May 2013 and the VONB for the six-month period 1 December 2012 to 31 May 2013 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 4.2.

The sensitivities analysed were:

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

The EV as at 31 May 2013 has been further analysed for the following sensitivities:

- Prices of equity securities held increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 May 2013); and
- Prices of equity securities held decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 May 2013).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 May 2013 and the values of debt instruments held at 31 May 2013 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all of the other assumptions were unchanged.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities held at 31 May 2013 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all of the other assumptions were unchanged.

For each of the remaining sensitivity analysis, the statutory reserving bases at 31 May 2013 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all of the other assumptions remain unchanged.

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

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.

Table 3.1

Sensitivity of the EV as at 31 May 2013 (US\$ millions)

Scenario	EV
Central value	32,242
200 bps increase in risk discount rates	28,322
200 bps decrease in risk discount rates	37,886
10% increase in equity prices	32,945
10% decrease in equity prices	31,526
50 bps increase in interest rates	32,360
50 bps decrease in interest rates	31,882
10% increase in lapse/discontinuance rates	31,964
10% decrease in lapse/discontinuance rates	32,575
10% increase in mortality/morbidity rates	29,733
10% decrease in mortality/morbidity rates	34,734
10% decrease in maintenance expenses	32,690
Expense inflation set to 0%	32,647

Table 3.2

Sensitivity of the VONB for the six months ended 31 May 2013 (US\$ millions)

Scenario	VONB
Central value	645
200 bps increase in risk discount rates	457
200 bps decrease in risk discount rates	915
50 bps increase in interest rates	675
50 bps decrease in interest rates	603
10% increase in lapse rates	593
10% decrease in lapse rates	702
10% increase in mortality/morbidity rates	519
10% decrease in mortality/morbidity rates	769
10% decrease in maintenance expenses	673
Expense inflation set to 0%	666

4. Methodology and Assumptions

4.1 METHODOLOGY

The methodology used by the Group for determining the EV Results for the Period is materially unchanged from that described in Section 4 of the Supplementary Embedded Value Information in the Company's Annual Report 2012.

The list of entities and their mapping to "Business Units" as described in Section 4.1 of the Supplementary Embedded Value Information in the Company's Annual Report 2012 is revised as follows due to the completion of the acquisitions of Aviva NDB Insurance and ING Management Holdings (Malaysia) Sdn. Bhd. on 5 December 2012 and 18 December 2012 respectively. The financial results of the two newly-acquired businesses are accounted for in the Group's 2013 interim results from the respective dates of completion.

- AIA Malaysia refers to the total of the following entities:
 - AIA Bhd. (formerly known as American International Assurance Bhd.), a subsidiary of AIA Co., and its subsidiary AIA AFG Takaful Bhd.; and
 - Orange Policy Sdn. Bhd. (formerly known as ING Management Holdings (Malaysia) Sdn. Bhd.), a subsidiary of AIA Co., and its 60 per cent owned subsidiary AIA Public Takaful Bhd. (formerly known as ING Public Takaful Ehsan Berhad).
- AIA Sri Lanka refers to AIA Insurance Lanka PLC (formerly known as Aviva NDB Insurance), a 97.2 per cent owned subsidiary of AIA Co.

Borrowings, as described in note 18 to the IFRS financial statements are carried at their IFRS value without mark-to-market adjustment for ANW calculation.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. As with IFRS, the acquisitions of the two businesses described above did not impact EV Equity.

4. Methodology and Assumptions (continued)

4.1 METHODOLOGY (continued)

Required Capital

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

Table 4.1

Required Capital by Business Unit

Business Unit	Required Capital
AIA Australia	100% of the regulatory capital adequacy requirement ⁽¹⁾
AIA China	100% of required minimum solvency margin
AIA Hong Kong	150% of required minimum solvency margin ⁽²⁾
AIA Indonesia	120% of regulatory Risk-Based Capital requirement (standard basis)
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA New Zealand	100% of the local regulatory requirement
Philam Life	100% of regulatory Risk-Based Capital requirement
AIA Singapore – Brunei business	100% of the local regulatory requirement
AIA Singapore – Singapore business	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of proposed Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement ⁽³⁾
AIA Thailand	140% of regulatory Risk-Based Capital requirement
AIA Vietnam	100% of required minimum solvency margin

Notes:

- (1) The Australian Prudential Regulatory Authority has implemented new capital standards which are effective from 1 January 2013. The new requirements have been assumed to apply from 30 November 2012 in EV and VONB calculations.
- (2) The assumed level of required capital for AIA Hong Kong is also used for the branches of AIA Co. and AIA International in the calculation of the consolidated EV Results.
- (3) Following an announcement by the Financial Supervisory Commission on 8 February 2013, the required capital assumed in EV and VONB calculations has been changed from 200% to 250% of regulatory Risk-Based Capital requirement effective from 1 December 2012.

4. Methodology and Assumptions (continued)

4.2 ASSUMPTIONS

Introduction

Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2012 outlines the basis and considerations for determining the assumptions used by the Group for calculating the EV and VONB. The economic assumptions used to determine the EV as at 31 May 2013 are the same as those for determining the EV as at 30 November 2012. The non-economic assumptions used are based on those at 30 November 2012 updated to reflect the latest experience observed.

Economic assumptions

Table 4.2 summarises the risk discount rates and assumed long-term investment returns for the major asset classes for each Business Unit as at 31 May 2013. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at point of sale. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. In particular, for the branches of AIA Co. and AIA International, the consolidated EV results reflecting the Hong Kong reserving and capital requirements were calculated using the branch-specific risk discount rates shown in the table. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns shown are gross of tax and investment expenses.

Table 4.2

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

Business Unit	Risk discount rates			10-year government bonds			Local equities		
	As at	As at	As at	As at	As at	As at	As at	As at	As at
	31 May 2013	30 Nov 2012	31 May 2012	31 May 2013	30 Nov 2012	31 May 2012	31 May 2013	30 Nov 2012	31 May 2012
AIA Australia	7.75	7.75	8.25	3.37	3.37	4.37	7.15	7.15	7.65
AIA China	10.00	10.00	10.00	3.74	3.74	3.74	9.74	9.74	9.74
AIA Hong Kong ⁽¹⁾	7.25	7.25	7.75	2.43	2.43	2.93	7.73	7.73	8.23
AIA Indonesia (Rupiah-denominated business)	13.50	13.50	13.50	6.50	6.50	7.00	11.25	11.25	11.75
AIA Korea	9.75	9.75	10.25	3.85	3.85	4.57	7.19	7.19	7.91
AIA Malaysia	8.75	8.75	9.00	4.20	4.20	4.45	8.09	8.09	8.34
AIA New Zealand	8.25	8.25	8.50	3.99	3.99	4.49	n/a ⁽²⁾	n/a ⁽²⁾	n/a ⁽²⁾
Philam Life (Peso-denominated business)	12.25	12.25	13.00	5.25	5.25	6.00	10.41	10.41	11.16
AIA Singapore – Brunei business	7.00	7.00	7.50	1.93	1.93	2.43	7.25	7.25	7.75
AIA Singapore – Singapore business	7.00	7.00	7.50	1.93	1.93	2.43	7.25	7.25	7.75
AIA Sri Lanka	19.00	n/a ⁽³⁾	n/a ⁽³⁾	13.33	n/a ⁽³⁾	n/a ⁽³⁾	15.00	n/a ⁽³⁾	n/a ⁽³⁾
AIA Taiwan	7.75	7.75	8.00	1.48	1.48	1.73	6.62	6.62	6.87
AIA Thailand	9.50	9.50	9.50	3.87	3.87	3.87	9.87	9.87	10.16
AIA Vietnam	16.00	16.00	16.00	10.20	10.20	10.20	16.00	16.00	n/a ⁽²⁾

Notes:

- (1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumption is for US dollar-denominated bonds.
- (2) The assumed asset allocations do not include equities for these Business Units.
- (3) The Business Unit results have been included in the EV Results since the completion date of 5 December 2012.

4. Methodology and Assumptions (continued)

4.2 ASSUMPTIONS (continued)

Expense Inflation

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

Table 4.3

Expense inflation assumptions by Business Unit (%)

Business Unit	As at 31 May 2013	As at 30 November 2012
AIA Australia	3.25	3.25
AIA Brunei	2.0	2.0
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 New Zealand	2.5	2.5
Philam Life	4.5	4.5
AIA Singapore	2.0	2.0
AIA Sri Lanka	6.5	n/a ⁽¹⁾
AIA Taiwan	1.0	1.0
AIA Thailand	2.5	2.5
AIA Vietnam	5.0	5.0

Note:

(1) The Business Unit results have been included in the EV Results since the completion date of 5 December 2012.

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

4. Methodology and Assumptions (continued)

4.2 ASSUMPTIONS (continued)

Taxation

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

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

Table 4.4

Local corporate tax rates by Business Unit (%)

Business Unit	As at 31 May 2013	As at 30 November 2012
AIA Australia	30.0	30.0
AIA China	25.0	25.0
AIA Hong Kong – Hong Kong business	16.5	16.5
AIA Hong Kong – Macau business	12.0	12.0
AIA Indonesia	25.0	25.0
AIA Korea	24.2	24.2
AIA Malaysia	25.0	25.0
AIA New Zealand	28.0	28.0
Philam Life	30.0	30.0
AIA Singapore – Brunei business	20.0	20.0
AIA Singapore – Singapore business	17.0	17.0
AIA Sri Lanka	28.0	n/a ⁽²⁾
AIA Taiwan	17.0	17.0
AIA Thailand ⁽¹⁾	20.0 for assessment years 2013 and 2014; 30.0 thereafter	23.0 for assessment year 2012; 20.0 for assessment years 2013 and 2014; 30.0 thereafter
AIA Vietnam	25.0	25.0

Notes:

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

(2) The Business Unit results have been included in the EV Results since the completion date of 5 December 2012.

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

The EV of the Group as at 31 May 2013 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

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

5. Events After the Reporting Period

On 26 July 2013, the Board of Directors declared an interim dividend of 13.93 Hong Kong cents per share (six months ended 31 May 2012: 12.33 Hong Kong cents per share).

INFORMATION FOR SHAREHOLDERS

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's interim condensed consolidated financial statements for the six months ended 31 May 2013.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of 13.93 Hong Kong cents per share (2012: 12.33 Hong Kong cents per share).

The interim dividend will be payable on Friday, 30 August 2013 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 14 August 2013.

Relevant Dates for the Interim Dividend Payment

Ex-dividend date	8 August 2013
Book close period	12 August 2013 – 14 August 2013 (both dates inclusive)
Record date	14 August 2013
Payment date	30 August 2013

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 12 August 2013 to Wednesday, 14 August 2013, both dates inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for 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., Friday, 9 August 2013.

SHARE REGISTRAR

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

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

FINANCIAL CALENDAR

Announcement of First Quarter 2013 New Business Highlights	26 April 2013
2013 Annual General Meeting	10 May 2013
Announcement of 2013 Interim Results	26 July 2013
Payment of 2013 Interim Dividend	30 August 2013

ELECTRONIC COMMUNICATIONS

Shareholders are encouraged to elect to receive shareholder documents 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 shareholder documents. This provides environmental benefits as well as reducing printing and distribution costs.

FORWARD-LOOKING STATEMENTS

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

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

By Order of the Board
Mark Edward Tucker
Executive Director
Group Chief Executive and President

Hong Kong, 26 July 2013

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

Non-executive Chairman and Non-executive Director:
Mr. Edmund Sze-Wing Tse

Executive Director, Group Chief Executive and President:
Mr. Mark Edward Tucker

Independent Non-executive Directors:
Mr. Jack Chak-Kwong So, Mr. Chung-Kong Chow, Dr. Qin Xiao, Mr. John Barrie Harrison, Mr. George Yong-Boon Yeo and Dr. Narongchai Akrasanee

GLOSSARY

Accident and health (A&H) insurance products	A&H insurance products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover. A&H insurance products are sold both as stand-alone policies and as riders that can be attached to our individual life insurance policies.
Active agent	An agent who sells at least one life insurance policy per month.
Adjusted net worth (ANW)	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value (excluding the value of intangible assets) of other activities, such as general insurance business. It excludes any amounts not attributable to shareholders of AIA Group Limited. The market value of investment properties and property held for use used to determine the ANW is based on the fair value disclosed in AIA's IFRS financial statements as at the valuation date. It is AIA's policy to obtain external property valuations annually except in the event of a discrete event occurring in the interim that has significant impact on the fair value of the properties.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited (formerly known as American International Assurance Company, Limited), a subsidiary of the Company.
AIA International	AIA International Limited (formerly known as American International Assurance Company (Bermuda) Limited), a subsidiary of AIA Co.
AIG	American International Group, Inc.
ANI	Aviva NDB Insurance.
Annualised new premium (ANP)	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance.
ASPP	Agent Share Purchase Plan.
Available for sale (AFS) financial assets	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.
CDS	Credit default swap.
Common control	A business combination involving entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination.
The Company	AIA Group Limited.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
Cost of capital (CoC)	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.
Credit risk	The risk that third parties fail to meet their obligations to the Group when they fall due.
Currency risk	The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates.
Deferred acquisition costs (DAC)	DAC are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. DAC assets are tested for recoverability at least annually.
Deferred origination costs (DOC)	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.

Defined benefit plans	Post-employment benefit plans under which amounts to be paid or services to be provided as post-retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.
Defined contribution plans	Post-employment benefit plans under which amounts to be paid as post-retirement benefits are determined by contributions to a fund together with earnings thereon. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the post-retirement benefits.
Discretionary participation features (DPF)	A contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses: • that are likely to be a significant portion of the total contractual benefits; • whose amount or timing is contractually at the discretion of the Group; and • that are contractually based on: – the performance of a specified pool of contracts or a specified type of contract; – realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or – the profit or loss of the company, fund or other entity that issues the contract.
Embedded value (EV)	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business.
EPS	Earnings per share.
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.
ESPP	Employee Share Purchase Plan.
Exco	The Executive Committee of the Group.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fair value through profit or loss (FVTPL)	A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the period.
First half	The six months from 1 December to 31 May.

First year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
Free surplus	ANW in excess of the required capital.
Functional currency	The currency of the primary economic environment in which the entity operates.
GAMA International	A worldwide association serving the professional development needs of field leaders in the insurance, investment and financial services industry.
Goodwill	Goodwill represents the excess of the purchase price of an acquisition over the fair value of the Group's share of the net identifiable assets including VOBA of the acquired subsidiary, associate or joint venture at the date of acquisition.
Group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HIBOR	Hong Kong Interbank Offered Rate.
HKFRS	Hong Kong Financial Reporting Standards.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Insurance Companies Ordinance (HKICO)	The Insurance Companies Ordinance (Laws of Hong Kong, Chapter 41) (HKICO) provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. The objectives of the HKICO are to protect the interests of the insuring public and to promote the general stability of the insurance industry.
Hong Kong Stock Exchange (HKSE)	The Stock Exchange of Hong Kong Limited.
HKOCI	Hong Kong Office of the Commissioner of Insurance.
IAS	International Accounting Standards.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the International Accounting Standards Board (IASB) comprising: • International Financial Reporting Standards; • International Accounting Standards; and • Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

ING Malaysia	ING Management Holdings (Malaysia) Sdn. Bhd.
Insurance contract	A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.
Insurance risk	Under IFRS, insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.
Interactive Point of Sales (iPoS)	iPoS is a secure, mobile point-of-sale technology that features a paperless sales process from the completion of the customer's financial-needs analysis to proposal generation with electronic biometric signature of life insurance applications on tablet devices.
Investment contract	An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.
Investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
Investment income	Investment income comprises interest income, dividend income and rental income.
Investment property	Property (land and/or a building or part of a building) held to earn rentals or for capital appreciation or both rather than for use by AIA.
Investment return	Investment return consists of investment income plus investment experience.
IPO	Initial public offering.
LIBOR	London Interbank Offered Rate.
Life Insurance and Market Research Association (LIMRA)	A worldwide research, consulting and professional development organisation, established to help its member companies from life insurance and financial services industries improve their marketing and distribution effectiveness.
Liquidity risk	The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
LTI	Long-term incentive.
Market risk	The risk of loss from adverse movements in the value of assets owing to market factors, including changes in interest and foreign exchange rates, as well as movements in credit, equity and property prices.
Million Dollar Round Table (MDRT)	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.
Net book value	The net value of an asset. Equal to its original cost (its book value) minus depreciation and amortisation.
Net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Company, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.
Net profit	Net profit is calculated by subtracting a company's total expenses from total revenue, including share of loss from associates and after tax.
Non-controlling interests	The equity in a subsidiary not attributable, directly or indirectly, to a parent. Also referred to as "minority interests".
n/a	Not available.
n/m	Not meaningful.
OPAT	Operating profit after tax attributable to shareholders of AIA Group Limited.
Operating profit before tax and after tax	The Group defines operating profit before and after tax excluding investment experience; investment income and investment management expenses related to unit-linked contracts; corresponding changes in insurance and investment contract benefits in respect of unit-linked contracts and participating fund; changes in third-party interests in consolidated investment funds, policyholders' share of tax relating to the change in insurance and investment contract liabilities and other significant items of non-operating income and expenditure.
Operating return on allocated equity	Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing total equity attributable to shareholders of the Company, less the fair value and foreign currency translation reserves, and adjusted for intercompany debt.
Operating segment	A component of an entity that: - engages in business activities from which it may earn revenues and incur expenses; - whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance; and - for which discrete financial information is available.
OTC	Over-the-counter.

Other comprehensive income	Items of income and expense that form part of total comprehensive income but, as required or permitted by IFRS, do not form part of profit or loss for the period, such as fair value gains and losses on available for sale financial assets.
Participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The Group may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits.
Participating product	Contracts of insurance with discretionary participation features (see above).
Persistency	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance Company, a subsidiary of AIA Co.
Policyholder and shareholder investments	Investments other than those held to back unit-linked contracts.
pps	Percentage points.
PRC	The People's Republic of China.
Property held for use	Property held for use in AIA's business.
Protection gap	The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.
Regulatory capital	A minimum solvency margin requirement set by the HKICO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
Renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
Repurchase agreements (repos)	A repurchase transaction involves the sale of financial investments by AIA to a counterparty, subject to a simultaneous agreement to repurchase those securities at a later date at an agreed price. Accordingly, for accounting purposes, the securities are retained on AIA's consolidated statement of financial position for the life of the transaction, valued in accordance with AIA's policy for assets of that nature. The proceeds of the transaction are reported in the caption "Obligations under securities lending and repurchase agreements". Interest expense from repo transactions is reported within finance costs in the consolidated income statement.

Reverse repurchase agreements (reverse repos)	A reverse repurchase transaction (reverse repo) involves the purchase of financial investments with a simultaneous obligation to sell the assets at a future date, at an agreed price. Such transactions are reported within “Loans and deposits” in the consolidated statement of financial position. The interest income from reverse repo transactions is reported within investment return in the consolidated income statement.
Rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premium.
Risk-adjusted return	The return produced by an investment after accounting for the risks involved in producing that return.
Risk-Based Capital (RBC)	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RSUs	Restricted share units.
RSU Scheme	Restricted Share Unit Scheme.
Second half	The six months from 1 June to 30 November.
Securities lending	Securities lending consists of the loan of certain securities within the Group’s financial investments to third parties on a short-term basis. The loaned securities continue to be recognised within the appropriate financial investment classifications in the Group’s consolidated statement of financial position.
SFO	The Securities and Futures Ordinance (Laws of Hong Kong, Chapter 571), as amended from time to time.
Singapore	The Republic of Singapore; in the context of our reportable segments, Singapore includes Brunei.
Single premium	Single lump sum payment from a policyholder.
SME	Small-and-medium sized enterprise.
SO Scheme	Share Option Scheme.
Solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
Solvency ratio	The ratio of actual capital to the minimum capital requirement applicable to the insurer pursuant to relevant regulations.
Statement of financial position	Formerly referred to as the balance sheet.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Total weighted premium income (TWPI)	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums. As such it provides an indication of AIA’s longer-term business volumes as it smoothes the peaks and troughs in single premiums.

Underwriting	The process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
Unit-linked investments	Financial investments held to back unit-linked contracts.
Unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
Value of business acquired (VOBA)	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
Value of in-force business (VIF)	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business.
Value of new business (VONB)	VONB is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect applicable Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect applicable Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
Working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.